Entrepreneurial Approaches to Effective Philanthropy

London, United Kingdom
Conduit Club, 40-41 Conduit Street
January 19, 2017

Transcripts of main sessions

Nick O'Donohoe - Increasing Philanthropic Impact Using Creative Financing Tools

Nick O'Donohoe: Good afternoon, everyone, it is really a pleasure. I am very honored to be described as the person who knows the most about impact investing in the UK. I am not sure I necessarily agree with that distinction. I am not sure how much of a distinction it actually is, but anyway I thought what I would do is spend the next 15 or 20 minutes sharing with you my journey. I will share with you my sort of progression through the world of impact investment. And then I want to talk a little bit about the Bill and Melinda Gates Foundation, where, as Jo said, I have been a Senior Advisor for about a year. To tell you a little bit about the way they think about creating impact through things other than just straightforward grants, and then a little bit perhaps about where I see the state of the impact investment market at the moment. So, my involvement with this area started about ten years ago. I was then the Global Head of Research at J.P. Morgan.

Our then Chief Executive, Jamie Diamond, decided for various reasons that he wanted to start a social finance group. And I do not think Jamie knew exactly what he meant by that at the time. I do not think the people he asked to actually work in it really knew what it meant either, but it just sounded like a good idea. And I think to be fair to Jamie and to J.P. Morgan I think there was a feeling even then that the bank had a role, a significant, important role to play in the communities, particularly the ones in which they are active. We wanted to bring some of our skill set to helping to address social issues rather than just making money for shareholders. So I think the spirit of what he was trying to do was a good one. I was, as I said, at the time global head of research and I got asked to be on the management committee of the investment bank, and got asked to supervise this group. We had a little bit of capital. We had a few people.

We were entering a space which at the time used the word "impact investment". There were certainly people who were investing at the time with a sort of a double bottom line or triple bottom line motivation but really the word "impact investing", had not even been invented at the time. And, so I was intended to spend 5% of my time doing that and very quickly became really fascinated by the idea of whether it was even possible to try to create social impact alongside financial return. And so we did a number of things at J.P. Morgan. We made some investments. We started off looking closely at microfinance and then into some other broader investment portfolio, microinsurance, some healthcare investments in Latin America and so on.

We published a piece of research on impact investment in 2010, which I think at the time was quite controversial and suggested that impact investment was a movement, an emerging asset class and certainly an important process of investment. It was something that had the potential to be very important both in the investment world and philanthropic world. So, as I said, I spent increasing amounts of time focused in this area and then got the opportunity at the end of 2010, beginning of 2011, to partner with a gentleman called Sir Ronald Cohen. When we talk about people in the UK who really know the most about the impact investment market, Sir Ronald Cohen is the person I think of that we should really point to as being the father figure for the movement in social and social impact investment in the UK.

He has, among other things, started Bridges Ventures, which is now the largest social impact fund in the UK. He started Social Finance, which is an organization that created the social impact bond and today employs about 60 people. I got the opportunity to launch an organization with him called Big Society Capital. Big Society Capital was an idea that preceded David Cameron and the Big Society brand. The coalition government´s idea actually originated in the previous Labor government. The idea around it was that if you were ever going to stimulate and catalyze the world of social impact investment in the UK you needed some financial institution at the center of it that had a balance sheet, capital, was willing to put that capital into it. Just as important, it was willing to act as a sort of a market champion, and a thought leader, and a center of excellence in terms of developing the field.

Big Society Capital was launched in 2011. It was capitalized creatively through the use of dormant bank accounts. Accounts in UK banks and building societies that had been unclaimed or dormant for longer than 15 years were effectively transferred into what was called a reclaim fund. That money was then directed to Big Society Capital. I am currently the Chairman of UK Dormant Account—Dormant Assets Commissions because we have managed to almost £1,000,000,000, the government decided they want to look at all the other investment assets as well. But that is tangential to what we are talking about here. There is a lot of dormant, unclaimed money in every country and in every asset class. There is a point in time in which that money should be used for public benefit. That was the case with Big Society Capital and I spent about the next four or five years running that organization.

Today Big Society Capital has about 50 employees. It has a balance sheet of about £600,000,000. I think one of the reasons why the UK has been looked upon as a leader in the innovation in impact investment has been because of the activities of Big Society Capital and social finance. I think it is directly relevant to what we are talking about here but there is a need, in a number of countries to have this pool of capital driving the creation of this market. A pool of capital that does not necessarily look for market-based returns but asks the impact question first. So I did that until the end of 2015 and then had the opportunity to join the Gates Foundation as a Senior Advisor, where I work three days a week.

My mandate at the Gates Foundation is really to help them think about how they can use their philanthropic capital to drive social impact and to introduce other forms of capital. Typically, that is not something that they have been directly involved in, but it is an area where there is entrepreneurialism and innovation in the world of philanthropy. So, let me say a word about the Gates Foundation. Many of you will, I think, know a great deal about the foundation but for those of you who do not it obviously is the world's largest private foundation. It has a balance sheet of about $45,000,000,000. It gives away about four and a half billion dollars a year. It employs about 1,500 people, the vast majority of those people are based in Seattle.

It is therefore almost as big as the next ten foundations in the world put together in terms of size when ranked against government. If you ranked it against government and government development agencies it would rank about sixth or seventh in the world in terms of its giving. Where it differs from government aid agencies and what is pertinent to this discussion is really the degrees of freedom that it has in terms of how it uses its money, what it uses its money for, which issues it addresses, what countries and areas it addresses.

That has enabled the Gates Foundation to think more creatively and more entrepreneurially about how to use money and what the alternatives to straightforward grant making are. In terms of describing what we do let me talk just as a sort of framework. Like every other foundation, the Gates Foundation distributes money potentially in three ways. One is through grant making, and as I said the foundation's grant, annual grant making is about four and a half billion dollars. That's obviously the traditional, if you like, the old-fashioned way of creating social impact. But certainly, the foundation focuses really on the poorest billion people in the world and the issues that affect those people every day and trying to change and improve conditions for those people. The vast majority of those people are in Sub-Saharan Africa and in Asia so those are the areas which it is focused on.

