By
PETER WÜFFLI AND
ANDREAS KIRCHSCHLÄGER

CONSCIOUS AND ETHICAL INVESTING

Investor Life Cycle and Investment Process

elea
Impact through entrepreneurship

Introduction: consciousness and ethics

"Sapiens rule the world because only they can weave an intersubjective web of meaning: a web of laws, forces, entities, and places that exist purely in their common imagination. This web allows humans alone to organize crusades, socialist revolutions, and human rights movements".[1] In his remarkable book *Homo Deus*, Israeli historian Yuval Harari puts the conscious mind of humans at the center of his theory about why it was humans, not elephants or chimpanzees, that became the dominant force on Earth. While he admits that philosophy and science are far from being able to understand exactly what consciousness is, he makes a plausible case that this theory is a valid alternative to religious concepts that explain human supremacy based on people's 'eternal' soul.

Consciousness is being aware of an external object or something within oneself. A conscious mind is therefore the basis upon which Harari's intersubjective web of meaning is weaved. This essay is about practical guidance in the world of investing, not about developing speculative theories regarding the definition and future of humankind. Therefore, we just accept the term consciousness as an important prerequisite for an even more important concept, namely ethics. In other words, without consciousness, ethics does not exist, and without ethics, consciousness is of questionable value. So what is ethics? It is the philosophical discipline concerned with what is morally good and bad, and, in essence, it searches for answers to three fundamental questions: What is a good life? What is responsible behavior? What is just/fair among people?[2]

Ethical investing

'Investing' comes from the Latin word *investire* (i.e. 'to clothe', or in the case of finance, 'to give one's capital a new form') and means the use of resources for future purposes with the goal of increasing them. As we understand and use this word, it is not just about financial or physical capital, as is often the

1 Y. N. Harari, *Homo Deus* (Harvill Secker, 2015), p. 149.

2 Please see Peter Wuffli, *Inclusive Leadership: A Framework for the Global Era* (Springer, 2016), p. 45, for a more comprehensive elaboration on this theme.

focus, but also about those investments that are much more significant to most people – namely, time, effort, personal energy, and reputation. An increase in resources can thereby occur in an immaterial way (e.g. in the form of gratitude and satisfaction).

Combining both terms 'ethical' and 'investing' is problematic for people like us, the authors of this article, because we are rooted in an ethical framework that supports a free and competitive market economy within the context of open, liberal democracies, and which is based on the concept of creative destruction within a dynamic capitalist system. Taking into account these ideological roots, investing is fundamentally a good thing and does not need the additional attribute of being ethical. To the contrary, using the term 'ethical' implies that investing without this qualification is intrinsically unethical and thus adds to other combinations of terms that subtly reflect left-wing ideology, such as 'fair trade' (is trade intrinsically unfair?) and 'work-life-balance' (isn't work part of life?).

At the same time, we do recognize that our global era challenges conventional ethical thinking and calls for new answers to the age-old ethical questions mentioned above. More consciousness about ethics and higher levels of reflection on what exactly ethical components of investing could entail are therefore valuable. Particularly for leaders (i.e. people and organizations) who have the discretion to invest resources, having a normative world view with an explicit stance about how these fundamental ethical questions can be plausibly answered could offer orientation, guidance, and inspiration to many other people. And more generally, we firmly believe that both ethics and investing affect and concern everyone at all levels of society and across various functions and cultures. They are not exclusive topics for ivory tower academics or financial professionals.

It is because of this argument – which essentially underlines the power of the idea of consciousness – and not because we consider investing as intrinsically unethical unless it gets an 'ethical label', of whatever legitimacy, that we chose this title for our essay. Thus, in this essay we will first clarify and define our ethical stance in more detail. Then we will take the perspective of people as investors across different phases of their life cycle and with different levels of command over resources to explore what possibilities they have and the limits they face to ethical investing. Finally, we will look at the universe of ethical investment opportunities and illustrate, based on examples from our own elea Foundation, how individual investment decisions can leverage possibilities for optimum impact.

1. Our liberal stance

Reflecting on a good life

What is our world view and approach to ethics, and how do we answer the three fundamental ethical questions? Among secular ideologies, we distinguish between two categories of answers: an individual one and a collective one. Either an individual, in exercising his/her freedom, is concerned with leading a good and responsible life and behaving fairly, or this duty is assumed by a collective entity, such as a state or other type of organization. Both categories exist, and both can be justified. In the real world they usually do not appear black or white, but rather in varying shades of grey.

