

Local and Global: An Investor's Story

Aloha, Good Morning. Last October, Neil Hannahs invited me to meet with several social entrepreneurs. This meeting was not by chance, but rather the result of centuries of cosmic planning.

Slide: Grandmother on the beach in Waikiki

My love for and connection to Hawaii has deep roots. I would like you to meet my grandmother, Nell Kahululani Pahapu'okalani Conant Porter, on the beach at Waikiki in the early 1900s.

I am an impact investor and I am a philanthropist. And I am here this morning to change the way you think about investing.

I've been traveling the globe for the last ten years meeting with and investing in social enterprises in Africa, Latin America, India, Europe and the mainland US. I never imagined that my work would lead me back to my home state of Hawaii, to the school I graduated from, back to what was my old stomping ground - Kaneohe Bay - to a meeting with a very inspired woman.

SLIDE: Hi'ilei

Hi'ilei and I stood looking out over the bay at Paepae o He'eia as she described the last ten years of community volunteerism that was transforming the third largest fish pond in Hawaii into a commercially viable fishery.

SLIDE : Paepae o He'eia Fish Pond

In that moment I connected back to the dreams of my youth, but also forward, to this new possibility for Hawaii - one that was being championed by the next generation of young, passionate and well educated Hawaiians and nurtured by enlightened business and philanthropic leaders.

My interest in the well being of our planet began when I was in high school. I organized the first Earth Day at Kamehameha. In college, the activist seed was firmly planted, but ultimately, the pressing need to make a living defined the next three decades of my life.

So tabling my desire to change the world, I finished my degree in Architecture at the University of Hawaii Manoa, and after a short stint at a small architectural firm in Chinatown, I left the islands in 1982 to explore the world.

SLIDE: Charly and Lisa

In 1986 I landed back in the states, in Silicon Valley with Charly, my husband, and our two kids. I restarted my career consulting to high tech start ups in exchange for stock. In early 1999, several companies in our portfolio went public. Six months later when the black out period ended, we found ourselves at our stock broker's office in San Jose at 5AM in the morning, nervous and exhausted from a sleepless night. We watched as Tom began selling off shares. Life as we knew it was about to change.

The following is simplistic, but I think you will get the point.

Now that you know a little about me, which of the following do you think I would invest in?

Oil Rig or Solar Panels

Clear Cut or Renewable Timber

Commercial Fisheries or a sustainable fishpond

So when our investment advisor suggested we diversify our cash assets into funds that included non-renewable commodities, tobacco, guns, and most likely other things that were not aligned with our world view, I posed this question:

What would a portfolio look like if it were aligned with our objective to make the world a better place?

And it is my search for the answer to this question that has informed my life over the past 12 years.

Our Approach

Charly and I work with a small, dedicated team of impact investment professionals.

We invest through five entities: our foundation, our personal estate, two Charitable Remainder Trusts and a family limited partnership.
Impact investing can be done with most entities.

We invest across asset class, from seed stage to fund of funds. And, deal flow quality and quantity is increasing.

We invest in first time social enterprises and fund managers. If not us, who?

We invest grant dollars in capacity building of entrepreneurs, philanthropists, investors and intermediaries - folks just like you.

And, we co-create action oriented not for profits, like Social Impact International, a capacity building program for social entrepreneurs and for profits like Toniic - a global impact investor network - to address gaps in the impact market space.

So what have I learned? A lot, but today I will share just two personal lessons with you and one observation.

SLIDE: Profit + Purpose = Impact

Lesson Number One

I learned that you can have profit with purpose and measurable impact.

Our foundation portfolio performance, which is currently 80% impact investments, was in the top decile compared to our peers during 2008/2009. And the overwhelming majority of this performance came from our impact investments.

Our impact first investments, which are mostly fixed income, with a below market interest rate, acted as a hedge and an absolute return strategy. To date we have had no defaults with consistent positive returns in all but 1 quarter, since 2005.

Our Sustainability investments, which are mostly long only public and private equity, have consistently outperformed their non-sustainable asset class benchmarks.

And, some of our impact colleagues are seeing similar results.

For impact measurement, we use open source tools.

We measure outputs, not outcomes, leaving the expensive outcome studies to others with deeper pockets.