Many of the issues that the foundation addresses are only accessible through grant making. Whether it is blended capital or impact investment, those are all potentially very important tools for a foundation like Gates. Grant making will always lie at the heart of what the foundation does. Some of you have probably met Bill and Melinda Gates, but one of the things you will immediately appreciate about them is how focused they are. One of the reasons why they have both been as successful as they are because they have this level of focus. They recognize they have a lot of money and they give away a lot of money. They do not try to do everything. They try to focus on problems that they think they can effectively cure.

And so they have two broad strands to what they do—global health and global development. The global health agenda is focused around specific diseases, malaria, polio, TB, HIV/AIDS. When you have the resources of the foundation you can set ambitious goals. But their ambition is to eradicate those diseases. In all the disease categories substantial progress has been made over the last 15 years and to a large extent, due to the efforts of the Gates Foundation. The other area that the foundation looks at is global development. So there's a number of strands of global development especially those that impact the day-to-day living of the poorest people in the world. These are agriculture for small holder farmers and staple crops, financial services for the poor in mobile payment systems, and nutrition for children.

One key learning for the foundation and for philanthropists is to engage with the foundation. The level of focus, the level of how clearly they define what it is they're trying to do, and how clearly they define what their strategy is. The vast majority of what the foundation does is spend their time on is grant making. That includes supporting a whole range of different organizations around the world who are addressing or helping to address these problems. What is different about the foundation is its willingness to embrace the private sector.

One of my functions is to talk to European governments about the programs they are running and try to seek partnerships with them in various ways. What is clear is a resistance among many government aid agencies towards—and resistance among many philanthropic organizations— grant making and to the private sector. Gates has always been a believer in asking the question, "Where can we achieve the best results and who are the people that can help us achieve the best results?" If the best chance of creating vaccines for malaria lies with supporting grants through private sector pharmaceutical companies then he will do that. That gives him degrees of freedom that some others either legally or politically don't have.

The other thing that this focus and interest in the private sector does is it leads you to a field of investment and it causes you to ask yourself, "Well, is the funding through the private sector directly through grants always the right way to achieve something, or are there better ways to achieve some of our programmatic aims through investment?" And that is what has led the foundation to be one of the very early adoptees of impact investment, although they would not necessarily describe it as we in this room would call impact investment. What distinguishes the foundations approach to impact investment is a narrow focus and asking the question "Where can we as a foundation create a competitive advantage in this investment? What are the areas that we know we can exploit to help both ensure that we achieve our programmatic aims but also just as importantly ensure that we have some, that it is an investment, a coherent and a sensible investment?"

As you would expect for an organization with a strong focus on health, the biggest single investment portfolio is in early stage venture capital into biotechnology platforms and products. It is still a relatively small portfolio compared to the foundation and is less than $200,000,000. It is important and shows significant results. What distinguishes from every other biotech venture capitalist is when the foundation invests they ask for and receive what is called a global access agreement. We do not just put our money into a biotech company because we think it is doing good or it has the opportunity to develop products that are beneficial. That is a key criterion, but we insist that with our equity comes this agreement that the products being developed will be used broadly to help beneficiary groups, which are the poorest people in the world.

So that is one example of how we are using investment rather than grant making. The other element of that investment, which is important, I don't know how many of you are familiar with the context of US foundations, but there are obviously tax laws that affect how a foundation is set up and how it uses its money. Specifically, the investments that the Gates Foundation makes are always what the tax law would describe as program-related investments. And that brings with it a significant responsibility in terms of ensuring and being able to prove that the investments you make are actually programmatically aligned. So for every investment that we make in program-related investment there is effectively an allocation against the grant pool.

That is very different from the way some European foundations exist where you do not have this very clear definition of program-related investment. It tends to be a little bit unclear sometimes as to exactly where the investment portfolio fits relative to the overall programmatic aims. But that investment portfolio is important. The second thing that we've done, which has been significant, is volume guarantees and that's an example of how—some of this is relevant to the Gates Foundation because we have a $45,000,000,000 balance sheet and would not be relevant to many other foundations. But we can use our balance sheet to make guarantees to drug companies, for example, that if they guarantee demand for certain pharmaceutical products. So we'll say, "If you develop or you make this product we guarantee that over the next five years we'll buy a certain amount of it." That has the effect of taking the risk of sales away from the pharmaceutical companies, allows them to capture economies of scale, lower the price making the drugs more affordable.

We do that because we want to ensure that the right drugs are manufactured, that they are available at the right price, and that they get to the right people. That area of volume guarantees is something that has been important to the foundation and is a very good example of innovative finance and using your balance sheet. The other, we have done a variety of what are more broadly described as sort of impact investment funds. I mean to be quite honest we have had investing in agriculture in Africa and some medical credit funds in microfinance. We have done a little bit in the early years. Those have been less successful for the foundation because we found it hard to actually tie down where the programmatic impact really is. We have struggled a bit with governance for funds that are keeping them on mission. That is probably something that selectively the foundation may do more of but it is not a key part of our investment strategy.

The other broad area—so that is equity or investment area, guarantee area is important. The other area where we've done quite a substantial amount is through what we call blended capital. Blended capital is defined as putting two or more investors with different risk return and impact objectives together in one financial vehicle. We have blended capital with some multinational development banks. So, the Islamic Development Bank where we put in a big grant, $500,000,000 of grants and the Islamic Development Bank put in $2,000,000,000 of loans. That money is then used to develop health systems in the curtilage of the Islamic Development Bank. We have provided guarantees for something called the Global Health Investment Fund, which is a fund that was specifically set up to address and to help bring new pharmaceutical products to markets, specifically the markets we care most about.

Again, the foundation providing a guarantee to help bring in private sector capital. So we've done a number of creative things like that. By definition blended capital requires some part of that structure, that capital structure to be repayable and there are some things that blended capital works very well for. It works well for things like infrastructure. It works well for power. It works well for various parts of the clean energy world. It works well for providing subsidized lending to SME's. It works much less well in some of the areas that we are most active in.

