

Philanthropy:

A FAMILY APPROACH TO PHILANTHROPY AND A LASTING FAMILY FOUNDATION.

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Introduction by The Family Office Council



*Matthew Norman,
Deputy Chairman of the Family Office Council*

This white paper reflects the output of a Family Office Council roundtable held in July 2015 in which the prevailing philanthropy management issues faced by the Family Office executives and families represented in the room were explored. The roundtable consisted of twelve Single Family Office (SFO) participants which were made up of family members, CEOs and CFOs, alongside two participants from Charities Aid Foundation (CAF).

The conversation immediately focused upon how to professionalise the way that Family Offices engage in philanthropy. Furthermore, how adopting a professional approach can ensure that the family targets its philanthropic ambitions with the confidence that such philanthropic endeavours can be sustained.

Debates around sustainability within the Family Office space usually end up with conversation about the next generation and this roundtable was no different. The different ways that each generation engages in philanthropy bring different desires and challenges. Nevertheless, the need for committed professional support from the Family Office remains evident, while the need for measurement of philanthropic outcomes is still high on everyone's agenda.

As Family Offices - in particular Family Foundations - spend more time on families' philanthropic concerns and as giving by UHNWs has become more prominent, so the number of external advisers offering their philanthropy expertise to wealthy families has blossomed.

Whether from independent practitioners or bigger service providers, such as investment managers, law firms, private banks or multi-disciplinary consulting firms, there is no shortage of philanthropic advice on offer. The instincts of such firms can often be to use philanthropy as a way to lay a foundation towards a stickier relationship with the family. These firms can be engaged by the family to provide an aspect of their philanthropy operation, or to support the whole operation. Regardless of the level of any advice engaged, it remains with the family and its Family Office to create that particular family's approach to philanthropy and the operation of a lasting (or otherwise) Family Foundation.

I hope as ever you enjoy this Family Office Council White Paper, as the most helpful views on family philanthropy should come from the voices of those working within the families' offices and in particular the families themselves.

To find out more about the Family Office Council visit: www.familyofficouncil.com

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A Family Approach to Philanthropy and a lasting Family Foundation - Roundtable summary

Represented at the table were as many approaches to philanthropy as there were Family Offices. These included: Family Foundations; charitable trusts giving money to fund causes and other charitable operations; and a family founded and led operating charity.

For some philanthropic families it is all about finding a cause that they are passionate about and then understanding that space. Other families are more interested in the smartest approach to a problem rather than the problem itself, i.e. getting the 'most bang for their buck' in terms of impact. But whichever approach was discussed, it was always in terms of wanting to create some kind of change, to play a part, the best part you can play with whatever you can give.

The roundtable opened with the discussion as to where each family's approach to philanthropy currently sat. Unsurprisingly, given that the represented families came from such varied continents and cultures, the first common thread was not to be found in the causes that were supported - although some interesting overlaps were to emerge - nor was it in the method, or the way of giving. What collectively unified the group from the beginning was that each family, or its office, was seeking to make the family approach to philanthropy as sustainable and, often by implication, as well choreographed and organised as internally possible.

In spite of the explosion of advice available from outside providers over recent years, one CEO's early comment resonated for much of the discussion: "the family I work for is generous, but ad hoc." The families are giving generously. Yet in spite of the amount of information available to them from a great variety of sources, there often remains a tendency for the philanthropic endeavours to be channelled in a less organised manner than other activities the Family Office oversees, for instance, investment portfolios, tax structuring, accounting and legal support. So sharing experience and questioning how to go about professionalising the family's philanthropic endeavours was of great interest to the participants.

“ The family is generous, but for reasons of both altruism and self-interest I am keen to organise it better, to have a more professional approach to the charitable giving ”

SFO Executive

For a private family giving money to causes, in some cases in an ad hoc manner, there is often a difficulty in working out how to measure effectively to see if the desired impact has been achieved. In many families' cases the sheer variety of issues supported, scale of donations and types of organisations involved, make such measurement a complex task.

The charitable world itself was seen by the participants to be a challenging and diverse environment to operate within. This heightened the perception that one needed to monitor closely in order to make sure that the highest possible impact was made by any funding given by a family.

Professionalising the family's approach to giving was the most common desired outcome. In order to make that a sustainable aspect of the family, the question of the engagement of the next generation emerged. Among the cited challenges were: the family not wanting to continue to support the current principal's charitable areas after their passing, due to a different set of passions or the principal seeking to spend down the foundation within his or her lifetime.

