



Charitable Giving:
Asset Allocation
Reporting and
Effective Philanthropy

Nancy B. Gardiner
Marcia M. Governale





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Executive Summary

Every donor is different. So, with dozens of philanthropic giving options available, how might an individual or family plot a successful road map that aligns and grows with a client's unique abilities, needs and personality?

This paper offers a practical look at an approach to this question developed by Hemenway & Barnes LLP, a trusted advisor to New England's leading families for almost 150 years. The authors detail the steps in a philanthropic asset allocation process involving fact-finding, planning and continuing assessment as seen through the eyes of three hypothetical clients.

It also illustrates the use of the *Philanthropy Dashboard*. This client-centered planning and reporting tool, developed by Hemenway & Barnes, helps clients evaluate their philanthropic goals and activities.

Introduction

Clients rely on us for a broad range of services, including trust and tax planning, estate planning, asset allocation reporting and charitable giving. We provide investment reports that outline the various holdings and compare and contrast their performance in absolute terms and against appropriate benchmarks, statistics, etc. The reports are useful tools for clients and for us because they form the basis for strategic discussions about goals and performance. Similar reporting on the philanthropic side is very helpful. We can help clients answer the questions, "how are we doing?" as well as "what are we doing?" Helping clients understand the whole picture is critical to their long-term success.

Analyzing the scope of the many charitable activities that clients undertake in a manner similar to the way we track investment performance helps clients understand their activities and provides a useful planning tool. A client may have made the lead gift at their alma mater and contributed to the local food bank at the leadership level, but have they made use of the various strategies available to them? Do they have a sense of the number of other gifts they have made or how their volunteer activities mesh with their philanthropic interests? How can they get an overview of their activities? Family office clients are frequently busy people trying to manage various activities. We assist clients in tracking their financial investments and provide consolidated reporting on their stock



portfolio, bond account and, perhaps, real estate or private investments. Account appraisals and performance reporting help individual and family clients make strategic decisions and plan for the future. We find that a similar approach helps clients understand their philanthropy. We encourage them to think about apportioning charitable dollars – much the way one would allocate investment dollars – across asset classes, with varying degrees of risk, alone and in collaboration with others. Reporting on and keeping track of philanthropic activities this way help clients understand and make decisions about their giving and their activities. This kind of oversight helps them be more effective over time.

The process begins with a discussion of the client's age, family situation, goals and risk profile. Asset allocation has become more complex over the years as the investment options for wealthy clients have expanded. There are many quantitative and qualitative calculations involved and numerous investment vehicles to consider. In addition to equities and bonds (both corporate and treasuries), the mix of potential investments includes private equity, venture capital, partnerships and other strategies invested globally, not just in the U.S.

Just as the investment portfolios of most clients have become more complex, so too have their charitable gifts, with clients allocating philanthropic capital across several asset classes. These include the "traditional" gifts out of current income, bequests and the creation of family foundations. The number of available vehicles has expanded to include other charitable entities, such as donor-

advised funds and planned giving vehicles. It also includes other "buckets," such as socially responsible investments, impact investments and allocations to other private investments. As with portfolio investing, the charitable allocation now includes some gifts that are "blue chip investments" and others that are more speculative. Donors previously invested their charitable dollars alone, but now they may join with others in donor collaboratives or other collective efforts. The approach is both local and global. Some donors continue to focus on the availability of the charitable income and estate tax deductions and structure their giving with these in mind. Others are less influenced by these incentives.

At Hemenway & Barnes LLP, we report to clients on both their overall investment strategy and their philanthropic commitments, whether managed here or elsewhere. This paper outlines our philanthropic asset allocation process. The idea that the nonprofit world can learn from traditional business models is not new. Academics have long encouraged nonprofits to model for-profit businesses in their quest for measurable results. Donors too have increasingly looked for demonstrated returns for their investments. Our approach looks at the process from the standpoint of the donor, our client. How many investments should a client have? How should they be allocated? What other activities make sense given the client's overall goals? To assist with this approach, we have developed a *Philanthropy Dashboard*, attached as Exhibit A, which helps clients plan and understand their philanthropic strategy.



Every Client is Different

To illustrate the philanthropic investment approach in this paper, we focus on three hypothetical clients representing separate approaches to philanthropic investment. In completing Section 1 of the Philanthropy Dashboard, Client Profile, each of the clients below would be described differently.