We take a position that favors the individual dimension, which we describe as *liberal ethics,* whose starting point is individual liberty, with both its negative and positive meanings. In its negative connotation, liberty protects individuals from unwanted interference by governments or society. Positively viewed, liberty represents the freedom of individuals to be their own masters and fulfill their own potential, including the possibility to choose their own individual ethical concepts. Since the Enlightenment (or maybe even before), classical political liberalism has focused on negative liberty. However, we are of the opinion that our global era in particular, with the multiple new opportunities it presents that could not even have been imagined by previous generations, demands a focus on positive liberty. In other words, people should be encouraged to explore the world with all of its breadth and depth to find and shape a good life.[3]

This is particularly true for the world of investing. Globalization vastly expanded and integrated markets for goods and services, and it thereby created possibilities to choose from a broad range of ethical investments around the world. Evolving capitalism has encouraged this development as well. For example, at least in some parts of the world, there are increasing demands that economic activity should produce benefits for society at large, beyond providing financial gains only for the individuals involved. In those countries, the institutional survival of companies and/or value creation for business owners is no longer sufficient to meet or exceed societies' thresholds for acceptance and legitimacy. Consequently, discussions are ever more frequently centered on how companies can actively contribute to overcoming some of the most urgent challenges of our times, such as the fight against poverty and the sustainability of our planet.

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3 Please see I. Berlin, *Four Essays on Liberty* (Oxford University Press, 1969), p. 131, for the most prominent discussion of negative and positive liberty.

Many consumers today consciously demand ecological and fairly produced goods and services, and institutional investors are using ESG (environmental, social, and corporate governance) criteria ever more often. These trends are strengthened by the fact that more and more NGOs, with more or less legitimacy, are immediately exposing perceived misconduct by large corporations and exerting massive, at times existential, pressure on them via social media. Above all, young, talented people often want to work for organizations that have a clearly articulated purpose which incorporates benefits for society. In some cases, this seems even more important to them than financial rewards.

All of these demand and supply-driven forces expand the choice for ethical investments at the global level. From the stance of liberal ethics, these trends should be enthusiastically welcomed, so long as they are driven by consumers, suppliers, employees, and investors who are searching for a good life, not by governments or other collective organizations who prescribe what good life is and how to get there.

Differentiated responsibility thresholds and justice/fairness

The ethical companion of liberty is responsibility. Peter Drucker, one of the most influential thinkers and writers on the subject of management theory and practice, once said: "Freedom is not fun, it is responsible choice".[4] As opportunities and possibilities for individuals have expanded in our global era, so have the global challenges, vulnerabilities, and risks. According to our conviction, responsible people and organizations must therefore accept and live up to differentiated thresholds of responsibility depending on the range of their positive liberties, in the broadest sense of the word, e.g. their command over financial and physical resources as well as their ambitions, energy, expertise, and capabilities. This particularly applies to people who invest, since they use positive liberty when making investment decisions and should, according to the stance of liberal ethics, apply rigorous analysis and responsible judgment while doing so. Putting this ethical stance into practice would, for example, place a big ethical question mark behind all forms of passive investments, where people in essence renounce individual responsibility for investment decisions in favor of replicating other people's supply and demand patterns for a given investment opportunity.

When does the liberty of some negatively affect the liberty of others, and what can and should be done about it? These are issues related to the third ethical question: "What is just/fair among people?" Isaiah Berlin brought this

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4 P. Drucker, *The Daily Drucker* (New York: Harper Business, 2004).

challenge to the point when he observed that "freedom for the wolves has often meant death to the sheep".[5] This question is likely the most controversially answered of the three, and it is the one where those with an individual stance are usually in opposition to those with a collective one.

At the core of the debate is the type and degree of equality between people that is considered to be acceptable from a justice/fairness point of view. Growing evidence of increasing material inequality in several Western countries (particularly in the US) has recently attracted the interest of economists, philosophers, and politicians alike.[6] For most liberal thinkers, equality of opportunity is one of the foremost concerns. Yet, from a global perspective, which is warranted in our global era, the biggest source of inequality and the one which people can do the least about, is where you are born (i.e. in which country and family and under which conditions). Whereas the topic of inequality within and between countries has been controversially debated for a long time, research on global inequality among individual people on Earth is still in its infancy. An obvious starting point for any liberal is to answer this third ethical question by focusing on ways to eradicate absolute poverty, thereby providing at least some equal opportunity to those at the very bottom of the pyramid.

Following our delineation of possible answers to the age-old ethical questions, we would like to conclude with a few practical ethical principles that we consider to be important and helpful in our daily work. They are: *integrity*, which means a combination of identity (clarity on what and who we are) and authenticity (consistency in our convictions and between what we say and what we do); *humbleness*, in the sense of a realistic balance between ambitions and possibilities, and an acknowledgement of our material and intellectual limits; *engagement*, meaning a commitment to contribute to societal goals that goes beyond purely individual, personal, professional, and familial well-being; and finally, *partnership*, in the sense of relationships both within our organization as well as with external partners that are rooted in mutual understanding, respect, and trust. On the basis of this ethical foundation, we will now review different approaches to ethical investing throughout one's life cycle.

5 I. Berlin, *Four Essays on Liberty* (Oxford University Press, 1969), p. XLV.

6 For a perspective on this debate that is rooted in liberal thinking and argues that a deeper look at the causes and dynamics of inequality is warranted, please see A. Deaton, *The Great Escape* (Princeton University Press, 2013).

