

Impact Investing Policy (IIP)
Developed for:



KL Felicitas Foundation

By:

SONEN CAPITAL

Social & Environmental impact investment management

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1. Overview

Policy Scope and Purpose

The Impact Investment Policy (IIP) is guided by the founders' values and the foundation's mission with the explicit goal of optimizing economic, social, and environmental returns.

The purpose of this Policy is to document KLF's objectives and guidelines for the investment of its assets, including the requirements for a successful integration of Impact Investments. This Policy guides the Foundation's board, staff, money managers, philanthropic advisor, and investment advisor to effectively invest, monitor, evaluate and manage these assets.

Mission

The mission of KLF is to

- Enable social entrepreneurs and enterprises worldwide to develop and grow sustainably, with an emphasis on rural communities and families; and to
- Advocate the Foundation's Impact Investing Strategy

Guiding Principles & Values

One important objective of the Foundation is to inspire others to leverage their assets for creating positive impact. Aligning the investment strategy with the mission and values of the Foundation not only creates greater leverage for impact, but also is the right and ethical thing to do. Transparency, accountability, and open source sharing of information are therefore core guiding principles and values.

In addition, the founders of KLF subscribe to the following guiding principles and values:

- Commitment to a high touch approach
- Belief that a grass-roots rather than a top-down approach is more successful and sustainable
- Belief that systemic societal problems are best addressed through cross-sectoral partnerships and/or hybrid business solutions, leveraging market forces where possible
- Commitment to leveraging as many aspects of the Foundation's structure and activities as possible to maximize impact
- Commitment to assessing the holistic impact of our work
- Commitment to an entrepreneurial approach of taking measured risks in order to achieve significant impact; by taking a strategic portfolio approach with disciplined pipeline and deal flow analysis and a focused approach on results and metrics; by being innovative and challenging the status quo

Objective

KLF recognizes that its fiduciary responsibility does not end with maximizing return and minimizing risk. It believes that in light of the systemic social, environmental and economic challenges of our time, fiduciary responsibility, as defined for foundations, must include integration of prudent financial management practices with principles of environmental stewardship, concern for community, and corporate accountability to shareholders and stakeholders alike.

KLF believes aligning the investments of its corpus with its mission and values amplifies over time the opportunity to maximize its philanthropic impact. A “spending down” approach would deprive the corpus of realizing its full long-term impact potential. Therefore, during the lifetimes of its founders, KLF’s return objective is to maintain its giving capacity on an inflation-adjusted basis while maintaining an approximate yearly payout of 5% in grants and ‘Program Related Investments’ (as defined by the Tax Reform Act of 1969 under Section 4944). Upon second death of the founders, more assets will move into the Foundation. The structure of the Foundation is designed to allow the future trustees to have maximum flexibility to adjust the strategy as they see fit, including, but not limited to, spending down of assets in pursuit of philanthropic objectives.

Risk Tolerance

Portfolio return volatility is reduced through asset class diversification and monitored on an ongoing basis by comparison to the target asset allocation and the portfolio benchmark. KLF recognizes and acknowledges that some risk must be assumed in order to achieve long-term investment objectives, and that there are uncertainties and complexities associated with investment markets. KLF’s strategic asset allocation seeks to avoid significant total portfolio declines that would impair achievement of long-term return objectives, with the expectation that return fluctuations will fall within an acceptable range in normal market conditions.

2. Roles & Responsibilities

KLF targets value-aligned partners and advisors. Team members work together to support the mission and values of the Foundation.

KLF Board

The KLF Board is the fiduciary of the Foundation's assets as well as the guarantor of the Foundation's mission and values.

Primary responsibilities of the KLF board are:

- Ensuring alignment with mission and values;
- Approving Impact Investing Policy and changes to it;
- Monitoring and evaluating implementation of Impact Investing Policy (at least once a year); and
- Hiring and managing the team.

Investment Advisor and Investment Committee

The Investment Advisor develops the Impact Investing Policy with an emphasis on investment portfolio strategy and oversight. The Investment Advisor is responsible for guiding KLF through a disciplined and rigorous investment process. The Investment Advisor participates in and/or chairs the Investment Committee. The Investment Committee is a non-executive advisory committee responsible for recommendations regarding the Impact Investing Policy.

The primary responsibilities of the Investment Advisor are:

- Obtaining relevant information in order to quantify KLF's investment objectives and risk tolerance;
- Facilitating portfolio design (asset allocation) and implementation process, including the full integration of Impact Investments;
- Preparing and updating the Impact Investing Policy;
- Conducting manager searches for investment managers as needed;
- Monitoring the asset allocation of the overall portfolio relative to the Impact Investing Policy;
- Reviewing and monitoring investment expenses including fee structures;
- Performing ongoing due diligence on the chosen managers or funds and recommend changes as warranted; and
- Supporting the KLF's board in the effective evaluation process of Impact Investments

Philanthropic Advisor

The Philanthropic Advisor develops the philanthropic / impact aspects of the Impact Investing Policy with a particular emphasis on impact definition and measurement.

The primary responsibilities of the Philanthropic Advisor are to:

- Support impact assessment and evaluation in due diligence and reporting process
- Propose Impact Investments for consideration
- Identify potential collaboration efforts with peers and networks to enhance and leverage impact investment activities of KLF
- Serve as an additional resource to future KLF trustees

Investment Managers

The Investment Managers construct and manage investment portfolios consistent with the investment philosophy and disciplines they were hired to implement. They have discretion to select specific securities and, on an ongoing basis, adjust and modify their asset mix within the guidelines specified in their management agreement. The Investment Managers will use only acceptable investment vehicles as defined in this policy. With regard to allocating brokerage and commissions, each investment manager must make every effort when trading securities to do so on a best execution basis.