The Family Offices looked to find best practices and share experiences amongst themselves. There was also a desire to seek best practice from the philanthropy adviser community, as well as from the recipients of donations. Whichever generation was involved in the family's giving, there was a desire to clearly measure and effectively feel the impact of the philanthropy.

How do I make the philanthropy sustainable?

In order to ensure the sustainability of your philanthropic activities, investing assets suitably was seen as essential for financing the ongoing capacity of a family or its foundation to give. But many families now go further. For example one family with an environmental endowment looks “to be more creative, aligning those endowment assets with the philanthropic world.” The family seeks to “leverage that endowment both in terms of sustaining the financial grants going forwards, but also to reinforce the grants by investing in assets that we feel are sound and primarily environmental in nature.”

“ We are having a lot of conversations with clients now around the level of tension the clients have between their philanthropy and what their philanthropic capital has been exposed to in global capital markets.”

Amy Clarke, Charities Aid Foundation

As a typical example of this point, if you want to establish a philanthropic position on climate change then arguably your investment managers shouldn't expose your capital to fossil fuels. Doing so would create the very issues that you are trying to tackle with the other part of your wealth.

One Family Office CFO observed that “whether your objectives are long term, or more immediate, there's a commercial aspect to sustainability. Your income has to outstrip your expenditure or you won't be sustainable. My experience is that it is ninety per cent akin to running a company and if you spend too much on staff, or fundraising, or are disorganised, or chaotic, then you're not going to be sustainable either.”

“ Do the maximum of things with the minimum of resources.”

CIO, Single Family Office

Although there was much agreement on this, the group also reflected that minimising overheads does not always, by default, lead to successful sustainability of an operation. “There has maybe been an obsession in the past to minimise overheads, efficiency, efficiency, efficiency ... it's very specific depending on what you are working on, you may need qualified staff and the right kind of staff and you have to pay them competitively. If you compromise on this you often end up undermining your objectives. We started out like that looking very carefully at admin overheads, over time coming to the recognition that this is sometimes a false KPI.”

The absence of a profit KPI led one principal to question how to run a foundation as effectively as a business. In fact, one family had gone as far as to create a business operation within a charity they had founded. This meant the principal wouldn't, in the long term, be dependent on the continual challenge of grant applications and seeking successful fundraising. The structure incorporated an income generating service as an integral part of the foundation. This allowed the income generated to pay for the non-profit activities. It was “a fine line to navigate, but at the end of the day, one was feeding the other.” The family is now looking at ways in which to adapt this model for the next generation's green interests, ensuring the business element is somehow aligned to the giving side, such as through an eco tourism business funding on the other side an environmental cause.

It was asserted that there should be an effective body of trustees with relevant backgrounds - as opposed to merely being friends or members of the family - to make any charity or foundation sustainable as a going concern. And it was deemed important that at least some of the trustees should have a finance/investment background. Foundations may suffer if the trustees don't understand what their endowment's investment managers are trying to accomplish, to maintain or increase the capital of the endowment and so keep the charity on a sustainable foundation. Setting the investment managers a mandate with an inflation plus target was not enough on its own. The foundation needed to be able to monitor and understand the activities and performance of the managers.

There was a view that family charities and foundations, just like family businesses, need a driving force to ensure the success of the day to day operation and therefore its sustainability in the long term. One family suggested one of their, now well established, family charities “only got there because (the principal) would go down every week and run it like a business and he was driving it forward.” However, since the principal passed away the family was concerned about the potential vacuum this left. “Now that he is not with us anymore, is there a group of trustees that can carry that on? Is there a CEO that can make it happen? For the thing not just to fall away, I think it is important that any foundation has got someone that has got that vision.”

The very purpose of having a foundation in the first place was questioned. Was it about you as a person, or simply giving money to what the market cannot fix in as effective a way as possible? For some the idea of sustainable philanthropy was not merely an operational concern, but one of the family's and the individual's legacy.

“ It's important to ask what one's legacy is and if you can put that question to people and say what is your legacy? When you die, what are people going to say about you? Were you just a brilliant businessman who made lots of money? Were you a great sports star? A pop star? Is that enough? I don't think it is. ”

Family Principal

Although another Family Office representative cautioned “I don't think that the people I work with are driven by recognition by the external world.” There was a feeling that the motivations of an individual's philanthropy can be in essence a very private thing. How you go about philanthropy and what you focus on in many ways reflect how you want to come across in the world. “There's nothing right or wrong with that. It's just a personal preference of the family.”