2. The ethical investor across his life cycle

What does this ethical framework concretely mean for ‘conscious ethical investors’, i.e. those who employ their time and/or money on behalf of future goals and thereby want to promote a good life, responsible behavior, and fair dealings? And what kind of investors are we actually talking about?

Young and enthusiastic aspiring investors

We regularly receive requests from young, talented, and highly trained people who, after acquiring their university degree along with two or three years of professional experience, would finally like to ‘do something meaningful for society’. Of course, such intentions are commendable and deserve credit. However, our answer is frequently as follows: the most ethically sensible thing for young people to do in this phase of their life – especially in terms of responsibility and fairness – is to exploit the potential they have in their private and professional lives to the extent that they can earn enough money for their personal livelihood and stand on their own feet. In doing so, those individuals who attended public schools would also be reimbursing society and the state, either directly in the form of taxes or indirectly through their economic participation, for the public’s investment in the approximately 20 years of their education. This, of course, includes the possibility that they take a job in a decent company or organization that creates a positive impact for society and/or that they temporarily engage in suitable social projects and thereby acquire valuable experience.

Access to impact investing

Having established oneself professionally and personally, the question then arises how a middle-income family with limited financial flexibility could invest ethically? Obviously, the long-term good life of the family is best provided for by a well-diversified portfolio that is composed of carefully chosen investments and avoids unreasonable concentration risks. Based on personal ethical ideas, and depending on the intensity of one’s interest and knowledge, as well as the amount of time one can commit, funds and investment concepts that take into account specific ethical criteria in addition to financial aspects are recommended. The market for such products, such as green investment funds or microfinance certificates, is quickly growing and increasingly more diverse, and there are a number of studies and indicators which suggest that overall ethics and investment performance are positively correlated. On the contrary, we are not aware of studies that show a systematic negative correlation.

For those families with higher levels of financial resources, investments in the *impact asset class* can be added to listed, more liquid ethical investment products. This specialized asset class has developed over the last few years and now consists of several tens of billions of investment assets worldwide.[7] Via private market investments, which offer limited liquidity but pursue impact-oriented, long-term objectives, this asset class strives to achieve a positive social impact along with the protection of the initial amount invested plus some level of financial return. This trend is increasingly promoted by the established investment management industry.

PG Impact Investments AG, a company which was recently initiated by Partners Group (a global leader in private market investments) but is independently run, is an example of this. This firm strives to achieve a positive social or environmental contribution with their investments and to simultaneously generate financial returns. In doing so, it is able to benefit from the global infrastructure, investment expertise, and professional resources of Partners Group (see www.pg-impact.com).

The increasing demand for such products has a positive side effect: it motivates a growing number of investment specialists to consider other factors than simply financial result forecasts in their investment decisions, e.g. how companies are positioning their business activities to take account of environmental and social impact, whether they are adhering to the 'Codes of Best Practice' to which they have bound themselves, and how they explicitly integrate social benefits into their investment strategies.

These developments at the macro-level reflect corresponding trends at the individual company level. Nowadays, there is a lot of evidence that shows a sincere effort by top-level executives to find plausible answers to ethical questions. This confirms our impression, which is based on our personal acquaintances with numerous group CEOs. A still frequently held assumption that this is just smart PR that conceals the raw greed of CEOs for money and power is, in our view, often simply malicious and only very rarely reflects reality.

The 'Sustainable Living Plan' from Unilever, which pursues concrete objectives in the fields of health, nutrition, and hygiene, is representative of many companies who are likewise serious about their intentions in the area of ethical investing. Another good example is the 'Nestlé Cocoa Plan', which has invested approximately CHF 110 million over the past ten years to improve the cocoa production of farmers as a means of increasing their income and thereby

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7 For an overview, please see K. A. Allman, *Impact Investment* (Wiley, 2015).

preventing child labor. Nonetheless, as we will see in section three of this essay, many aspects of ethical investing still require further clarification.

Entrepreneurial philanthropy

Back to the ethical investor: How can and should someone invest ethically once he has satisfied his and his family's own long-term needs, and if he still has a surplus of money and time? As we argued above in section one, the more positive liberty one has, in the broadest sense, the higher are the thresholds of responsibility this person should meet in using his liberty. From the standpoint of liberal ethics, there are many different ways in which this responsibility can be exercised, and the choice is for the individual to make. One possible way is entrepreneurial activity that leads to the creation of jobs, income, and tax revenues. Other ways include commitments to charitable undertakings such as cultural, scientific, or humanitarian causes. We, at elea Foundation, have chosen to invest in initiatives that fight absolute poverty by entrepreneurial means.

Based on a successful career in global finance, and having profited from globalization far more than the average person, Peter Wuffli, one of the authors of this article, and his wife concluded that they wanted to share the benefits of globalization with those who did not have access to such opportunities. Based on this consideration, the elea Foundation for Ethics in Globalization was established in 2006, whose goal is to improve livelihoods in countries and regions in which people earn less than $2 per day per person.