As distinguished from the Investment Advisor, who is responsible for managing the investment process, Investment Managers are responsible for making investment decisions (security selection and price decisions).

The primary responsibilities of the Investment Managers are:

- Managing the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Prospectus, Private Placement Memorandum, Policy Statement, or Contract;
- Exercising full investment discretion with regards to buying, managing, and selling assets held in the portfolios, subject to any listed restrictions;
- Promptly voting all proxies and related actions in a manner consistent with this policy (the investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations);
- Communicating all significant changes pertaining to the portfolio or the firm itself, e.g., changes in ownership, organizational structure, financial condition, and professional staff;
- Use the same care, skill, and prudence under every circumstance that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in similar activities, for like clients with like aims in accordance and compliance with all applicable laws, rules and regulations; and
- Reporting performance on a quarterly basis.

Custodian

The custodian serves as a third party independent fiduciary used to hold cash and marketable securities. Monthly reports summarizing these holdings will be available for review by the KLF board. In addition, a bank or other depository arrangement may be used to accept and hold cash prior to allocating it to an investment strategy or manager, and to invest such cash in liquid, interest-bearing instruments.

3. Asset Classes & Impact Categories Defined

In accordance with the methodology of the investment advisors, KLF allocates assets among 3 major categories: Stable Assets, Growth Assets, and Inflation Protection Assets. Each category contains one or more asset classes; and each asset class contains one or more sub-asset classes.

Stable Assets

Definition: Stable assets include cash and fixed income asset classes. The underlying characteristics of this broad asset category are low risk and low dispersion of investment returns. The asset category is presumed to provide relative stability and liquidity in volatile or downturn market conditions, but at the same time produce much lower returns than broad equity market indexes.

Asset Classes:

- Cash and Equivalents – accounts offering daily liquidity or with maturities of 1 year or less, where principal risk is minimal
 - Cash Money Markets, Demand Deposit and Time Deposits (CD's)
- Fixed Income: fixed income securities both public and private
 - Notes and Other Debt Obligations
 - Municipal Bonds
 - Core Fixed Income
 - Global Bonds

Growth Assets

Definition: Growth assets include riskier fixed income, public equities, hedge funds, private equity, and venture capital asset classes. This category of assets provides growth in the portfolio with higher risk, resulting in potential value fluctuations in different market cycles. Public equities are presumed to achieve respective broad equity market returns with underlying volatility. Core hedge funds are deemed to have risk and return characteristics between those of fixed income and public equities, providing relative growth as well as some relative stability in downturns. Satellite hedge funds may be more aggressive than broad equity markets, attempting to generate alpha based on their respective strategies. Private equity and venture capital are illiquid value generation strategies with high prospects of growth and significant risk of failure.

Asset Classes:

- Fixed Income:
 - Global Bonds
- Public Equity:
 - US Equity
 - Non-US Developed Equity
 - Emerging Markets Equity
- Hedge Funds
 - Equity Long/Short
- Private Equity

Inflation Protection Assets

Definition: Inflation protection assets include real estate and real assets. The characteristics of this broad asset category are highly correlated with inflation, therein providing portfolio asset value protection during inflationary periods.

Asset Classes:

- Real Estate
 - Private Real Estate
- Real Assets
 - Commodities
 - Timber

The asset classes listed above can be held in pooled funds, as well as privately managed separate accounts. Additionally, KLF may make direct public and/or private investments (debt or equity) into single enterprises, non-profits, NGO's, projects, real estate and other real assets. There are no prohibited investments at this time.

KLF will emphasize and search for appropriate Impact Investments. When such investments are not available or suitable given the foundation's objectives, the portfolio will utilize the most appropriate available strategy until a prudent and focused Impact Investment choice becomes available.

Impact Investments

KLF uses '*Impact Investments*' to mean investments, which have a stated social and/or environmental return objective in conjunction with a financial return objective. Impact Investments seek to

achieve a ‘blended’ return, i.e., a combination of environmental, social, and financial returns. Even though KLF’s founders strongly endorse the holistic notion of a blended return, they also recognize the benefits of segregating Impact First Investments and Financial First Investments.

Impact First Investments seek to optimize social and/or environmental returns as their primary objective, with a financial floor. KLF believes that some social enterprises and other desired impact themes require access to patient flexible capital, operating in markets where traditional purely commercial motivated capital markets may not operate. KLF is therefore willing to make these types of investments at predetermined levels of return or discounts when compared to similar commercially oriented markets that lack mission or program impact. Impact First Investments, if appropriate, may be qualified as ‘Program Related Investments’ (PRIs). KLF uses the term PRIs consistent with the definition provided in the Tax Reform Act of 1969 section 4944. In accordance with this Act impact investments are considered PRIs if:

- The primary purpose of the investment is to advance the Foundation’s charitable objectives;
- Neither the production of income nor appreciation of property is the primary purpose; and
- The funds cannot be used directly or indirectly to lobby or for political purposes.

KLF allows a limited number of Impact First Investments out of its corpus. These investments are referred to as ‘Corpus Impact Investments’ and can account to upto 5% of the corpus. .