Mr. Strong

Mr. Strong is 65 years old and has had a successful career as a partner in a major law firm in New York City. He is a loyal supporter of his alma mater, Yale University, and the Metropolitan Museum of Art in New York City. He is a man of faith and supports his church as well. He lives in New York City and has a summer home on Long Island. By his own admission and the history of his giving, this client has little appetite for philanthropic risk. He is a long-term investor, pleased to support traditional organizations doing good work, and we would structure his philanthropic portfolio accordingly. His wife participates in his gifts, but they do not see a need to undertake giving with their three adult children. Mr. and Mrs. Strong encourage their children to engage in philanthropic activities on their own. Mr. Strong is careful in his spending because his 90-year-old mother depends upon him for some of her support. Mr. and Mrs. Strong believe that over time a "conservative" portfolio will return far more than will a portfolio with a weighting in alternative asset classes, whether financial or philanthropic in nature.

Ms. Freihold

Ms. Freihold is a single woman living in California. A free spirit, at 42 she is single and sees no need to "settle down." She supports herself with income from a family therapy practice and several large family trusts. Her grandfather was a very successful entrepreneur and investor. This client cares deeply about the environment, particularly the health impact of pesticide use. She has established a small private foundation and has asked the advisors who oversee the investment of her family trusts to keep her views in mind as they invest the trusts set up by her grandfather. She also has a modest ability to make grants out of a larger private foundation established by her grandfather. She has no children and plans to leave her estate to charity in one form or another. She lives simply, trying to reduce her carbon "footprint" by driving a fuel-efficient car, living in a small home and eating a vegetarian diet. Ms. Freihold feels a sense of urgency with regard to her philanthropic goals and is comfortable with an "aggressive" approach to philanthropy.



The Fortuna Family

The Fortuna family is a happy family including three generations; Mr. and Mrs. Fortuna and their four children, Anne, Susan, Mike and Steve, all of whom are happily married with young children. Mr. and Mrs. Fortuna are in their 60s, and their children range in age from 28 to 34. They live in Chicago. Both Mr. and Mrs. Fortuna had successful careers, retiring early from senior management positions at Procter & Gamble, where they met. Their children are all employed, as are their spouses. The family is generous and likes to make joint charitable gifts to the University of Michigan, the alma mater of Mr. Fortuna and three of the four children. They are also very interested in medical research, especially since one of their grandchildren suffers from Type 1 diabetes. They have established a donor-advised fund. The Fortunas have traveled widely and have seen firsthand the economic potential in countries such as India and China. Their interests have intensified since their son Mike adopted a daughter from China several years ago. Mrs. Fortuna serves on the board of the Chicago Community Loan Fund, which has increased her interest in alternative investments generally. The family loves sports such as golf and tennis. They like to give together, to play together and to win. They take the long view in some ways, but in others they are impatient and anxious to see change happen quickly. Overall, they support a “balanced” approach with an intermittent tilt to “aggressive” for the “right” opportunity.

Step One:

Assessing the Client’s Investments and Appetite for Risk

When working with clients, such as the individuals and families just described, the first step in devising an appropriate philanthropic asset allocation is to figure out where the donor is currently and where she would like to be in a year, five years or ten years. Sometimes a donor has a focused interest in a single issue (e.g., malnutrition, cancer, his or her alma mater, his or her religious faith, or commemorating a family experience, such as surviving political persecution). None of our hypothetical clients fits into this category. Ms. Freihold is extremely interested in the impact of vaccines on health, but she has other interests as well. Alternatively, a donor wishes to be a good citizen in his or her community and advance several philanthropic interests simultaneously (e.g., environmental stewardship, historic preservation, renovation of a local park or restoration of a church steeple). All three of the clients described previously fall into this category.