The foundation invests in social enterprises that are rooted in poor countries, achieve a visible and measurable positive impact on fighting poverty, and implement viable and sustainable business models. Out of about 150–200 ideas and proposals per year, which are identified and developed by our team (e.g. via local 'scouting trips' or our contacts in various international companies and organizations), we intensively examine approximately two dozen of these, often on-site. Investments then take place after a rigorous due diligence in three to four social enterprises, which are actively and professionally supported by team members of the foundation over five to seven years.

Investing in the fight against absolute poverty by entrepreneurial means

What do these investments look like? One of the companies in our investment portfolio conveys practical knowledge to smallholder farmers in Kenya via SMS, so they can better handle pregnant cows and thereby reduce the number of miscarriages, increase milk production, and raise their income. Another company offers a two-month training program to adolescents from rural areas in the Philippines, which provides these young people with employable skills for the rapidly growing call center industry there. Consequently they are able to increase their daily income from $0.50 (which they were paid as an agricultural worker) or $3 (which they were paid for working at a fast food chain) to $15–20. When this concerns men, whose wives work as housemaids under disgraceful conditions in Singapore, Abu Dhabi, or Hong Kong, this allows them to bring their wives home and start a family, which thereby leads to a better life for both of them.

A third initiative enables operators of small stores in La Paz, Bolivia, and in Nairobi, Kenya, to run their businesses more efficiently and entrepreneurially by means of five months of targeted support. They are thereby able to increase their average monthly income from approx. $80 to around $120. And since most of these businesses are run by single mothers, they are likely to invest this surplus in the education of their children.

Investments are made with a time horizon of five to seven years, and success is measured in terms of social impact and economic survival. To carry out the measurement, our team uses a currency that was specifically created for this purpose, the so-called 'elea impact points' (see section three for more details). Depending on the level of development of a social enterprise, suitable investments are made either in the form of shares, loans, or (eventually repayable) grants.[8] Moreover, we focus on investments in companies that are in the mid-range of their development. In other words, the start-up period has been completed, the model has proven itself, and one or more entrepreneurs are ready to invest a substantial amount of their life's energy over the next five to ten years in ensuring the success of the project.

At the same time, the total sum of investments is too small (CHF 300,000–CHF 500,000), the business model is not scaled enough, the organization is not yet stable, and the overall risks are too high for the project to be considered by market-oriented impact funds which expect some returns, even if they are moderate, in addition to repayment of capital. Furthermore, as compared to traditional venture capital, it is still difficult to find exit possibilities in this area, and the social value of this work is often not (yet) reflected in the form of a premium. Nevertheless, social entrepreneurs should be able to establish a family and make provisions for retirement with the income that they earn and/or the value they create.

8 As a tax-exempt foundation under the supervision of Swiss federal authorities, all possible financial returns from investments made by the elea Foundation are reinvested into new initiatives.

Thanks to elea's team of currently ten people and two dozen external investors, entrepreneurial families, foundations, and companies, which provide philanthropic capital along with the founding family, the elea Foundation is well on its way to becoming a self-sustaining and financially viable organization. In the long term, our model of ethical investing, which closes a gap in the range of investment opportunities between charitable giving for social causes at one end of the spectrum, and commercial capital through impact investing or other traditional sources at the other, could provide a model for how to help promising entrepreneurial initiatives with primarily ethical objectives to succeed.

Fiduciary roles

What does ethical investing mean when professional investors are acting as fiduciaries by investing the assets of third parties? On one hand, they could and should make a reasonable effort to understand the intentions and requirements of the end investors and beneficiaries, and thus offer them a choice for alternative investment opportunities. The more directly that fiduciaries can reflect the ethical viewpoints of these investors and beneficiaries in their investments – say by consciously offering ethical unit-linked life insurances or defined contribution pension plans with specific ethical characteristics – the more likely it will be that such investments, which in aggregate can become quite impactful, encourage a more ethical capitalism. Incidentally, this would simultaneously reduce the risk of abuse, since it would have higher levels of legitimacy.

The second approach consists of influencing regulations and political frameworks in such a way that ethical investing is promoted rather than hindered. Currently, the largest sources of profoundly questionable ethics by investors include two global trends: the first one is a policy of low or even negative interest rates which encourages the redistribution of income and assets from the poor to the rich in the amount of hundreds of billions of Swiss francs. Small savers and retirees who rely on interest income from savings accounts and bonds and neither have the financial capacity nor the risk tolerance to invest in higher yielding real assets like equities, infrastructure facilities, and real estate are thereby discriminated against. The second concerns current regulations on pension funds and life insurances in numerous countries (including Switzerland) which encourage short-term investment behavior and may thus hinder ethical investments, since longer-term investment horizons are more conducive to a higher sense of responsibility.