Financial First Investments seek to optimize financial returns with a social and/or environmental impact floor. All Financial First Investments seek financial returns approximating the average risk adjusted returns of similar investments made without regard for sustainability, mission or social considerations.

KLF partitions the range of Financial First Investments into the following impact classes for more effective communication and monitoring: Sustainability Investments, Mission Related Investments, and Social Component Investments (see Figure 1. below).

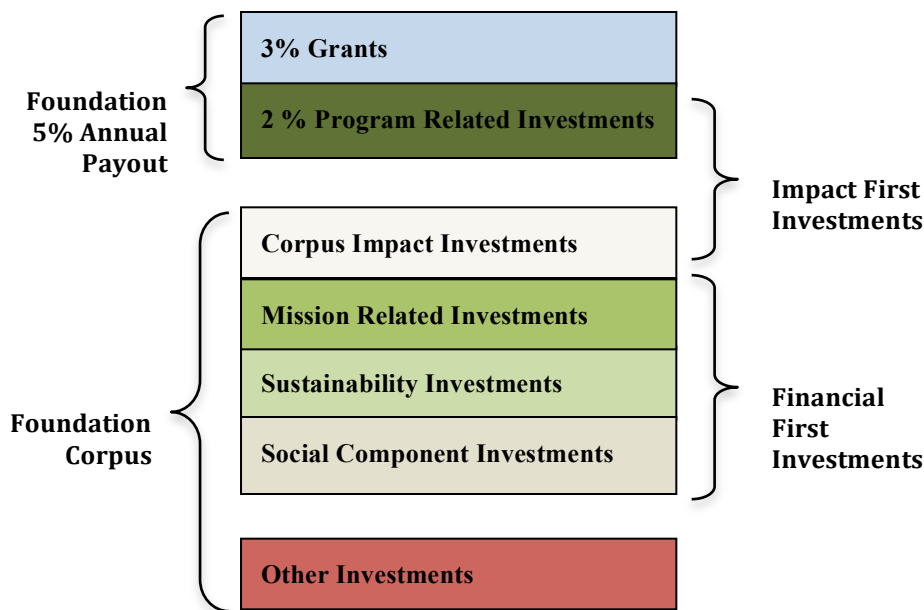


Figure 1. Impact Classes

Sustainability Investments

KLF defines Sustainability Investments as investments focused on holistic sustainability, i.e., the degree to which a business provides value from an economic, environmental, social, and spiritual perspective. We integrate environmental, social and governance (ESG) factors into the financial analysis and decision-making process for a given investment in order to adequately consider material risk and opportunity. This is based on KLF’s believe that those long-term investments that positively capitalize on, or effectively manage ESG factors will have an advantage over those investments that do not take them into consideration.

KLF is working on a way to define its core belief in holistic sustainability with easily understood indicators and metrics that will demonstrate the interdependent nature of economic, environmental, social, and spiritual sustainability into long-term profitability and performance.

KLF actively seeks investments, which support and/or recognize the importance of global, holistic sustainability. These investments may be focused on specific themes or offer broad recognition of the long-term global macroeconomic & environmental drivers within sustainable business ventures.

Mission Related Investments

Mission Related Investments support the mission of KLF. Mission Related Investments seek “risk adjusted” rates of return similar to investments made without mission or social consideration.

KLF actively seeks investments, which directly or indirectly support global social entrepreneurs and/or provide sustainable economic development to rural communities.


Social Component Investments:

Social Component Investments allocate part of their revenues and/or profits directly or indirectly to a social or charitable beneficiary. The investment itself often is not social in nature, but through a redirection of revenues, supports charitable or social efforts.

KLF recognizes the contribution Social Component Investments have on supporting various philanthropic activities which KLF may or may not directly support. Although not actively sought out, investments with these attributes that qualify and are suitable for the portfolio, will be recognized as such.

Asset Class Exposure

The Foundation’s multi-faceted mission of enabling social entrepreneurs and enterprises worldwide to develop and grow sustainably, as well as advocating its Impact Investing Strategy provides a range of opportunities across asset classes and impact areas. In reconciling impact goals with financial goals, the Foundation recognizes within its impact investing strategy that the spectrum of possible investments will vary in terms of their direct and indirect benefits to its mission, guiding principles and values. The following table illustrates where the Foundation anticipates the ability to allocate to investments seeking a positive social and/or environmental impact.

	Investments Targeting:	Illustrative Asset Class Exposures*:
<p>High Impact</p>  <p>Low Impact</p>	Health/Education/Sustainable Economic Development	<ul style="list-style-type: none"> • Fixed Income • Notes and Other Debt Obligations • Private Equity
	Community/Social/Environmental themed investments with targeted impact objectives	<ul style="list-style-type: none"> • Cash and Equivalents • Thematic Public Equities • Real Assets
	Broad based Environmental, Social, and Governance (ESG) factors or alignment with sustainable practices	<ul style="list-style-type: none"> • U.S. Broad Based Fixed Income • Public Equities • Hedge Funds

* Note: Illustrative only. Each specific investment within each asset class will be evaluated for its ability to reflect targeted impact objectives.