One SFO Executive had a circumstance in which the patriarch of the family and founder of a charity had passed away, which produced the conundrum “should we keep it sustainable [carry on] or should we spend it down ... we constantly have that discussion.” It led the executive to question what does 'sustainable' actually mean. Is it “in terms of the impact of what you do, is it to do as much as you can now with the money? Or do you keep it running to try and do a little bit of good all the time and therefore maintain the legacy of the family.”

The response from a family member in the room suggested this to be a common dilemma for family philanthropic capital. “It's a very good point. We have been discussing the same thing at our last trustees meeting and I said that I'd like to spend out within the next 10 years. I'd rather do a lot of good in a short period of time, rather than perhaps miss the boat.”

Exploring the option of the patriarch spending the money in their lifetime, or within a defined period of time after death, led to some questioning whether you could recruit the best people to run something with such a finite life. The best CEOs in the field may want stability rather than a time-limited career step. It was suggested that this was not a problem for trustees and others not professionally employed by the foundation. However, in these circumstances there needed to be clearly defined programmes in place to allocate the philanthropic capital effectively. Also required is a clearly defined post-death strategy for financial and programme management, such that perhaps you won't be spending down in trickles but have sizeable levels of capital disbursed.

For one Family Office CFO in the room it was clear that “it's the same challenge that family businesses have when there is no clear succession coming through from within the family. When bringing those non-family execs on board, how do you manage that potential tension between the family members and the non-family execs hired in to manage something that is very personal to somebody? It can work. There are a lot of examples out there of it working, but there are also those where it doesn't.”

It was suggested that, when passing responsibility from the founder to a new set of hands, it is crucial to put in place a really good team. The founder of a charity or foundation often has the same succession issues as the founder of a business has. “You may spend a six figure sum on your CEO, but you still need the entrepreneur to drive it forward.” The question of “how is it going to be run after I am gone?” leads neatly to the next generation.

How do I engage the next generation?

The experiences of the next generation were of great interest to the group. How to engage the legendary 'next gen' and allow for them to grow into their philanthropic roles was debated. Some family members were particularly keen to share their experiences. It became apparent that similar intentions can have completely different outcomes.

The successful outcome from one family was clear to behold as both generations present were united in a positive view of their family's method.

“ Our family has been involved in charitable giving for 60 years and one way of sustaining it is to inculcate that feeling of giving, of not just money but time to the next generation. Giving time at an early age to third party causes. It's something that does get passed on in the genes of the family. ”

Family Principal

“ Philanthropy, it's just become a part of the way of life for us. To me it's normal. That's just how I've been brought up and I've taken those values and done it my way. ”

Next Generation, Family Member

However not every family has immediate success when discussing internally between generations. One family member in the room “had charity beaten into me when I was in my twenties, but I said to my Dad that I wasn't interested, that I want to get on and make some money. It took me a while to learn my own lessons and wake up.”

“ I spent twenty years of my life masquerading as an entrepreneur when really I should have got on with my passion. And I'd like to see a lot more next generation individuals get into giving, rather than just trying to make more money. ”

Family Principal

The room was very aware of the inherent need to talk between generations. But while the Family Office could be a great tool to facilitate that conversation it was not always a simple process. Sometimes the solution was asking outside families with prior experience of the conversation to step in.

It was heartening that the families present in the room were keen to engage in this process with others. One advised, “I like to talk to the next gen to see if I can inspire them a little bit, to realise that it is not all about just doing what your parents did or what you think they want you to do.” The way that the next generation gives is also seen to have evolved. Rather than simply being keen to just donate money through distant funding mechanisms, Keziah Cunningham from Charities Aid Foundation advised that she is “definitely seeing a shift to a desire and appetite by the next generation to use their skills, talent and expertise for social good.”

Further, the next generation may want to give in a different way and have an interest in different causes. This led to the suggestion that there should be room within the family to allow for or indeed to encourage people in their different passions, different interests and appetites. One practical solution that a family had used was to have different individual's trusts under one overall trust umbrella. Thereby, each family member's trust shares the office services, administration and grantmaking support. This approach is cost effective and keeps the family giving together, albeit allowing for the supporting of different causes.

How do we know we are creating impact?

Urgent issues, those that 'demand' an immediate fix, often come with an ability to be visibly measured. Whereas, the impact of a philanthropist's capital upon longer term issues is far harder to measure.