For example, at Davos, Bill Gates and others launched a new organization that will be funded with $500,000,000, which is charged with helping to develop drugs to address future pandemics. So there's a whole range of different disease categories and Ebola obviously was in this category. One of these diseases two, three years ago that have the potential to provide pandemics most likely to affect obviously Sub-Saharan Africa. The idea of this organization which we are partnering with, The Wellcome Trust and the German government, and the Japanese government, and others, is to try to help develop these products before the pandemics start. That was when I first came to the Gates Foundation. One of the things I got involved in early was that particular project and the idea was, "How can we provide funding for what is a bit more innovative, a bit more entrepreneurial, a bit different from just writing a check?" And the answer is when we looked at it was, what we were talking about here were diseases, trying to address developed products to address diseases that very few people had currently. The people that did have them were in some of the poorest countries in the world. They certainly could not afford to pay for drugs and the countries in which they lived in could not afford to pay for drugs. If that is the situation that you are in, then there is not an investment answer. The answer is—this is true of most R&D and for most drugs around the world that the investment, the early stage research, development, and science has to be done on the back of grants and those grants typically come from foundations like Gates, Wellcome, or some of the big government agencies.

This approach does not work for everybody. There is not an innovative sort of entrepreneurial answer to every problem. Many problems are going to include many of the ones that Gates cares most about and are going to have to continue to be funded philanthropically. If impact investment cannibalizes philanthropy, then it is a bad idea. If Bill Gates was here talking about this subject that is one of the first things that he would say. That is broadly what the foundation does. I think if I just move on a little bit and spend a couple of minutes talking about impact investment broadly because I have been involved in this movement for, as I said, the best part of almost ten years. We will hear shortly from Charly who has been involved—we talk about father figures in this movement and Charly and Lisa are definitely in that category.

I was fortunate enough to be in Amsterdam about a month or two ago—I'll make this my closing comment. I was in Amsterdam just before Christmas at the Global Impact Investment Network. It is an impact investment conference, over 850 people there, that is an extraordinary number of people for something that had not really been thought of seven or eight years ago. And I think that does demonstrate how mainstream—there was a good article in the Economist, too, also two weeks ago on this—how mainstream this movement is becoming, but also recognize that by becoming to an extent it is being almost hijacked. And I use "hijacked" I don't mean that in a pejorative way, but hijacked by mainstream investment managers who have had many of their clients, people like you in this room, come to them and say, "Hey, you know, we want to have an impact investment product."

They are delivering them, so whether it's Blackstone, BlackRock, TPG, Bain, or many investment managers in this country, they are a bit away from what the founding fathers of impact investment thought of when they created the term. But still, overall I mean this is clearly something that has entered the sort of mainstream language of investment now and I have got to say I think it has come an enormous distance in the seven or eight years or so that I have been involved. It has enormous potential to move on from here. It is great to see so many people in this room and so much interest in this area. I will stop there and I will take some questions.

Jo Ensor: Thank you, Nick. Does anyone have any questions?

Question: I cannot tell you, Nick, how many conversations I have with philanthropists that begin, "Well, we are not Bill and Melinda Gates but…" So I have a two-part question. One is if you're not Bill and Melinda Gates, which means every other philanthropist in the world and by definition everyone else in this room, how can you best get involved in this field? And second, is there any way of piggybacking? I mean Warren Buffett chose to piggyback onto things that were already being done. Is there any way for smaller philanthropists to piggyback on what the Gates Foundation is doing?

Nick O'Donohoe: Yes. Look, and I completely accept the point about, "We are not all the Bill and Melinda Gates Foundation." As I said in the introduction in a sense the foundation operates more like a country, more like USAID than most mainstream foundations. But there are certain principles that underlie what the foundation does, which I think are good principles for any philanthropists when they think about using investment alongside their philanthropy. Now clearly in the things I talked about you cannot do volume guarantees because that comes from having a very large balance sheet. But you can make investments and you can look at the one you care most about. You can look at those issues and think about where capital, meaning repayable capital, and investment capital, can play a role alongside your philanthropy.

And you can do that in a relatively disciplined way—Gates, as I said, does it in a very disciplined way in terms of thinking about how much, or what is the grant equivalent of this investment that we are making. You don't all have to be quite that scientific but I think that discipline of, "What are the issues I'm trying to solve here? Where does private capital play a role? How can I access that?" I think that is a good disciplined way of thinking about things. In terms of how to get involved, it is much easier to answer that question now than it would have been five years ago, because organizations like the Global Impact Investment Network, which is more institutionally focused. Certainly Toniic, which I am sure Charly's going to talk about. They exist even within The Giving Pledge, which is obviously a very select group, but even within those groups all of them now have an impact investment stream.

I get asked by private banks all the time, the people who manage your money every day, all of them have a much higher knowledge and awareness of the impact investment market. They do not necessarily always have the best advice, but in terms of entrée to the right people and knowing what is going on, all of the main groups would have somebody who can express or articulate a reasonably coherent view on this. Again, that would not have been the case five years ago. So I think it is easier and the investment spectrum is much fuller now than it was five years ago. Meaning everybody will have their own views around risk, impact, and liquidity, whereas five years ago, there was a small number of investments in each category. Now there is a much larger number for many more mainstream managers.

Question: With the mainstream endowment, to what extent does the foundation seek to align their mission? Just more generally. I'm quite interested.

Nick O'Donohoe: That's a very good question. And I should have said, "One of the things that makes the Gates Foundation actually different from many other foundations is that the foundation does not manage the endowment." The $45,000,000,000 endowment is managed as a separate part—part of which comes from Warren Buffett and part of which comes from Bill and Melinda Gates—that money is managed in the private office of Bill Gates alongside his regular money.

Many of you will have seen the announcement of the breakthrough of a fund called Breakthrough, which originally was announced in Paris at COP 21, and then had provided more details just before Christmas. It is an attempt to invest in, particularly in research and development in science to address the issue of climate change. And there he brought together a significant number of other Giving Pledge members to create a pool of $2,000,000,000. Again, that is an impact investment. Melinda is very interested in gender lends investing and has been doing a lot of work in that area so increasingly you are seeing that.