4. Strategic Asset Allocation Targets & Ranges

Based on KLF's investment objective, time horizon, risk tolerance and constraints, the following asset allocation guidelines have been established:

Asset Class	Policy Target	Allowable Range
Stable Assets		
CASH AND EQUIVALENTS	4.0%	3%-10%
FIXED INCOME INVESTMENTS	26.0%	15%-30%
Notes and Other Debt Obligations	6.0%	2%-10%
Core Fixed Income	5.0%	0%-15%
Global Bonds	15.0%	5%-15%
Growth Assets		
PUBLIC EQUITY INVESTMENTS	27.0%	10%-50%
US Equity	10.0%	5%-25%
Non-US Developed Equity	10.0%	5%-25%
Emerging Markets Equity	7.0%	0%-15%
HEDGE FUNDS	10.0%	10%-30%
Equity Long/Short	10.0%	0% - 20%
PRIVATE EQUITY	20.0%	0%-30%
Inflation Protection Assets		
REAL ESTATE	5.0%	2%-10%
Private Core Real Estate	5.0%	2%-10%
REAL ASSETS	8.0%	3%-15%
Commodities	3.0%	3%-15%
Timber	5.0%	0%-10%
Natural Resources	0.0%	0%-5%

Estimated Expected Return from Target Portfolio: 7.18%

Estimated Expected Standard Deviation from Target Portfolio: \pm 10.98%

(Per asset allocation analysis as of March 22, 2013)

Impact First Investments and Asset Allocation

KLF actively seeks to deploy Impact First Investments in support of its philanthropic activities. Those which qualify as Program Related Investments (PRI) may be allocated outside the risk budget and target allocation for the total portfolio - given PRI replacement of highest risk capital, grants. Impact First Investments that are not qualified as PRI's must fit within the policy targets.

Rebalancing

There will be periodic deviations in actual asset weights from the long-term/current policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights can alter the intended expected return and risk of the portfolio. Additionally, it is expected that the portfolio allocation will remain within the upper and lower limits of this Policy. In the event that the portfolio allocation breaches the upper or lower limits, the entire portfolio will be evaluated for rebalancing. KLF and the investment advisor together shall decide on any rebalancing initiatives.

Diversification

- Managers are expected to maintain appropriate diversification based on their specific strategy and mandate.
- Managers are generally expected to remain fully invested. Managers will notify KLF and the Investment Advisor if cash positions exceed acceptable ranges based on the manager's specific strategy and mandate. In no case shall cash comprise more than 25% of an investment manager's portfolio without notification to KLF and the Advisor.
- No single manager (with the exception of Fund of Funds) shall exceed 10% of the portfolio value.
- No single direct investments shall exceed 5% of the portfolio value.

Impact Investment Targets

KLF is actively engaged in seeking to invest 100% of its assets in impact investments by the end of 2013. Figure 2 shows actual growth of impact investments between 2006 and 2009, as well as projected growth until 2013.

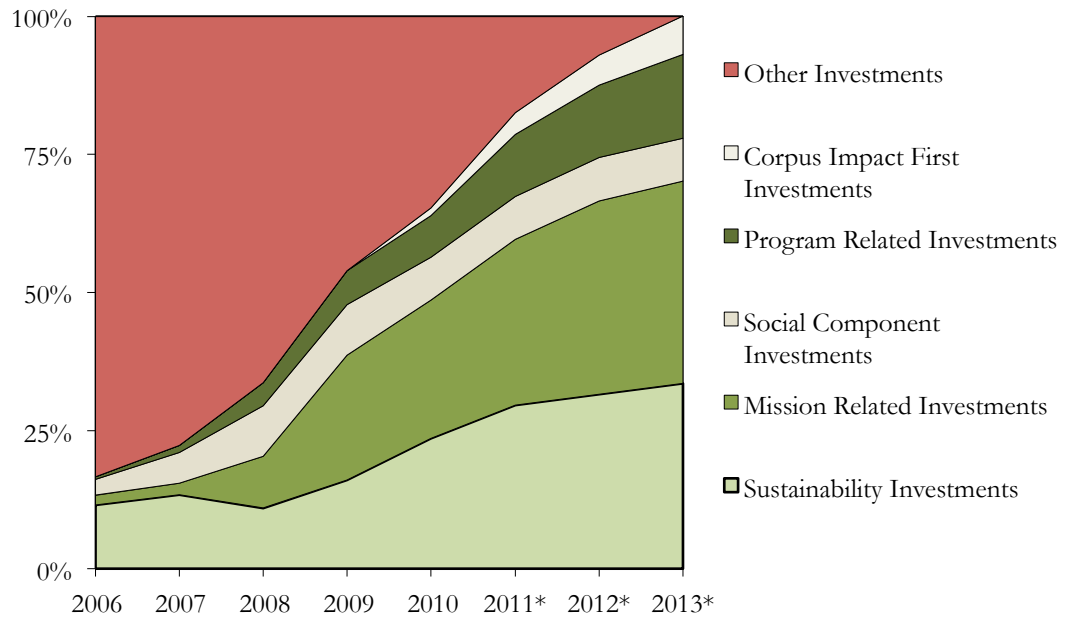


Figure 2. Long Term Impact Category Targets

5. Performance Benchmarks

KLF measures and compares financial returns on three different levels:

1. Comparison of the overall portfolio to an absolute benchmark, as well as to a peer universe of foundations and endowments;
2. Comparison of the various impact classes (i.e., program related investments, corpus impact investments, mission related investments, sustainability investments, social component investments) to a similarly weighted non-impact benchmark;
3. Comparison of each individual investment to an asset class benchmark.