We start with clients in much the same way as our colleagues and others do with new clients seeking investment advice. Ideally, we can meet in person to go over risk tolerance, goals, areas to avoid and other factors. It is important to find out about clients, their families, their current holdings, plans, anticipated needs and their appetite for risk. What is their background? How do they



present themselves? Is their focus local, regional or global? What “program areas” (health? education?) interest them. While measurement of risk can be a quantitative exercise, it is important to stand back from the numbers and listen to the client to assess his or her situation; after all, most philanthropy is personal, born of a belief, passion or meaningful experience. What is the right allocation given what you know about the client? Sometimes it is helpful to start with a client questionnaire. While this is no substitute for a conversation with the client, a questionnaire helps focus the exercise. We find that some clients have never seen their philanthropic investments summarized in one place. They are interested to see the total number of gifts they have made and the average size of each, for example. Prospective and new clients can complete the questionnaire at the outset. The *Philanthropy Dashboard* is built over time and becomes the basis for regular reporting to the client. See *Philanthropy Dashboard*, attached as Exhibit A and *Philanthropic Planning Questionnaire*, attached as Exhibit B.

Step Two:

Building the Client’s “Philanthropic Portfolio” – What are the “Building Blocks”?

Gifts can come from various “funds” whether they are earned, saved, inherited or created for the express purpose of giving. Examples of potential investment funds include the following:

Personal Gifts

Most individuals and families make personal gifts, and we have found that for many clients the “personal gifts” investment fund is often the largest, even if they have a donor-advised fund or a private foundation. Such gifts often come about as a result of a solicitation, sometimes even a direct mail outreach. They are often an “unmanaged” account, with many gifts made in a reactive rather than proactive way. Gifts are usually made out of current income used for operating support. This is the category where we see a lot of repeat gifts – annual gifts to large, national, well-known “mature” charities such as the American Red Cross or the United Way, as well as gifts to local charities, such as the public library or community garden. While not always the case, gifts to well-established organizations generally “pay dividends,” not in the traditional sense but in the sense that they can be counted on to fulfill their mission and provide philanthropic returns to donors.

All the donors above are generous and make significant personal charitable gifts. Our hypothetical clients may be surprised to see how much they are spending on all their smaller donations – less than \$500, for example. Over time, as they prioritize, they may or may not wish to “tweak” the outlay in this category. Depending on clients’ outlooks, we may advise them to concentrate their investments so that they make fewer total grants. We may look at their choices and suggest that they allocate among those that are “blue chip” and guaranteed to “pay dividends,” and others that may pay out over time but not in the near term. Ms. Freibold



would like her portfolio to hold fewer “blue chip” and more companies that might be described as “cutting edge.” She is willing to take a bet on a start-up organization exploring the long-term health impact of pesticide use, for example. By her own admission, she can’t say no, and she makes many gifts of small amounts to a large number of organizations. Mr. Strong is most comfortable with blue chip operating gifts made on an annual basis. He knows that over time he is supporting established organizations with solid track records, and he trusts the management of those organizations to deploy the funds responsibly. The Fortunas have determined that they will make their larger gifts to well-established organizations, and make smaller grants to organizations that are less mainstream, having concluded that a small grant can make a big difference to an organization with a smaller operating budget. Mr. Strong and the Fortunas have loyalty to their schools and institutions associated with family. These “good citizen” grants to their alma mater, church or local community organization are part of their giving every year as well. Both families have a list of such organizations and try not to stray too much from the organizations on the list.

Private Foundation

If clients have substantial means and a strong desire to give, we often recommend

the creation of a private foundation, either during their lifetime or as part of their estate plan. This vehicle can provide ongoing support for causes and organizations that donors care about, while providing tax advantages to the donors. Given the details involved in creating a foundation and administering it over time, we do not recommend the creation of a stand-alone private foundation with less than \$2 million in total assets, and in many cases it makes sense to consider a donor-advised fund (see page 10) instead. This depends on the

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client’s wishes and the potential for growth or additions to the foundation over time.

With investment assets, a high net worth individual may be a “qualified investor” and still reject the idea of hedge fund investments. By the same token, a family that qualifies for the creation of a private foundation (because of the size of their asset base or other factors) does not necessarily need to establish one.



Of the clients listed above, Ms. Freihold is the candidate for whom a private foundation probably makes the most sense. She has talked about continuing her charitable legacy after her death, and she has no children. Leaving the bulk of her estate to a private foundation upon her death will save estate tax and continue her philanthropic legacy after she is gone. Planning for the administration of the foundation after her death is something we would want to discuss with her. Increasingly, donors are incorporating spend-down provisions into

families, like the Fortunas, who share so many interests. This is something they can monitor over time and decide later.