3. Ethical investment process

Let us now turn to the third part of this essay, namely to the question of how to identify specific investment opportunities, make investment decisions, and achieve ethical impact.

Navigating through the investment universe

The ethical investment universe we are looking at has enormous scope and global dimensions: Is your investment priority on helping humankind to progress or saving the planet? If you focus on humankind, do you look at people's material or spiritual well-being? Are you concentrating on economic, scientific, societal, or cultural aspects of how to achieve a good life? Or do you advocate political movements to advance justice and fairness? Do you want to invest where the greatest need is, where you can achieve the biggest impact, or in circumstances that you are most familiar with, e.g. close to home?

And how do you deal with the highly complicated questions of assessing investment opportunities from an ethical perspective relative to each other? Are health care companies more ethical than companies that produce food or energy? Is Roche's work more ethical than that of Novartis? Was a global bank operating highly successfully before the financial crisis more or less ethical than one that suffered huge losses as a consequence of the crisis and even had to be rescued with state resources? Are private sector equities or bonds per se more ethical than government bonds? Is it more ethically acceptable to avoid problematic sectors (e.g. addictive substances or weapons) altogether, or is the goal precisely to get involved in problematical sectors because that is where you can bring about an improvement? Is it ethical to sacrifice, or at least risk, income opportunities from investments made for individual, personal ethical concerns at the expense of family members – or in the case of fiduciaries like pension funds, at the expense of future retirees?

These are difficult questions for which convincing answers must be sought, many of which are often subject to the 'halo effect'. Take, for instance, the famous statement of Rebbe Tevye in the musical *Fiddler on the Roof*, who sings: "He, who is rich, is also seen to be smart." Applied to ethical investing, this would mean that particularly successful companies are also considered to be particularly ethical.

Structured investment process

This initial list of difficult questions – which could easily be expanded – makes it evident how complicated conscious ethical investing is once you depart from established methods of maximizing financial returns. Furthermore, our liberal ethical stance calls for individual investors to make this choice themselves rather than relying on 'higher' authorities, such as collective or religious organizations, to do this for them. Our experience suggests that individuals or organizations who want to embark on such a journey of conscious ethical investing should define and implement a tailored and structured investment process. Such a process – while not necessarily answering all of the questions asked above – would at least contribute some intellectual honesty, discipline and transparency when addressing these topics.

Four steps should be distinguished: firstly, clarity should be established about the investment purpose. Secondly, the measures of success and impact should be defined. Thirdly, the investment criteria should be specified. And, finally, investment decisions should be executed and investments exited in a professional and focused way.

In implementing such a process, we rely on the basic premise that investing should be as rational as possible and follow a thoughtful and articulated strategy and process. This is, of course, controversial – at least in philanthropy – for people often argue that emotions and passion should prevail. While we strongly advocate the benefits of passion in anything we do, our experience suggests that a purely emotional approach tends to oversee critical issues and can therefore jeopardize not only financial returns but also social impact. Let us now examine each step in more detail while drawing on examples from the elea Foundation.

Investment purpose

An individual or organization that wants to invest financial resources, time, and energy in a conscious and ethical way needs to clarify some important basic questions upfront:

What is our level of commitment in terms of money and time/energy? What is the purpose and why? And how and with whom are we going to realize it?

These were decisions that had to be made during the founding stage of the elea Foundation for Ethics in Globalization (see exhibit 1).