Performance of all investments is reviewed on a quarterly basis. Impact classification level performance and portfolio-level comparison to KLF's peers are evaluated on an annual basis, at the end of each calendar year. Primary emphasis is placed on risk-adjusted relative rates of return.

Following are the specific benchmarks for three levels of evaluation (performance expectations are over a market cycle, typically 3-5 years):

Portfolio Level

- The total return of the portfolio should rank in the top quartile of an appropriate peer universe on a risk-adjusted basis. Currently we use the 'Russell Mellon < \$1Billion Foundation & Endowment Universe' as our peer universe (see Appendix B).
- The total return of the portfolio should meet or exceed inflation, as measured by Consumer Price Index (CPI), plus 5%.

Impact Class Level

- The total return of the impact portfolio is evaluated relative to the non-impact portfolio return.
- The total return of the portfolio of the various impact classes (i.e., program related investments, corpus impact investments, mission related investments, sustainability investments, social component investments) versus a weighted average (as of the day of reporting) of the underlying asset class exposure benchmarks (see Appendix B).

Asset Class / Manager Level

The portfolio has adopted the following performance benchmarks for each asset class:

Cash & Cash Equivalents	1 Month T-Bill
Global Fixed Income	Barclays Capital Global Aggregate Bond Index
Notes & Other Debt Obligations	Inflation
Core Fixed Income	Barclays Capital US Aggregate

Global Bonds	Citigroup WGBI (Unhedged)
Public Equity	MSCI World Index
U.S. Equity	S&P 500
Non US Developed Equity	MSCI EAFE Index
Emerging Market Equity	MSCI Emerging Market Index
Hedge Funds – Equity Long/Short	HFRI Equity Hedge
Private Equity	N/A (see below)
Private Core Real Estate	NCREIF Property Index, lagged 3 months
Commodities	iShares S&P Natural Resources Index
Timber	NCREIF Timber Index

Notes on asset class benchmarks: Private Equity *long-term* portfolio returns are compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark, at this time, for *short-term* performance evaluation or decision-making.

In addition to the above stated benchmarks, any specific investments may require or be best evaluated relative to an alternative benchmark not listed. In such case, KLF and the investment advisor will decide on an appropriate benchmark together.

6. Impact Measurement

KLF uses quantitative and qualitative metrics to measure impact.

Quantitative Metrics

KLF uses IRIS (Impact Reporting and Investment Standards) to measure its impact. KLF uses a set of core metrics across its entire portfolio as well as sector specific metrics – where appropriate.

Core Metrics:

	IRIS Indicator (taxonomy code)	Definition
Product Impact	Number of Clients (PI7094)	The number of individual consumers served by the organization
	Jobs Created in Financed Enterprise (PI3687)	Net number of new FTE jobs at financed enterprise (including self-employed individuals and owners of businesses)
Financial Performance	Direct Investment – Number of Investments (FP4359)	Number of debt and equity investments on balance sheet
	New Investment Capital (FP8293)	Value of cash flows from both loans and investments
	Contributed Revenue (FP3021)	Contributed revenue (operating grants and in-kind donations)
	Earned Revenue (FP5958)	Revenue resulting from all business activities
	Net Income (FP1301)	Net income from all business activities, including all contributed revenue.

Sector Specific Metrics:

Impact Cluster	Supporting IRIS Indicators	Description
Health, Energy and Water	Clients provided new access to energy, healthcare, water (PI2822)	Number of clients, individuals or households, who were served by the organization and provided access to products or services they were previously unable to access.
	Energy Produced (PI8706)	Energy produced during the reporting period (MWh)
	Potable Water Produced (PI8043)	Amount of potable water produced (l)
Land Conservation and Restoration	Land Reforested (PI4907)	Hectares of land reforested during the reporting period
	Land Preserved (PI2012)	Hectares of land designated as a nature reserve
	Sustainable Cultivated Land Area (OI2605)	Hectares under sustainable cultivation

Qualitative Metrics

KLF uses the following qualitative metrics to measure its impact:

Qualitative Impact Indicators	Description
Catalytic Investment (Stage I)	Early stage investment that continues to second and third rounds.
Attraction of Additional Capital	Matching fund opportunity or co-investment with another impact investor.
Business Model Development and Innovation	Support to help test, develop and refine a business model for subsequent roll-out.
Investment Combined with Grant Funding	Equity investment or loan combined with grant capital provided by KLF.
Investment Combined with Public Support	Investment support goes alongside sizable publicly-sourced investment (e.g. public healthcare).
Alignment with Foundation Core Values	Close alignment with one or more of the foundation's core values regarding sustainability, rural communities and scaling innovation for high social impact.

7. Investment Process

Deal Flow Generation

- KLF's Impact Advisor is primarily responsible for generating deal flow for all financial first investments
- KLF's Philanthropic Advisor and/or KLF's Board is primarily responsible for generating deal flow for all impact first investments
- All potential investments need to adhere to the Asset Allocation and Impact Investing Policy (with the exception of Program Related Investments, which do not have to adhere to the Asset Allocation policy)
- KLF is particularly interested in exploring blended investments, i.e., impact first investments together with a capacity building grant, etc.

Due Diligence

- For financial first investments, financial due diligence is usually done first. For impact first investments, impact due diligence is usually done first.
- KLF uses the evaluator template (see Appendix A) to document its impact due diligence.
- Potential financial first deals that turn out not to be robust enough may be evaluated as an impact first deal.
- Once the financial and impact due diligence are completed, the Board makes the final decision on whether KLF will proceed with the investment.