In conversation with Dr. Charly Kleissner, Lisa Kleissner and Liesel Pritzker Simmons on Impact investing: Aligning Purpose with Profit.

Lisa Kleissner: Good afternoon. First of all, thank you to GPC and to TPW, Don and Jo for hosting this conversation today, which I think is a very timely conversation. And it is interesting to do it in the UK where we all think there is a lot of innovation going on in the impact sector. A lot of it came from here and inspired us. We also heard some really tantalizing pieces like, "Is impact investing cannibalizing philanthropy?" Let's talk about that. What is a woman to do when she is confronted with her advisor trying to sell her a bill of goods? How can she be discerning about that? I also heard that 45 billion is not enough to solve world health. So if I have a small portfolio how can I even dare to think that I can make some impact with it? And I think that these are questions that all of us struggle with because frankly there is not enough capital in this world to address all the challenges that are on the plate. But I think the one thing that my husband, Liesel and I, is we are going to do the best job we can. And so we are going to talk about our approach to this. I am going to be the moderator so I get to ask all the nasty and good questions. Then Charly and Liesel are going to answer it from their vantage point. So just to give you an outline for what we are going to talk about, what we are going to cover. Each of them is going to tell their story, journey into impact, their philanthropy and their impact investing.

Then they are going to talk a little bit about what it is like to work with your husband or wife in philanthropy and in impact.

Lisa Kleissner: And also we are going to talk about our generational strategy. Now we've got two 30 year olds, or a 30 and 32. Liesel has a two-year-old. So they are going to be slightly different but you will see there are some similarities. And then we want to talk a little bit about our strategy and our philosophy about impact in philanthropy and how those can be complementary or actually catalytic together. And I want to just start with one I cannot resist. A new impact investing report came out late last year. We had the privilege of analyzing over 50 portfolios of other investors like ourselves and out of that came the following news: yes, you can do impact investing across asset class.

Yes, you can be a single digit, double digit, or triple digit—and that is in millions—portfolio or owner and you can do impact investing. It does not matter on the size. And yes, you can target a theme you want to have impact with and you can actually measure it and you can get a financial return from it. Did I miss anything? I think that is it. So the answer is yes. You can do it. The evidence is coming out and I would say that we are part of that evidence building. There are also some young people in the audience who part of that evidence building as well. So with that I will turn over to my fellow panelists here and start. Liesel, maybe you could share a little bit about your journey into impact.

Liesel Pritzker Simmons: My name is Liesel and as was said earlier I run a single-family office that my husband and I founded several years ago, called Blue Haven Initiative. And what we do now is we look at all of our assets, all of our investments as well as our grant making and try to look at it holistically as a portfolio of assets. What are all of those resources doing in the world, what impact are they having, and are they having the impact that we want them to have? And we really got to this point, I will share with you a little bit of how we got there, but why we ended up here is because it is just easier. I do not do very well with segmenting assets. It is too hard to keep track of. So if I just say, "Everything has an impact and I'm going to take responsibility for all of it," it is easier for me to manage.

That being said, it took a really long time to get here and I am still not happy with where we are. When I was about 20 years old I inherited control over my assets. I come from a big business family. They are well known for founding Hyatt hotels amongst other things. But anyway, I came into managing a large investable portfolio when I was 20 and did not know what to do. At the time I was in college. I was really interested in microfinance and sustainable development. I was going to Columbia University at the same time when Jeff Sachs set up the Earth Institute there. There was a lot of conversation around social businesses, sustainable development, what is the role of aid, and what is the role of the private sector. And I thought, "This is really interesting."

I looked at what I had available to me and I said, "Ah. I'll set up a foundation because that is what you do when you have a lot of money and you care about the world." So I did and our foundation focused on microfinance specifically for low-cost private schools in Sub-Saharan Africa. What we were really interested in is how do you tailor financial services, school management training, teacher training, and sort of this package of services for schools and run this program in a sustainable way. I was working, and it was a grant space so we were working with a microfinance institution. The goal was to pilot this program, see how sustainable it was, tweak it over time and hopefully, it would be able to sustain itself. Today it can, but at the time it could not. It was all grant funded from us - our foundation at that point.

But what was happening was I kept realizing this huge disconnect between what I was caring about in the grants portfolio and what the rest of my assets were doing. So I kept missing quarterly meetings with my financial advisors, or trying desperately to Skype in from Ghana, or also starting to ask about, "Could we include some microfinance investment vehicles in our portfolio because, you know, actually I am learning a lot about this. There are some really interesting managers out there that seem to be credible". Basically I was being shut down by my financial advisors on the family office side who said I did not know anything about currency risk, I did not know anything—I am like, "I live in-, I am in Ghana. I do actually. My life is affected by currency risk in a way that yours is not sitting in Chicago."

But anyway with that being said, I just kept finding this huge disconnect between what my actual, or what the majority of my assets were invested in and the things that I really cared about. And I started to push back. And this was around 2006 or 2007 when the term "impact investing" was beginning to get coined. People were starting to write books about it. There were beginning to be more reports coming out. And so I dragged my financial advisors to these different conferences. I kept sending them reports and they kept saying to me, "Well how much money do you want to lose?" And I was like, "Well none. That is not what I am talking about. What I am saying is I want my values to be expressed in my portfolio." And like a lot of people when you ask them a question they do not know the answer to they just tell you, you are wrong. And I found that very frustrating so I went out sort of on my own and I found people like Charly and Lisa, like Jed Emerson, who is another leader in this space, other investors, and other philanthropists who were having this same conundrum of, "Hang on a minute."

If I think that every dollar that I invest has an impact like Nick said why am I only measuring and spending my time on the grant side? What if I also look at what these other organizations, at least start with measuring their impact and try to improve it over time, and take responsibility for what all of those assets are doing in the world? And so slowly over time we restructured our family office to address this. Because we were looking across asset classes we decided to be more sector agnostic so we did not set out and say, "We are going to only look at water," or, "We are only going to look at issues affecting adolescent girls," or, "We're only going to look at sustainable agriculture or access to health care." What we said was, "We cannot be that picky right now because this is not our play money. This is all of our money so we need to actually think strategically across risk return liquidity profiles.