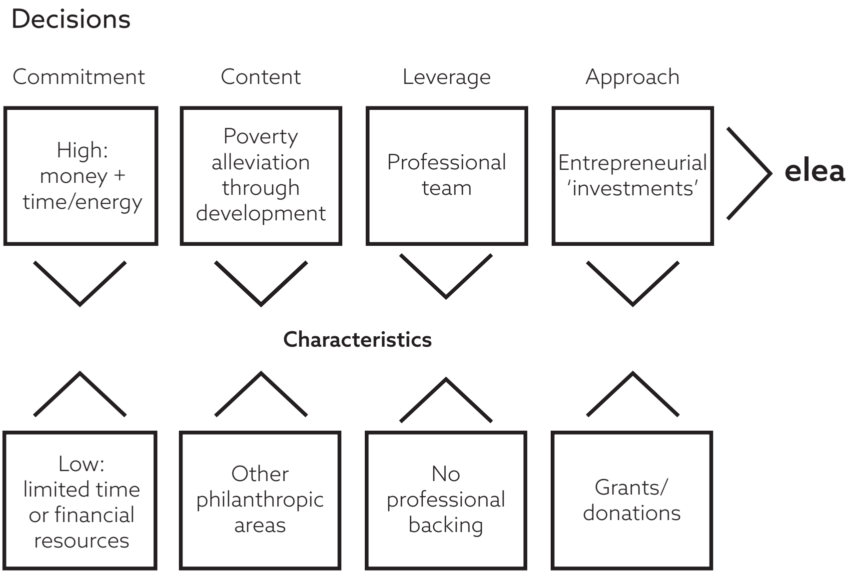

Exhibit 1: Seminal decisions

Evidently, answers to these questions are subjective and depend on specific personal circumstances. With regard to the creation of the elea Foundation, we found it very helpful to have a defined ethical stance and practical ethical principles, as described in the second section of this essay. As believers in freedom and responsibility, we wanted to strengthen the entrepreneurial initiatives of individual capable people in their social engagement. And as we are mostly economists, fighting poverty seemed an obvious choice that would leverage our area of expertise and therefore live up to our ethical principles of identity and authenticity. The significance of the initial commitment, in terms of money and time, was driven by the financial means available to us, as well as the fact that one of the founders, Peter Wuffli, has been able to dedicate substantial personal capacity to this new endeavor. Finally, the choice in favor of a professional team was made based on a deep conviction regarding the nature of entrepreneurial success, namely, that impact and value are best created when financial means and human energy are combined.

One insight which arose during this initial founding period was that it makes a lot of sense to take enough time for the reflection of the purpose, for it defines the further direction of the investment journey. The conscious investor should make a systematic effort to understand the fields where his investment can make a difference as well as the source and shape of his own motivations and aspirations. Such an effort upfront can reduce the inevitable arbitrariness of such a decision, at least to some extent. It can also help clarify what really matters in one's life and what one's special abilities are to create positive results. Consequently, it is easier to find an answer to the crucial questions of differentiation: why this theme, and why us? What is our specific advantage in achieving this impact? What difference do we make?

A conviction of differentiation can strengthen one's commitment, as is revealed by the strong statement of Indian philosopher Amartya Sen, which is related to the idea of justice: "… if someone has the power to make a difference that he or she can see will reduce injustice in the world, then there is a strong and reasoned argument for doing just that …"[9]

Impact measurement

Once an investor has developed a clear understanding of the purpose of his investment and the needs he wants to address, he should define what he means by success and how he measures impact. Depending on the nature and type of the investment, this calls for clarification regarding the relationship between financial return and ethical impact. Is there a willingness to sacrifice part of the financial return in order to achieve ethical impact either in terms of level of return relative to risks or in terms of liquidity, and how big is it? And, as is the case for the elea Foundation, if the ethical impact is at the forefront of success, how should it be measured? While the measurement of financial performance has an established tradition based on globally accepted methods and standards, this is not the case for measuring ethical impact.

At elea Foundation, we were looking for a simple, cost effective method that would allow us to set targets, monitor trends, compare alternative investment opportunities, and communicate results to our external partners and investors. Given that there was no established methodology available to suit our requirements, as already mentioned above, we developed our own elea Impact Measurement Methodology (eIMM), whose key structure is illustrated in exhibit 2.

This method starts with elea's share of the number of direct and indirect beneficiaries of an initiative. We then qualify this number according to a series of criteria at the level of the individual as well as by taking into account organizational characteristics. The intensity and sustainability of the impact, as well as the innovative strength and transferability of the project and its

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9 A. Sen, *The Idea of Justice* (Penguin, 2009), p. 270.

economical and organizational viability, are all priced into this measurement. The value of a project quantified in this way is then reviewed with respect to elea's contribution to value creation, which ultimately leads to a number expressed in elea points per CHF 1,000 investment (i.e. the eROI). This indicates the level of impact that is targeted and/or achieved. Furthermore, an external accounting firm certifies that this method is being correctly used.

Such a tool should not be applied mechanically, and it will and should certainly not be seen as a replacement for intense debates within the team about the best choice of investments and the controlling of their development. Rather, it helps to structure such a debate and prioritize themes according to their relevance in achieving impact. If such a method is systematically applied as a management tool over many years, it will also serve to establish useful benchmarks about reasonable levels of ethical performance.

Investment criteria

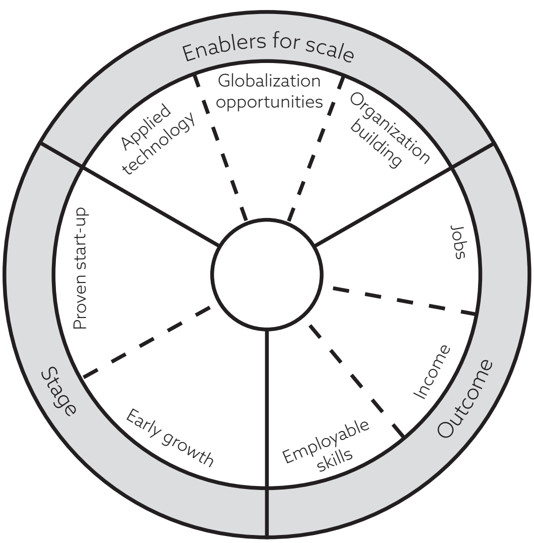
In the context of such criteria for success, the next questions to be answered are: where do we look for and how do we find suitable investments? How do we make investment decisions? Which themes are the ones that promise the highest impact levels? What stages of development of entrepreneurial journeys are particularly attractive for us given our capacity and set of capabilities? Which criteria should guide the construction of an investment portfolio, e.g. with respect to balancing impact maximization versus risk diversification? What are the constraints, and which type of investment opportunities should be excluded?