Implementation

- The investment advisor takes the lead in implementing the investment, e.g., gathering, reviewing and executing the Investment Agreement Document, articulating the monitoring and reporting requirements, etc.

Monitoring and Reporting

- Investment reports are prepared by the Investment Advisor
- Impact reports are prepared by the Philanthropic Advisor

8. Investment Manager Evaluation & Review

Investment Manager Selection

In selecting the funds or managers, the Investment Advisor considers the following:

- Firm Quality and Depth - Investment companies should have a history of reliability and sound financial background. The management of the investment advisor should demonstrate quality and stability and a business approach consistent with a prudent fiduciary.
- Consistent Approach - Portfolio managers should exhibit a consistent investment process and style.
- Performance - The manager should exhibit competitive performance relative to an appropriate benchmark and peer group based on investment objectives, holdings, investment style, and market capitalization.
- Diversification - Portfolio managers should diversify the portfolios so as to minimize non-systematic risk.
- Risk - Investment performance should be competitive on a long-term risk-adjusted basis within each appropriate asset class.
- Commitment to and ability to deliver 'Impact'-oriented outcomes.
- Fees - Selected funds/managers should have competitive fees similar to other comparable offerings.

Monitoring of Investment Managers

KLF acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Therefore, KLF evaluates manager performance with a long-term perspective.

On a timely basis, but not less than quarterly, the Investment Advisor provides KLF with a review of the following:

- Each fund or manager's investment performance and risk levels relative to an appropriately weighted market index and peer group.
- Each fund or manager's adherence to stated strategy and style.
- Any organizational or portfolio manager changes
- Views on important developments within the economy and the securities markets, and their potential effect on investment strategy, asset allocation, and investment portfolio performance.
- Environmental or Social Impact performance as provided by the manager or investment

Termination of Investment Managers

Any decision to terminate or retain a manager will be made based upon the findings of an appropriate review and analysis conducted by the Investment Advisor. If, after this review and analysis, the Investment Advisor determines the manager warrants replacement, this recommendation will be presented to KLF prior to action being taken. It is ultimately KLF's responsibility to make the decision to terminate or retain a manager.

9. Additional Constraints or Considerations

Tax Considerations

KLF is a private non-operating foundation subject to excise taxes of 1-2% of its interest & dividend income received and realized capital gains along with certain other kinds of realized income subject to excise tax. KLF is also subject to Unrelated Business Income Tax (UBIT) on its Unrelated Business Taxable Income (UBTI). UBTI is generally limited to LPs and other illiquid investments that have utilized debt as part of their investment strategy. UBTI is taxable at the maximum corporate tax rate, and any investments subject to UBIT are evaluated on an after tax basis.

Proxy Voting

KLF currently does not implement an active proxy voting policy. The founders believe that moving aggressively to 100% impact investments is of higher priority than actively implementing a proxy voting policy. KLF retains the right to direct investment manager's votes on any particular issue, subject to its discretion.

In the future, investments managers responsible for managing Impact Investments may be charged with voting proxies in consideration for the values and mission of KLF.

Investment Advisor Review

KLF reviews the performance of its Investment Advisor at least annually in order to determine if the Investment Advisor is successfully executing its responsibilities as outlined by this policy. Emphasis will be placed on evaluating the Investment Advisors' success in achieving KLF's desired level of impact investments, while achieving the stated financial portfolio objectives and manager performance results relative to benchmarks.

Impact Investing Policy Review

This version (Version 1.0) of the Impact Investing Policy was approved in September 2011. KLF reviews this policy at least annually to determine if stated investment objectives are still relevant and makes adjustment accordingly.

The Investment Advisor reviews this policy at least annually to determine the continued feasibility of achieving the investment objectives.

It is not expected that this policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IIP.

Exceptions to this Policy need to be approved by the Board.



APPENDIX A. Evaluator Template

Impact Investment Evaluator Primer – KL Felicitas Foundation
To be used as an explanatory tool for an impact investing due diligence process.
Explanatory notes are in *italics*.

Impact First Investment

Financial First Investment

Program Related Investment

Corpus Impact First Investment

Sustainability Investment

Mission Related Investment

Social Component Investment

Investment Name:	Investment Amount: \$
Investment Date:	
Asset Class:	Region of Impact:

Investment Due Diligence by: _____ Signature: _____ Date _____

Impact Due Diligence by: _____ Signature: _____ Date: _____

Summary Description of Investment:

This section summarizes the main activities of the investment and the key attributes of the investment's structure. Also include how this investment aligns with the programs and mission of the foundation.

Main Contacts:

Supporting Documents:

-
-

Impact Due Diligence Update:

Financial Due Diligence Update:

* Questions are scored by -1, 0 and +1, estimating a degree of alignment with the Foundation’s programs, mission, intended impact and investment strategy.