We want to have smart, good managers that have a good track record. We are willing to be a little riskier than most but we still need to be prudent. This is the money I am passing on to my children. And let us find the best, let us set our asset allocation, find managers that have really impactful strategies within those asset allocations, within those asset classes and sub-asset classes. Then let us see what those strategies are and roll them up. Now we have started to see some themes emerge. Climate change is a big issue that our portfolio addresses and financial services, a lot of digital financial services and still in that kind of microfinance theme. We have started to see those two themes emerge with the portfolio but I would be lying if I said we set out with this beautiful theory of change and we have been able to populate every asset class with terrific investments.

It has grown much more organically than that. However, what has resulted is I see how this affects my philanthropy now. Because we get to look for business models and for issues that can be addressed with private sector capital and investment capital. I can focus my grant dollars on things that investment capital is very bad at addressing, and I totally agree with what Nick was saying around it is not the right instrument for everything. I actually happen to think after spending quite a bit of time in the education space, education is not a terrific one for markets to solve. Markets like rich people for education. That is when markets are good at education. If you are trying to educate someone who is very poor or difficult to reach using a market-based solution, if you are looking for a market rate of return, it is probably not going to happen.

I say that controversially and would love to have that discussion with other people because I got yelled at about that one. But I think that is a better use for my grant dollars. What I have found is that working towards what our investment capital is doing and really trying to improve the impact there allows me to focus my scarce and more valuable grant dollars on things that markets are bad at solving. That makes me feel better, and see how those things interplay. And so that is where I am at now. I guess I will pause there.

Lisa Kleissner: So I am taking a lot of fast and furious notes here. One thing you should be having in your mind here while you listen to all of us is that what we do with our capital in the impact markets in philanthropy matters because that is our livelihood. We are not betting a carve out or just our foundation. All of us are putting all of our assets to work here and that is a big differentiator. In the market maybe ten years ago a lot of people were doing carve outs but more and more we are seeing an emergence globally of people moving to 100%. We are all hundred percenters. We have a few more in the room here and this was a natural occurrence because once people realized that they could have more than 5% impact with their philanthropy and then once the market opened up, as Nick said, in the last five years it has been blossoming.

Also one other note. There are some timing things here that are quite interesting. Ten years ago J.P. Morgan set up the Social Finance Fund. Ten years ago we started to fully go into it at 100%. We just did our ten-year report and our financial transparency report. Five years ago Liesel celebrated their fifth year anniversary with their impact approach, and that is it. What is really important is that it is not an asset class. I just want to underscore that. It is in all asset classes. And this strange thing that came in, that was written up in a report, to this day you can go to the far corners of the earth and people will say to you, "Oh, impact investing. It is an asset class." No. It is not an asset class. I just want to make that clear.

Lisa Kleissner: So now Charly's going to share a little bit from our journey.

Charly Kleissner: Well, thank you so much, Lisa. And you forgot to mention the 35 years.

Lisa Kleissner: Oh, that we are married.

Charly Kleissner: That is right. I was just checking, you know, since… So, you know, my own background as a computer scientist and I have a PhD in Computer Science from Vienna, Austria. Lisa and I immigrated to the Silicon Valley in 1986, with a very successful career in Silicon Valley, which created our wealth. So in early 2000, 2001, and 2002 we fairly suddenly had, substantial wealth and the question then becomes, "Well, what does it all mean?" That is after these type of liquidity events you either break apart as a couple because one wants to meditate and the other one wants to do the yacht and Mercedes stuff, I mean Maserati probably, and that does not work. And we were fortunate that we were on the same page that for us, the only real answer to the meaning of wealth is to make a positive contribution to humanity and the planet.

If it only serves yourself or your family, it is actually toxic. The value-based alignment is the major motivation for us. We cannot decouple intentionality and what we believe where and how we need to lead our lives from our wealth. And we are not the only ones. As a matter of fact, Lisa mentioned the group and Toniic, you know, and there are about 100 hundred percenters now with $5,000,000,000 committed to impact, all in. They are all motivated by the joy of making a positive contribution as opposed to the fear of losing money, to which most of the investment committees you were talking about usually react, "Oh, how can we make them understand the risk?" Frankly, the industry does not understand the risk in modern portfolio theory that pretends that they understand risk and return, it is clearly wrong and we need to reconceptualize that.

And that is what we are all about. When we came into wealth we sort of checked out. What is philanthropy doing, and what is wealth doing, and anything in between. Not much in between because you had these dichotomies and either you are giving out money or you invest for maximum return and it is actually working against you. How does that really work? So, I deferred to not believe that, that is a rational approach. To do that maximizing on one side, hurting your beliefs clearly in what you do with that and then giving away to fix the problem that you created in the first place. So in that sense, you know, when we did the foundation we clearly thought about, "How can we leverage different streams of money that we had access to, be that grants, be that PRI type of money, which is subsidized capital, and investment capital?"

And we believe that the combination of these types of capital a lot of times can make a bigger impact than one. And that is where we try to explore, the sweet spot of our blended capital strategies and why we are going all in. So since we are running out of time I will give you back the mic.

Lisa Kleissner: So just to kind of put a wrapper on it, but I am going to ask some more questions and I just got five more minutes so we are going to have ten still because we want to go into the generation of a couple dynamic in the beginning. So Liesel's been in for five years; we have been in for ten, so the portfolio make-up that we have is slightly different than what Liesel is doing because we have what I will call a vintage portfolio. And Liesel came in I guess almost post-2008, right?

Liesel Pritzker Simmons: Yeah.

Lisa Kleissner: Yeah. And so the opportunities in the marketplace are quite different today and I just wanted to underscore that. If you take the time to look at it and we are very transparent with our portfolio. You can look at it online. I wanted to target this question about the cannibalization of philanthropy because it comes up. And I wanted to ask you, Liesel, what your response to that is.