At elea we adhere to an investment framework that is focused on scalable, proven social enterprises that are still in the early stages of development (see exhibit 3). Given that the purpose of this foundation is to fight absolute poverty by entrepreneurial means, desired outcomes are always a combination of new jobs, higher incomes, and/or employable skills, the latter of which are a conduit for the first two. Jobs can be created through investments in social enterprises that produce or distribute goods and services, engage in trade, or provide direct customer service. Consequently, the incomes of those working for these social enterprises can be improved as those buying their particularly valuable products and services enhance their benefits as consumers.

We concentrate on investment opportunities that have a somewhat proven business model and have already overcome certain challenges to avoid the huge risk of early stage start-up failure. At the same time, we prefer social enterprises that are not yet so advanced that they could already attract capital from impact investment funds. A key criterion is the existence of a clear and plausible path to scalability, either through technology and/or through organizational development (e.g. geographic expansion). Clarifying and sharpening investment criteria with all of their tangible and less tangible characteristics takes years and must allow room for trial and error.

In addition to considering the factual characteristics of investments, which relate to the impact potential embedded in their business model and organization, we always consider two additional, essential criteria: does the professional respect and the human chemistry between the elea team and the local social entrepreneur and his team allow for an intense partnership over five to seven years? And can elea provide more than just financial capital to contribute to value creation (e.g. business planning support, leadership coaching, access to relevant networks, etc.).

elea's investment criteria



Thematic focus areas for elea's investments
— Digital solutions
— Employable skill building
— Global agricultural value chains
— Informal retail & last-mile distribution

Exhibit 3: Key criteria for investment decisions

Execution and exit

Once an investment has been approved, then the real work starts: initial ideas on collaboration for value creation have to be defined more concretely. Conceptual discussions about partnership principles have to stand the test of daily practice in an often highly complex, challenging and dynamic reality. The intensity of interaction between the elea team and the social enterprise we are investing in varies on a case-by-case basis. Mostly, we ask for representation at the board level to ensure the appropriate and timely flow of information and to gain a position of influence, which is especially important in times of stress and difficulty. This is particularly helpful given that most investments develop differently to what the business plan aspired to, and thus some troubleshooting in one form or another may be required, depending on each specific case.

After five to seven years of intense partnership – while hopefully achieving impact in the range of what was initially aspired to – considerations of exiting the investment become preeminent. Again, exit routes can vary: ideally, an investment has been developed and scaled to become attractive for a commercially driven impact investment fund. For some investments, such as those related to the development of employable skills, exit routes can lead to some form of public-private partnerships. And for others, sustainable structures can sometimes consist of hybrids, where some parts of an enterprise are managed in a competitive, for-profit way, whereas others are supported by ongoing, local philanthropic efforts.

It is a field where time will tell what works best. At elea, given our still young age of just over a decade, we have not yet been able to accumulate enough relevant and insightful experience on this topic. Yet it is of crucial importance to review and discuss exit options at the time of making a positive investment decision, in order to convince one's team that there is a plausible exit route as well as to manage the expectations of the investee accordingly.

* * *

In this essay, we highlighted the enormous scope and potential of conscious ethical investing and hopefully provided some practical guidance based on our experience over the last decade. We also described some of the complexities and challenges that should be considered as people embark on such a journey. Depending on the stage of the investor's life cycle, his ambitions, and his possibilities, different approaches need to be considered. A structured, well-thought-out process can be helpful to avoid wrong expectations and, consequently, disappointments.

We are convinced that despite all of the challenges and open questions, these are efforts well worth pursuing given the enormous potential that lies in changing investor behavior toward a more ethical capitalism that creates a positive impact for society and is therefore better accepted. In the process, the diversity and complexity of possible ethical answers must be taken into account, and patience will be required. Two temptations should be resisted,