One Family Office uses the need to feel impact as a recruitment tool in one of its businesses, a digital agency. "So many charities are not good with digital communication and need a lot of help. So one of the really attractive recruitment tools that we've had is that if you join the group you have to spend a part of your time helping charities with your skills that you learn on the job. A really effective way of getting people excited about the job instead of just working for corporate all day, every day."

Amy Clarke from Charities Aid Foundation added that "there are different types of impact currency. There is time, there's your connectivity, your networks, it's your knowledge and your IP (intellectual property) that you can bring. The next generation coming through is starting to realise that your impact is so much more than just your money. It's a blended menu of things that you can offer. If you are interested in supporting charities, you can now leverage and draw down on a lot more than we have been historically able to."

Although governance and the quality of reporting back to the donor from the charity sector was perceived to have improved in the eyes of the Family Offices at the roundtable, there was an interest to learn if there were mechanisms or metrics in existence to enable the families to independently measure and contrast this new emergence of data coming back from the charities.

Impact Investing

The topic of impact investing itself came up again and again. We will follow up with a roundtable and white paper on the subject in the near future. As a taster, here are some examples of some interesting reflections that came out of our current conversation.

“ We dropped the social bit, we just do impact investing. Intent is important, you do this with an intent in mind. An element of measurability is necessary, the proactive measurement of what you are achieving. ”

CFO, Family Office

“ Additionality. You can't do impact investing in the public markets, so our impact portfolio is entirely private equity like. We use fresh capital, to play the public market in an active manner, to drive change. Divesting is a sub-component of that, but unless you are an activist investor you're not bringing additionality. ”

CFO, Family Office

“ The challenge with social impact investing is that there is a risk that you are intervening in a market place and you are crowding out other people. You are providing a subsidy effectively, unless you are very careful and that can be very damaging. ”

CEO, Family Office

What are the options for professionalising philanthropy?

One of the principals in the room had come to the conclusion that at some stage you have to hand the running of the Family Foundation to a professional focussed upon your aims. "Up until now it has been much about what I've wanted to do, but I've taken on an Executive Director and decided to attract other foundations and Family Offices to what I am trying to achieve."

Although some aspects of professionalising come with risks, there is a concern that you never know what may happen when external trustees or executives come on board with perhaps differing views about the way the foundation is run or the direction of its mission.

There is a different skill set required in working within philanthropy. So the family shouldn't oversimplify things by saying that the philanthropy should be delegated to the next generation regardless of skill set. From a family point of view it is about choosing, or discussing within the group, who is the right person to wear the right hat. Not everyone can wear each hat as effectively as the other.

It was suggested by one Family Office CFO though that there was a tendency to separate the profit side of the family from the not-for-profit side too readily. Many can be inclined to think "this is my commercial capital, this is my good capital and this is my philanthropic money." This siloed approach, it was asserted "doesn't make any sense. It should be an aligned approach. You should conduct your business like you conduct your philanthropy." Another comment from the table added that "a charity is a business, a social business. It's just the way they treat their profit that is different."

There was general agreement that a lot of precious time could often get tied up in dealing with agencies in the UK and overseas that regulate and codify the way that foundations, endowments and charities may operate. Some were more dismissive of such governmental bodies than others.

One way for a family to become more efficient in its giving would be to avoid creating another operating charity if this replicates what is already there, instead be more strategic and fund one that is already doing the role instead.

“What is needed in the charity world is some form of consolidation. It's not like in business where everyone is competing. Charities should be working cohesively. Why would you want to have your own overheads, just duplicating what someone else is already doing? Align yourself with someone already trying to achieve your goals instead.”

Family Member, Single Family Office

Families which have migrated to new countries and jurisdictions, in particular, find the structuring of their philanthropy difficult. A particular Single Family Office cited that they "keep meeting with people and they keep discussing ... and it's been about a year now on one specific project but no one delivers at the end, you'll never get anything written in black and white, it's just always talk and talk and talk. It's been very cost ineffective and frustrating."

Another SFO Family Member described how his "charity took two years to set up with two different lawyers. I think the Charities Commission thought I wanted to set up a charity so I could go on holiday and travel the world. Hopefully now it's changed. But it took me two years to get some money into a foundation."

Options do exist for the Family Office which is seeking to avoid the loss of time and efficiency that could occur through attempting to set up one's own charity. As mentioned, simply funding an existing charity that has goals which are aligned to your charitable giving is a potentially effective option and removes the duplication of costly overheads that would otherwise occur. However, rigorous due diligence must be carried out to ensure that the office has confidence in the ability and the structure of the recipient charity.