We use Impact Reporting and Investment Standards, otherwise known as IRIS, a taxonomy that allows us to compare our findings with a growing number of other folks interested in measuring impact

And we support the Global Impact Investing Rating System, GIIRS, a system for assessing the social and environmental impact of companies and funds with a ratings and analytics approach analogous to Morningstar investment rankings and Capital IQ financial analytics.

We will be publishing our findings later this year for both our foundation and Toniic.

However, there are some footnotes.

Impact Investing is not for the passive investor. It requires more rigor and engagement.

Harvesting and exits are different from the traditional markets - something we see as a natural evolution and an early indicator of what markets of the future may look like.

And, this nascent industry suffers from what seems to be over broad as well as very narrow definitions, resulting in confusion in the market place as to what exactly is an impact investment.

Despite its challenges, impact investing remains one of the most powerful tools in our toolbox.

SLIDE: Canoe

Lesson Number Two

It takes a community.

We have learned that to be successful, entrepreneurs, investors, philanthropists and intermediaries must work together. Silo'd thinking is a thing of the past.

To illustrate the power of community, I will share a story from our work in India.

SLIDE of DEEPAK:

Deepak began pulling rickshaws when he was 12. The reason he is smiling is that he is well on his way to owning his first rickshaw, purchased from SMV Wheels Pvt Ltd. Ownership has changed his status in the community, provided him with his first tangible asset, enabled him to have a savings account, and health insurance.

Naveen Krishna, founder of SMV Wheels, participated in a peer to peer capacity building program, Social Impact International, in Bombay last May. With the help of grant capital he was able to develop a business plan, hone his skills as an entrepreneur and get in front of potential investors.

Naveen was invited to present to Toniic, a global impact investor network. Five investors came together - Community Foundation Silicon Valley, A-Spark from the Netherlands, Unltd India in Bombay, our foundation and First Light out of Atlanta. The round closed in December.

For Deepak, who is 60 years old and makes less than \$4 per day, he will double his income and now has a trusted rickshaw support network. And for Naveen, he plans to franchise this model beyond Varanasi. Based on this proof of concept, Naveen's local bank is working with him to enable access to priority sector lending in order to scale.

The community that enabled this included a community foundation, two family foundations, and two angel investment groups. Grant and quasi-equity capital were invested to enable this deal.

John Kohler, a venture capitalist working with social entrepreneurs, observes in his

paper Coordinating Impact Capital, that 92% of social for profits that have gone through the Global Social Business Incubator program at Santa Clara University are still operating and of those 55 percent have moved from start up to scaling.

Social Impact International is seeing similar results.

And programs like these are popping up around the world.

SLIDE: If not us, who?

An observation

I just returned from a trip to Washington DC with The Philanthropy Workshop West. Our group of 20 philanthropists came to explore what we could be doing better to move America's social agenda forward. No matter which expert or think tank we spoke with, the issue of finance reform was at that top of their list. This would then be followed with a resigned shrug that nothing is possible in the current political climate.

And why is finance reform so important? Because our existing finance system is not sustainable. It chooses to ignore externalities - those inconvenient truths like resource

depletion, and environmental degradation. And that system, at least for me, looks like this.

SLIDE of Monkeys in a Canoe

So if we want a sustainable future, we are the ones we have been waiting for. We are the change makers we seek. It is no longer prudent nor sane to wait for leadership from "headquarters".

SLIDE: Plumeria Lei

For Hawaii, an island of abundant natural resources and a legacy of sustainable island living, I believe the question is:

What can Hawaii teach the world about sustainability, cultural inclusion, leveraging of human and natural resources, having a lighter footprint in a modern world through the development of social enterprise and impact investing?

I have heard from some of you that you wonder if Hawaii is too small to be a global player. Our foundation is small, but has always punched above its weight. Why?

Because our founders and our size allow us to be hands on, nimble, enables fast track decisions, and we can build up and tear down as needed without a bureaucratic process. Hawaii can be nimble too.

And Hawaii has the advantage of being the canary in the coal mine. An island is impacted by externalities sooner and can take a leadership role in developing solutions, not only locally, but regionally and globally.

I believe that Hawaii has all the ingredients needed to build a thriving impact community. Will you be a co-creator of this bright future?