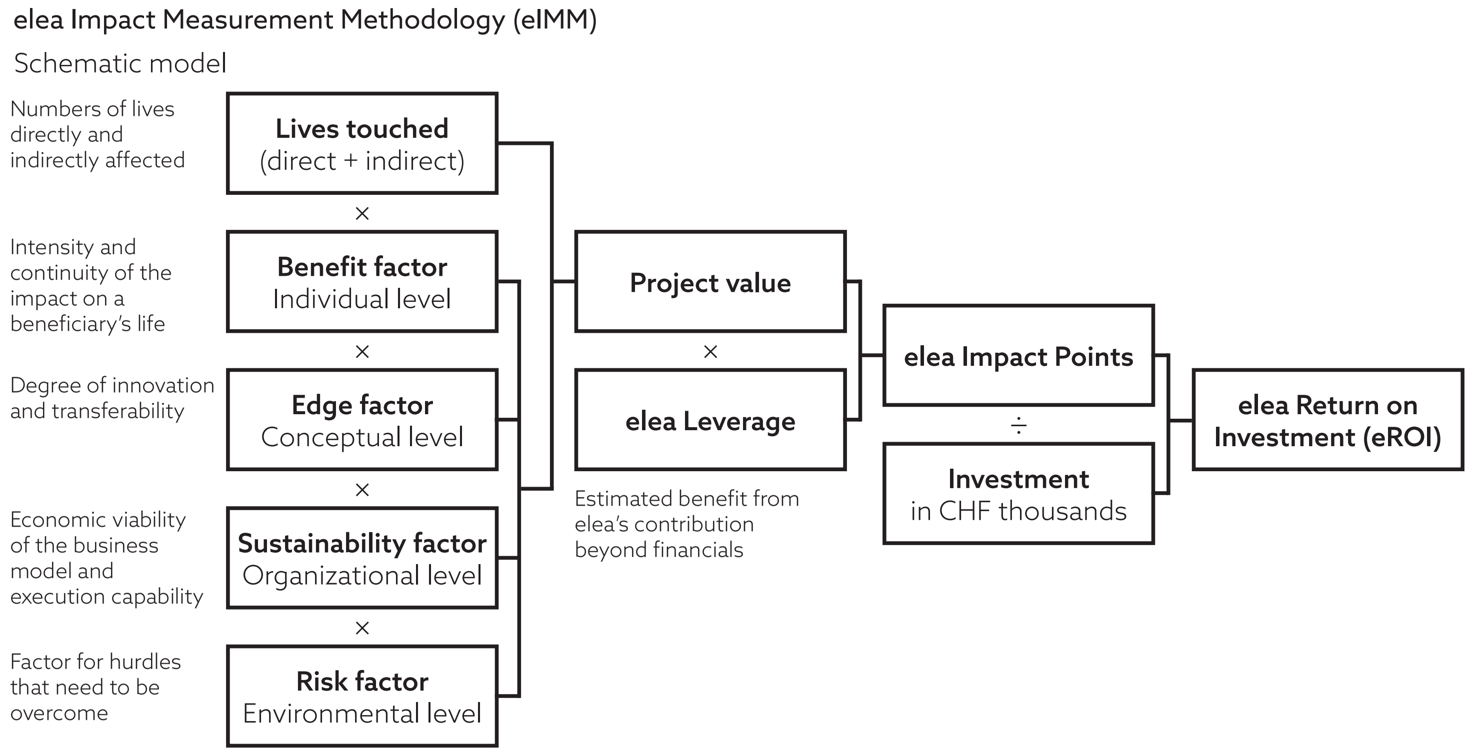


Exhibit 2: Systematic impact measurement

(c) elea Foundation for Ethics in Globalization namely on one hand, a view that this can be achieved through state regulations, and, on the other, the belief that hype in investor expectations, media and analyst behaviours, and financial market dynamics can massively accelerate progress.

About Peter Wuffli and Andreas Kirchschläger

Peter Wuffli is Chairman of the Board of Partners Group, Zug (Switzerland), a global leader in private markets investment management, and he chairs the philanthropic elea Foundation for Ethics in Globalization (www.elea-foundation.org) that he established together with his wife in 2006. He is also chairman of the Switzerland-based, global Business School IMD and vice chairman of the Zürich Opera.

Peter Wuffli studied economics at the University of St. Gallen where he gained his Ph.D. in 1984. From 1984 to 1993 he worked for McKinsey & Company as a management consultant where he became a partner and member of the Swiss office leadership team in 1990. In 1994 he joined the Swiss Bank Corporation (today UBS) as chief financial officer. Following the merger of the Swiss Bank Corporation and the Union Bank of Switzerland in 1998, he continued to serve as chief financial officer until 1999 when he became chairman and CEO of UBS Global Asset Management. From 2001 he was president and from 2003 onwards group CEO of UBS until his resignation in 2007.

Andreas R. Kirchschläger is the CEO of the elea Foundation for Ethics in Globalization and the president of the Max Schmidheiny Foundation. He serves as a board member of the HSG Foundation, GCA Altium AG, PG Impact Investments AG and some of elea Foundation's portfolio companies. Andreas is a visiting lecturer at the University of St. Gallen. As managing director and president of the St. Gallen Foundation for International Studies, he led the annual International Management Symposium St. Gallen for more than one decade. Andreas holds a master's degree in law and economics from the University of St. Gallen.

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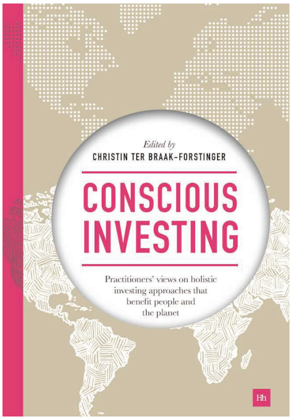

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