Service providers like Charities Aid Foundation operate donor advised funds (DAFs) on behalf of families and individuals. DAFs are in essence like having your own private individual or family foundation, they are not operating charities, but giving foundations. DAF providers are able to file all of the regulatory reporting, carry out all of the administration work and prepare tax positions. This means that an individual or family carrying out their philanthropic activities through a DAF can gain all the pleasure associated with giving without the hassle of administration and onerous reporting. Advisory services can be offered by these providers as well. DAFs are a growing trend in the UK and well established in the USA. It was also highlighted that DAFs are especially useful in situations where trustees are difficult to find and appoint, or where a family may find it difficult to navigate the local charitable regulations.

While people tend to talk about the US culture of philanthropy, from our discussion it was apparent that the UK had a lot to offer as a place from where to run a family foundation. Indeed Charities Aid Foundation are finding that a lot more offshore families consider London as an option now, for a number of reasons: the UK's long and respected pedigree in philanthropy; its well regarded charity regulation; stable political and economic regime; London's role as an epicentre for corporate responsibility; and its position as a global capital hub. All these advantages make London an attractive place for families from all over the world to base their philanthropic activities.

“ We've been working with families that want to park their philanthropic capital in London because of political stability, economic stability, the fact that as soon as the philanthropic capital crosses the charitable threshold in the UK no one can get it back. ”

Amy Clarke, Charities Aid Foundation

However in spite of this, the recognition that there are alternatives to setting up private foundations for families looking at their philanthropy, such as DAFs, is actually quite low.

Where should we get advice from?

The opinion in the room was that there are just too many people giving too much advice. The donor advised funds (DAFs), for example, are often provided to you by private banks. They can set up a DAF for you, but you also have to engage in a wider banking relationship. The room questioned the motives behind these institutions' activities. When banks and investment managers have philanthropy departments, the question can become "why are they doing it?", as to all appearances it's not for purely altruistic reasons.

There was some concern that these institutions were felt to aspire, more and more, to become "one stop shops for families." There was recognition that, looking beyond their use of an experienced philanthropy advisor to attract you in the first place, such institutions could indeed manage the charitable money well enough and provide other services to boot.

Among the roundtable participants, the general perception was that a lot of philanthropic advice is provided from the commercial world, for instance banks, investment managers and law firms. Some of that advice, it was felt, could be considered more authentic than others. Beyond just managing the charity asset, the more authentic provider could differentiate itself by creating stickier relationships with their clients and delivering more value.

“ We are trying to find a vehicle, a one stop shop – it's quite difficult, it's certainly not easy. ”

Family Principal

But if banks push the philanthropy message with a view to controlling wholesale the assets of the family and its foundations, that creates a nervousness or doubt with families as to why the banks are doing it. And this is a challenge faced by the private banking and wealth management sector, getting clients to trust the motivations behind their service provision. That will always be a challenge for such large multinational institutions.

As with all services, it was deemed good practice to do your due diligence, to make sure that the advice you are getting is from seasoned experts, people who really understand philanthropy and who are driven by similar values. Perhaps because of the growing choice of advisers now available, this due diligence now needs to be done a lot more than what might have been required historically.

Conclusion by Matthew Norman



*Matthew Norman,
Deputy Chairman of the Family Office Council*

Single Family Offices and the professionals that lead them tend to be tasked with a focus upon the investment and administrative matters of a family. However, the more a Single Family Office develops, the greater the chances that other tasks will be delegated in the direction of the Family Office and its executive team. Family philanthropy is one such matter.

The involvement of the Family Office in the family's philanthropy often creates the circumstance wherein a highly qualified professional, albeit one without any relevant philanthropic experience, must drive through the family's charitable projects and ensure that the family achieve their philanthropic goals. This must, of course, be carried out in a well thought out manner with the benefit of good governance, communication with the family and robust monitoring of the inputs and outcomes.

With the additional involvement of different generations of the family, things may get more complicated for the Family Office as more varied philanthropic requests may be made.

Therefore, in order to successfully navigate the philanthropic requirements of the family, it may be that the Family Office will need to utilise a trusted philanthropy adviser, or more formally a philanthropic service provider. As our roundtable indicated however, there is no easy formula to discover the best practice amongst Single Family Offices engaging in this field.



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