Liesel Pritzker Simmons: I mean for me personally it certainly has not. The more I have invested for Impact the more I grant. So for us it has had an opposite effect. And same thing in the marketplace. I have not seen any evidence that global grant making is going down, but I have certainly seen evidence that impact investing is going up in terms of AUM and people who self report into that. But a lot of that though, is coming from pension funds. A lot of it is coming from institutional capital that would not be giving out grants anyway. Actually, foundation endowments have often been the slowest. Foundation endowments have been slower than family offices and pension funds in getting into this. I do hear that is a risk. It certainly has not been true for us personally and I do not see evidence of it in the space but I would agree. If that did happen that is a big program because grant money is sacred and is specific, you need to have money out there that is not seeking a return. I think that is incredibly important. There is too much money out there that is only seeking profit, and that is the pool I am hoping to cannibalize with impact investing.

Liesel Pritzker Simmons: That is great. I am going to ask Charly the next one, which is about the hijacking by advisors, and do you have to worry about green washing and white washing—or not "white," impact washing?

Charly Kleissner: Well we absolutely do because as Nick pointed out, there is a lot of movement going on and momentum going on, with the big companies coming in and we applaud the move to what is called ESG, Environmental, Social and Governance funds. But that is at best a floor and it is a really weak floor for us impact investors. So what the ESG community is doing, they take Environmental, Social and Governance criteria for the first time seriously and there is more evidence out there, fortunately, and not surprisingly, of course, that you do better financially if you take that into account as opposed to not taking that into account. That creates the opportunity for the BlackRocks and the big boys to analyze up and down the ESG criteria through their magic and then declare victory. Now our goal is different. Our goal, first of all, is to go beyond the ESG and to change the financial system because right now the financial system is pulling in all these externalities—climate change, and social justice, social inequality and they just leave it outside of the system calling it "externalities."

Us impact investors are not okay with that definition. We demand that it is going to be internalized. And that makes it difficult in the language of the old system to compare ourselves to benchmarks that actually put those types of companies in and we need to move beyond that. So green washing and impact washing is going on let us say in the green bond area, which is an asset class that we all need to be in. We are in green bonds and in social impact bonds to complement environmental returns with social returns. On the green side we can throttle up and down the financial risk as you so choose. On the social impact bond side, it is in its early days and we are only 61 social impact bonds. And Lisa and I invested in the first one and we loved that. That is an emerging asset class, but that is what we need as an impact investor. You need to take and differentiate, view the risk and include impact risk as well. And the impact risk is not even acknowledged by the third parties at this point in time. Even so, we care about that a lot.

Lisa Kleissner: So I want to make sure that we hit the generational strategy and the working as a couple so… absolutely. And then if you could go from there into couples.

Liesel Pritzker Simmons: But just on that point about advisors and impact washing, I think that as with anything, impact investing, or at least the way I think about it is, it is just more informed investing. You are just looking at a few more dimensions as you are doing your due diligence than you would with sort of a normal approach to due diligence and investment management. But as with anything you have to look under the hood 100% of the time. Someone is going to sell you a bad bill of goods across, in traditional investing as well and so I think that the impact washing is certainly out there but it is up to, buyer beware. Like, you, it is up to you to look under the hood and be accountable for what that impact is. And just because Bain calls something green does not necessarily mean it is. However, on the flip side there is a lot of very cool stuff out there that does not want to call itself impact because they are afraid they will get penalized for it. So we have got them in our portfolio, too. I do not really care what you are called as long as I understand the product, and I like the impact it is having, and I like the liquidity and risk profile.

And so I think as with anything you just have to keep on looking under the hood and you cannot invest on auto pilot. But you cannot do that anyway so that is the thing. I think it is okay. If things are getting green washed you should be aware of that anyway.

Lisa Kleissner: So one thing we have not touched on you just did and that is liquidity. So a lot of folks think if you go into impact you are going to get all locked up. Actually what we discovered in the research study we did last year is that people are targeting all kinds of liquidity profiles and they are actually getting what they are asking for. And in the foundation world we have a number of foundations that reported in. They had the most diverse approach. First they set their targets on concessionary. A portion of their portfolio is concessionary, a portion of it market rate, and portion of it we would call experimental prototype piece. And in terms of results, their results actually on the market rate return were better than what they anticipated. The concessionary met requirement and that is a larger part within a foundation because a lot of foundations in the US, and 50% reporting were from the US, are doing a lot of PRIs.

And so the bottom line, my takeaway is foundations that are doing impact investing, that are targeting different rates of return based on different impact expectations and risk, are getting what they are asking for by setting that intention and doing rigorous due diligence. So now back to families.

Liesel Pritzker Simmons: Well so to you guys working together, and my husband and I work together as well, because when there is bifurcated approaches to investing and to grant making I know a lot of people in this room work with family foundations and often times family members have very different ideas of what they would like to grant to do. There is much corralling around who is going to grant to what, and what is going to be the theme of the foundation, and the theory of change. And now if we are asking to include impact investing in that, and you also might have differing ideas of what the impact is going to be as well, whereas we used to all be able to corral around high financial return, how have you as a couple dealt with that in your foundation?

Lisa Kleissner: Ooh. She must know something. Well, so we have three people that make that decision—Charly, me, and our advisor. And it has happened that Charly was championing a deal and our advisor basically said no. And I was the decision person and I looked at it and I actually also said no, and you can tell I feel bad about it even now. So that happens. But then I think I would have to say the reverse. I do not know, Charly? Has that ever happened to you? Have I ever said—

Charly Kleissner: No. I always say yes to you.

Lisa Kleissner: Okay. All right. So since we are investment partners maybe you could tell a little bit about the couple dynamic from your vantage point because we have different skill sets that we bring to this proposition. I think that is really important as a couple to realize. And we did not realize that early on so we had to use a few tools and few people to help us get there.

Charly Kleissner: Wow. Okay, so from my perspective, we set out to help social entrepreneurs to be more impactful initially and then moved over to the investor side to help investors become more impactful, and then of course to the intermediaries. It is a systemic approach to the ecosystem of impact investing and the supply of capital, demand of capital, and the intermediaries. I think we both gravitated towards supporting social entrepreneurs. Helping them with accelerators, and incubators, and that's a perfect example of capital because you cannot really create social entrepreneur accelerators and make a lot of money with that because nobody pays for that. So, we have invested grant capital in India, in Vienna, Austria, in Honolulu, Hawaii and both of us have led different parts of that. Of course where we are from we lead that and we support each other in the other geographies. So, one of us is a lot of times the leader and the other one the follower in the context of one major objective and that works out to be great because then you do not confuse things, you support each other, and we learn from the efforts that we both are engaged in.