-1 is a low alignment score; +1 is a high alignment score

Program/Mission/Sustainability Due Diligence (Foundation Directors and Philanthropic Advisors)		
Alignment with the Foundation		Score*
<p>1a. How does this investment align with the impact objectives of the foundation?</p> <p>b. In what area(s) does the foundation believe this investment will contribute the greatest degree of impact?</p>	<p>a. <i>Describe how the investment aligns with the foundation’s social, economic, environmental and other impact objectives. Include any references to investment policy or sustainability policy where possible.</i></p> <p>b. <input type="checkbox"/> Program Impact <input type="checkbox"/> Mission Impact <input type="checkbox"/> Sustainability Impact</p> <p>Notes: KL Felicitas Foundation evaluates its investments along program, mission and sustainability impact dimensions.</p>	
<p>2a. Are there any elements of this investment that are contrary to any value(s) of the foundation?</p> <p>b. If so, how is this being addressed?</p>	<p>a. <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><i>Evaluate potential tradeoffs of the investment, including any aspects of the investment’s activity that is not consistent with the values and purposes of the foundation.</i></p> <p>b.</p>	
<p>IRS Compliance: If this is a Program Related Investment, answer questions (3a-c) and question (4) below. If not, proceed to question 5. This <input type="checkbox"/> IS <input type="checkbox"/> IS NOT a Program Related Investment.</p>		Score
<p>3. Is this investment compliant with the definition of PRI in the Tax Reform Act of 1969 section 4944?</p> <p>a. Is its primary purpose to advance the foundation’s charitable objectives?</p> <p>b. Is a significant purpose of the investment to generate financial return (either income production or property appreciation)?</p> <p>c. Will funds be used either directly or indirectly to lobby or for political purposes?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>a. <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><i>Notes: Describe connection between investment and foundation’s specific charitable objectives. Provide evidence that this connection is the primary motivation for the investment.</i></p> <p>b. <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><i>Describe any investment terms that differ from a commercially viable investment (e.g. providing a first-loss provision; or agreement to a lower return than commercial investors going into transaction; or that the transaction’s risk profile is such that no commercial investors are available; etc.)</i></p> <p>c. <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><i>Insert specific language and/or comments from PPM or other due diligence material that may refer to the intended uses of the funds provided through any investment.</i></p>	

<p>4. What conditions exist that suggests this PRI is a more effective or appropriate vehicle for achieving the foundation’s programmatic objectives versus a grant?</p>	<p><i>Evaluate the capital market environment, or lack thereof, for such an investment.</i></p>	
<p>Relationship & Reputation</p>		<p>Score</p>
<p>5a. How well does the foundation know the investment and/or strategy? b. What is the nature and duration of this relationship? c. Have members of the foundation made site visit(s)?</p>	<p>a. <i>Document the personal and direct understanding of the investment strategy by the foundation.</i> b. c. <input type="checkbox"/> Yes <input type="checkbox"/> No Notes: <i>Include any relevant information that relays how well the foundation knows the investment and its key activities.</i></p>	
<p>6a. Have other foundations recognized this as an impact investment? b. Do other respected partners of the foundation have a relationship with or experience with this investment?</p>	<p>a. <input type="checkbox"/> Yes <input type="checkbox"/> No Notes: b. <input type="checkbox"/> Yes <input type="checkbox"/> No Notes: <i>Capture any peer or trusted partner knowledge on the investment.</i></p>	
<p>7a. How integral to the success of the investment is: <input type="checkbox"/> Program Impact <input type="checkbox"/> Mission Impact <input type="checkbox"/> Sustainability b. What is the form and level of personal commitment by the investment principals and/or founders to the impact described above? c. How much personal financial capital have the investment principals and/or founders committed to the investment?</p>	<p>a. <i>Identify any alignment of interest by investment principals and/or founders; Identify how/ if social or environmental impact is central to the enterprise’s own success. (KL Felicitas evaluates investments according to their intrinsic alignment with the foundation’s program, mission and sustainability guidelines).</i> b. c.</p>	
<p>Impact Monitoring & Reporting</p>		<p>Score</p>
<p>8a. What approach will be used to evaluate the impact of the investment? Are there specific metrics for reporting? b. What is the proposed nature and</p>	<p>a. <i>Pre-established metrics and evaluation intervals for impact reporting should be requested or developed with the investee.</i></p>	

scale of the impact, e.g. in 1 year, 3 years, long-term?	b. Notes: <i>Specific milestones/metrics, with timeframe, where possible. KL Felicitas encourages the adoption of IRIS-based impact indicators, and includes its own IRIS indicators for all new investments starting in 2011.</i>	
9. Will the Investment Manager provide impact-related reporting?	<input type="checkbox"/> Yes <input type="checkbox"/> No Notes: <i>Include specific impact indicators where possible (see 8 above).</i>	
10. Does the investment scale, accelerate, support or re-enforce other Impact Investments in the investment or grant portfolios?	<input type="checkbox"/> Yes <input type="checkbox"/> No Notes: <i>Identify any other investments that will be impacted; evaluate any synergies between investments or instances where mission or program impact will be leveraged.</i>	