I think with respect to the intermediaries we also take different approaches where I sometimes champion. We are investors in SSX here, in Social Stock Exchange, because that is an infrastructure play that will hopefully change the way that capital and impact capital is available for the retail investor. It is one of the themes that we support in the financial system change arena. With the investors we both are very engaged on Toniic and the 100 percenters. I think we are able to carve out a little bit, where one of us leads a little bit more and the other one leads a little bit less. Then sometimes we are reminded by the outside or inside that we need to adjust that. We are in a beautiful process right now to know that we have proven that you can actually build a ten-year successful endowment across all asset classes with what they call competitive financial return. It is time to move because that is not that interesting anymore, particularly as we have to compare ourselves to the old dying system of modern portfolio theory.

And what we really want to do is not only move beyond that but engage the next generation in that. That is where we reached out to our kids and said, "What would actually engage you in the next iteration of our foundation?" And they, not surprisingly said, "Okay, first of all, you cannot impact wash and secondarily, we care about climate change, and social justice, and inequality, two of the major issues of our generation." And we said, "Great. We also believe in that so why don't we use the next seven to ten years, it is going to take that long. Instead of doing 100% impact portfolio, we do

100% thematic portfolio on climate change and social injustice, and depending on the impact risk that we take the asset classes will fall out and the appropriate financial return will reveal itself." And so that will be a modern benchmark of a thematic type of approach where you do not compare yourselves to meaningless benchmarks that are driven by externalities. We want to internalize, but by sending where transparently you offer that up and say, "Okay, with this type of risk that is what you can expect."

And again, we are not the only ones because that will be an interesting exercise for anybody who cares about all the way from SDGs, from Sustainable Development Goals downwards. Where it can align institutional capital with our innovative capital. And we are the first movers. We are declaring what we do in the next seven years. At this point in time we do not have many followers, but when we declared 100%, ten years ago now, there's 100 hundred percenters. Soon there will be 1,000 and 10,000. And so I am convinced that we can change that soon as well, with our kids.

Lisa Kleissner: Talking about engagement we need to engage you. So this is your turn now to ask anything, and obviously as you can see we are pretty transparent about anything, so... yes, Trixie.

Trixie Brenninkmeijer: When I met you in San Francisco I said, "Yeah, my husband is doing this. I am just coming with him to visit." And you said, "Yeah, but what are you interested in?" I said, "I am interested in the impact side." But I have not professionally been interested in it. However, now doing this course and being confronted with impact investment, etc. So I feel I am called to get a little bit deeper in it. As I am not Bill and Melinda Gates but a little bird on the fence, should I be guided by the impact I claim to date, and should that impact be—perhaps that is what you mean with "impact washing"? Should that impact be given to me before I invest? Am I making myself clear? So should my investment be only driven by the impact that it creates because that is what I want, or and only then when that was given by the organization that I want to invest in do I invest?

Liesel Pritzker Simmons:

Actually, and there is also one instrument that might be very attractive to you in that sense is the pay for success models. Social finance was mentioned several times, and then there is also development impact bonds that are starting to be out there as well, which is exactly that, where the investors get paid back. When the particular intervention has worked. So the risk you are taking is that the intervention will not work, and if it does not work you do not get paid back. But if whatever it is, whether it is early childhood education, whether it is reducing recidivism. There is one that we are investing in Massachusetts that does job readiness and language development for refugees and immigrants that are coming to the State of Massachusetts.

So only when we see that they have steady employment and that their wages have gone up we get paid back as investors. That might be a good instrument for you if you want to see that the intervention has, in fact, worked before you get your money back. But you have to take the risk up front.

Charly Kleissner: Also if I understand the question right, you lead with impact and/or with finances, the answer is with both. So impact investing, actually if you just do it from the head or just from the soul. If you just do it from the soul without your head you are going to lose a lot of money, because we are all attracted to something. If you do not do the financial due diligence, if you do not understand the financial sustainability, cash flow, and positive path, you expect a financial return you will not get it. Conversely if you only do it with your head like most financial managers do and they do not really put your heart and soul into it then you will not have a deep impact.

Question: Thank you. This is a really fascinating discussion and I just wanted to ask a little bit more about the definition of "impact" that you are using here. Liesel talked, well you all talked a little bit about it but Liesel touched on it also. I mean one of my questions in relation to this is do the businesses that you are investing in, do they always consider themselves as social enterprises or businesses that are going to create some kind of social impact? Is that a judgment call that you make? Surely there must be a kind of, it is personal in terms of our own theories of change and what we consider an impact and what we consider important. Does this vary in terms of the different investments with the people that you have been researching? How do we define that?

Lisa Kleissner: So, for us we have a due diligence process on impact only in our investments and we are looking at environmental and social, and sometimes we get both in one investment. We actually have measured that and actually we have worked with NPC here in London to do our first impact report now two years ago. We're getting ready to do the next one. So, now I am blanking out on the rest of your question.

Charly Kleissner: Impact definition.

Lisa Kleissner: Ah, the impact definition. Okay, so impact definition, we were going to do that when we first started but then I thought, "Oh, maybe you guys already know what it is." So impact defined for us is an investment with a return of capital. We are not defining market rate. It can be a range from concessionary to market plus that has a measurable impact. And so in our portfolio we have concessionary, we have market rate, and we have market plus that is happening across asset class.

Liesel Pritzker Simmons: What about the impact side for you?

Lisa Kleissner: So we expect two returns. We expect an impact return that is measurable and we expect a financial return. That financial return is then adjusted based on risk and asset class, etc.

Question: Does the business always consider itself to be creating a social impact?

Lisa Kleissner: We have some. In the early days we had businesses or we made investments where they were not over to Liesel's comment that some people flew under the radar because it really acted as a black mark on a fund or investment. In fact, I am thinking of one in particular that was early days, but today that is less of an issue, I think. Would you agree?

Liesel Pritzker Simmons: I think that I have heard some companies say that they do not like the social impact, that they do not want to be considered a social enterprise because they have found that when they use that term they have difficulty fundraising. And often times when I meet those entrepreneurs I am like, "No, it is just actually your business is bad. That is why you are having trouble fundraising. I do not think if people thought that you were going to be able to scale I think you would be able to attract capital." But that is aside. I would say for us we are more dogmatic around our criteria the closer we are to the money. For example, our direct investment portfolio where we do early growth stage venture, mostly equity, a little bit of debt. We have very clear ideas about where and what we think impact is and we are particularly interested in Thin Tech, renewable energy, and what we mean in terms of access, what we mean in terms of scale, and the geographies that we want to work with.

As we move through the asset classes we become less dogmatic. So just to be totally frank with you, in our screened public equity where we are holding passive indexes, no. We do not have a theory of change. We just are negatively screening against those things. However, we have some active managers that have very clear ideas about what they want see businesses doing, buy and sell based on that. So, the further away we get to the deal the less dogmatic we are in terms of exactly what we mean by "impact." But we have to see some kind of impact reporting from the managers and we vet them based on how deep we think their thesis is around that because they are supposed to be the expert in that asset class. That is the way that we do it.

Lisa Kleissner: So just to kind of put an umbrella over this, we do grants, we do debt, we do concessionary debt, we do market rate debt, we do equity, we are a guarantor. We use a lot of different instruments and we do this for for-profits and not-for-profits both. So we are, and I am sure that your portfolio looks the same. And if we were to map it out you would see us starting on the grant side with things that are building infrastructure in the impact space. So our grant activity is very interrelated to our impact investing strategy. And we are also doing impact investing across our different entities. So we have two CRTs, we have a family limited partnership, we have the foundation, and then we have a real estate piece. So, our investable entity pieces, our investable capital, they have different structures and so approaching impact investing varies, at least in the US from a regulatory perspective, the bottom line is we are discovering that you can do impact investing regardless of the regulatory hurdles.

Charly Kleissner: Oh, well maybe to expand on that since we have families of wealth here. I mean for us it is not only about the foundation, but about all the other entities that we have as well. With the foundation we are more transparent. Within Toniic we are very transparent about the other entities that we live off. We have different risks and we take different risks. In our opinion the foundations should take the most impact risk because that is what they are here to do. That is really trying to experiment with new ways of making the deeper impact that other portfolios cannot possibly do because they are either regulated by institutions or want to live off them. They want to have a more predictable cash flow for living expenses. So, that is how we tackle it and many, many peers in our networks have similar approaches, where you have a philanthropic entity that is more adventurous with respect to trying to change the system and then some other portfolios that maybe other family members are involved in. So you have to get consensus and cannot take as much risk, and then maybe a third one where you have it with your brother or your kids and do it that way.

And so when you look at your overall wealth, taking a differentiated portfolio approach with respect to cash flow, generational equity constrains, and long term impact, it is a very important consideration from a multigenerational perspective in your own life.

Question: In your grant making space do you actually do a return on risk profile like you do in the impact investing space?

Liesel Pritzker Simmons: We do not in the same way if it is a clear grant. We look at I guess the likelihood that our objectives are going to be achieved and so we think about the risk in that way. But we do not add it—as you say do we like and add it together to our total return profile?

Answer: No.

Liesel Pritzker Simmons: Oh, okay.

Question: Just evaluation.

Liesel Pritzker Simmons: Okay. We have a metric in our grant making where we look at the likelihood that the outcomes will be achieved. So, I suppose I might put that as a risk assessment but not quite as diligently. If I am being honest, as we do with our investment portfolio.

Question: I ask because I listened to the Rockefeller Foundation give out a presentation on the 100th Anniversary, in which I was amazed to see that they got awarded at least 262 Nobel Prizes that they have invested in, which is absolutely stunning. But what really hit me was that they had not been awarded one since 1961.

Lisa Kleissner: You mean they had not supported anyone who won since 1961.

Lisa Kleissner: Yeah, okay.

Question: So my question is—my belief is beforehand they were taking really big bets, high risk with huge returns, and today they are taking much lower risk and much lower returns. Just that.

Lisa Kleissner: So NPC did an analysis of our portfolio and they rated it one through four. And this was looking at basically the impact side from very early-stage of impact development within an investment. Four would be where it is additive, they are issuing impact reports maybe every six months and so it is very mature. And when we got the report back from them the first thing that I stepped back and looked at was, "Wow. We are in the threes and the fours. We are not taking enough risk," and the reason for that was what our goal was. Our intention was, we wanted to prove that you could basically have a financially positive approach to impact investing. So that has been the last ten years. To Charlie's earlier point, we did it, it is done. Now we are going to be focusing on the impact side to see what we can do there and how we can toggle that switch between finance and impact.

Charly Kleissner: I mean I talked about accelerators before and we have very clear metrics of what we expect in this instance. At least one third, if not one half of the graduates of our accelerators will get appropriate financial capital within 12 months of finishing. And we measured that because we think that that is a leading indicator of impact success, which we are now tracking for the ones that are two, three-year-old alums in that network.

Liesel Pritzker Simmons: Well, I just think that question raises such a good point, and my husband and I talk about this a lot on the grant making side, and obviously, again, we are not Bill and Melinda Gates. We have less need for process around the whole thing, but how much process and how much bureaucracy do we want to introduce into our process? So we want to be all the words that we all want to be. We all want to be strategic. We all want to be data driven. We want to be evidence based. We want all of these things. So does that mean that I have to commission, a randomized control trial on everything before we actually issue a grant? Then I will never get a grant out the door but I want to be data driven. And so we keep doing this sort of dance back and forth around, are we processing our self out of risk by not necessarily taking a leap of faith when we are in exactly the kind of position. We are a very lean family office with a nimble ability to write checks to not do any of that.

So your point really strikes a chord with me and is a constant conversation that I am having with my husband all the time. I never quite know where I shake out. So I appreciate that question.