Investment Due Diligence (Investment Advisor)		
Investment Structure & Portfolio Implications		Score
11. Investment due diligence process	<input type="checkbox"/> Impact First due diligence process <input type="checkbox"/> Financial First due diligence process <input type="checkbox"/> Other (describe any exceptions or modifications to the due diligence process). <i>Describe the motivations of the foundation to make this investment and the due diligence process prior to making any investment. Where appropriate, identify who in the foundation is responsible for due diligence (financial, programmatic and otherwise).</i>	
12a. What is the structure of the investment under consideration? b. Is the investment structure ideally suited to achieve both the appropriate risk adjusted rate of return while promoting the foundation's impact objectives?	a. <i>Direct investment, public or private, fund or fund of funds, partnership, etc. Describe the type of investment, its duration and/or repayment if applicable.</i> b. <input type="checkbox"/> Yes <input type="checkbox"/> No Notes: <i>Consider the investment's structure and ability to offer sufficient or appropriate diversification to mitigate risk.</i>	
13. Asset Class <i>Illustrate the foundation's commitment to remain within the established investment policy guidelines and risk budget.</i>	<input type="checkbox"/> Cash and Equivalents <input type="checkbox"/> Fixed Income <input type="checkbox"/> Public Equity <input type="checkbox"/> Hedge Funds Notes: <i>(Identify Sub-Asset Class as defined in investment policy)</i>	<input type="checkbox"/> Venture Capital <input type="checkbox"/> Private Equity <input type="checkbox"/> Real Estate <input type="checkbox"/> Real Assets
14a. Will members of the foundation play an active role in the investment? b. If so, will questions of self-dealing arise?	<i>Consider any regulatory concerns regarding active participation in investments.</i> a. <input type="checkbox"/> Yes <input type="checkbox"/> No b.	
Investment Monitoring & Reporting		Score



<p>15a. What is the financial benchmark that will be used to evaluate this investment?</p> <p>b. Over what period(s) of time will we measure the investment performance?</p> <p><i>Investment benchmarks are established by the investment due diligence process. Investment performance is reported when available and as appropriate for the investment structures and/or asset class.</i></p>	<p>15a.</p> <p><input type="checkbox"/> Market indices Specify:</p> <p><input type="checkbox"/> Absolute Return Specify:</p> <p><input type="checkbox"/> Peer Group Comparison Specify:</p> <p>Notes:</p>	<p>15b.</p> <p><input type="checkbox"/> < 1 year <input type="checkbox"/> 3-5 years <input type="checkbox"/> 5-10 years <input type="checkbox"/> 10-20 years <input type="checkbox"/> > 20 years</p> <p>Notes:</p>	
Additional Comments or Observations			

Impact Reporting and Investment Standards (IRIS) (Taxonomy codes are listed in parentheses)		
<p>This investment will track the following core IRIS impact indicators:</p> <p><input type="checkbox"/> Number of Clients (PI7094) – <i>The number of individual consumers served by the organization</i></p> <p><input type="checkbox"/> Jobs Created in Financed Enterprise (PI3687) – <i>Net number of new FTE jobs at financed enterprise(s)</i></p> <p><input type="checkbox"/> Direct Investment (FP4359) – <i>Number of Debt and Equity investments on balance sheet</i></p> <p><input type="checkbox"/> New Investment Capital (FP8293) – <i>Value of Cash flows from both loans and investments</i></p> <p><input type="checkbox"/> Contributed Revenue (FP3021) – <i>All contributed revenue, including operating grants and in-kind donations</i></p> <p><input type="checkbox"/> Earned Revenue (FP5958) – <i>Revenue resulting from all business activities</i></p> <p><input type="checkbox"/> Net Income (FP1301) – <i>Net income from all business activities, including all contributed revenue</i></p> <p>Reporting Schedule: <input type="checkbox"/> Bi-Annual <input type="checkbox"/> Annual <input type="checkbox"/> Other</p> <p>Notes:</p>	<p>Data at time of investment:</p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	<p>Future Impact Data (specify date)</p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
Supporting IRIS Indicators for KL Felicitas Foundation		
<p>This investment will track the following supporting IRIS impact indicators:</p> <p><input type="checkbox"/> Number of clients provided new access to energy, healthcare, or water (PI2822) – <i>The number of clients, individuals, or households who were served by the organization and provided access to products or services that they were previously unable to access.</i></p> <p style="margin-left: 20px;"> <input type="checkbox"/> New access to energy <input type="checkbox"/> New access to healthcare <input type="checkbox"/> New access to water </p> <p><input type="checkbox"/> Energy Produced (PI8706) – <i>Total amount of energy produced during the reporting period (MWh)</i></p> <p><input type="checkbox"/> Potable Water Produced (PI8043) – <i>Amount of potable water produced during the reporting period (L)</i></p> <p><input type="checkbox"/> Land Reforested (PI4907) – <i>Hectares of land reforested during the reporting period</i></p> <p><input type="checkbox"/> Land Preserved (PI2012) – <i>Hectares of land designated as nature reserve</i></p> <p><input type="checkbox"/> Sustainable Cultivated Land (OI2605) – <i>Hectares of land under sustainable cultivation</i></p>	<p>Data at time of investment: (date):</p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	<p>Future Impact Data (date):</p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>

Reporting Schedule: <input type="checkbox"/> Bi-Annual <input type="checkbox"/> Annual <input type="checkbox"/> Other Notes:		
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Foundation Qualitative Indicators

The following qualitative indicators pertain to this investment. Add detail for each where needed.

Attraction of Additional Capital - *Matching fund opportunity or co-investment with another impact investor.*

Notes:

Business Model Development and Innovation - *Support to help test, develop and refine a business model for subsequent roll-out.*

Notes:

Investment Combined with Grant Funding - *Equity investment or loan combined with grant capital provided by KLF.*

Notes:

Investment Combined with Public Support - *Investment support goes alongside sizable publicly-sourced investment (e.g. public healthcare).*

Notes:

Alignment with Foundation Core Values - *Close alignment with one or more of the foundation's core values regarding sustainability, rural communities and scaling innovation for high social impact.*

Notes:

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