Donor-Advised Funds

These vehicles are increasingly common and provide clients with a convenient way to organize their charitable giving. As lifelong corporate executives, the Fortunas have several large equity positions with low basis and they typically make a single stock gift each year to their donor-advised fund. Then, during the course of the year they can recommend charitable gifts to various

organizations. They have found that they like to talk about charitable giving with their children during joint summer vacations. The long, easy days and nights under the stars at their lake house inspire conversations about issues and concerns that they would like to address. The donor-advised fund allows this freedom without concern about timing.

Whether to establish the fund at a local community foundation or at an investment firm such as Fidelity, is a question for the donor to answer. Funds at community foundations serve the purpose of helping the local community foundation while providing convenience to the donor. On the other hand, such funds may charge a higher administrative fee and may not provide donors with as much flexibility as they would like.

An advantage of a private foundation is that it can afford a degree of privacy between the donor and the community. It also allows joint giving in families, like the Fortunas, who share so many interests.

their private foundation documents. Given Ms. Freihold's inclinations, she may consider starting the foundation during her lifetime and providing for additional funding upon her death. The Fortunas may at some point consider a foundation, but they seem happy for now with their donor-advised fund (see right column). An advantage of a private foundation is that it can afford a degree of privacy between the donor and the community. It also allows joint giving in



Planned Giving Strategies

In addition to the more traditional funds outlined above, donors may want to consider planned gifts. We like to list these along with other charitable investment funds so that clients get a full picture of the various gifts they have made. The simplest and most traditional form of planned gift is a bequest. Clients who have some concerns about the adequacy of their resources during life but who want to benefit a favorite charity at their death, find this kind of long-term investment attractive. One can think of this strategy almost as a long-term bond: It is in the portfolio, will provide a return and doesn't require significant attention.

Of the clients described above, Mr. Strong, conservative by nature and a careful steward of his assets because of his obligations to his mother, might find a specific bequest attractive. Often the announcement of a bequest intention to an organization means that an individual gains admission to a special "society" made up of individuals who have let their bequest intentions become known. This kind of group affiliation is appealing. Mr. Strong might appreciate such recognition. He might also consider a charitable gift annuity for his mother, especially in the current investment climate. The IRS gift tables provide that a gift annuity for an individual who is 90 years old provides a very generous income stream to the annuitant.

Ms. Freihold too might be interested in a planned giving strategy, especially because she currently is single and may wish to leave all or a portion of her estate to charity. For her, the idea of a charitable remainder trust may be sensible. As for the Fortunas, the current interest rate environment has increased interest in charitable lead trusts. Given the fact that Mr. and Mrs. Fortuna have grandchildren, they may want to consider this strategy because it might provide a generous charitable gift and remove property from their estate for tax purposes, ultimately benefiting their grandchildren.

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Summary

Two of the advantages of the *Philanthropy Dashboard* are that it provides consolidated reporting on the size of each "fund" and allows clients to adjust if they desire. Perhaps they want to reduce their personal giving, but increase their giving overall. Perhaps they want to make certain gifts out of their private foundation and others from personal funds. Perhaps, like Ms. Freihold, they have some



ability to make grants out of a family foundation created by a relative. Seeing their current and planned gift funds in one place allows donors to get a full picture of the size of their current and future charitable investments. Providing a comprehensive picture equips clients with information to make strategic decisions about their giving.

Step Three: Selecting Investment Options

When we advise clients on investment allocation, we frequently try to find ways to leverage investment dollars. We have a similar goal when advising clients on their charitable giving. Some of the strategies are conservative and time-tested. They appeal to most donors. Other, more “out of the box” strategies are more risky, but their risks are balanced by the potential for more reward.

Within each type of investment fund, our clients have choices regarding how to make their charitable investments. As noted above, personal gifts consist primarily of contributions out of current income. However, even within this category, clients have choices, and the *Philanthropy Dashboard* allows us to help them record and measure their experience with various strategies.

Traditional Leverage

Conservative strategies with the power to make a difference.

Challenge Grants

A challenge to other donors can leverage giving and create great momentum for an organization. Mr. Strong is the kind of person who would respond to a challenge if offered by an organization he supports. He might even be willing to fund one under the right circumstances. Ms. Freihold and the Fortunas would also probably like to add this kind of “alpha” to their traditional investment choices. In the case of a capital gift, a challenge can provide momentum to a project. For over 85 years, the Kresge Foundation has offered challenge grants as a way to help organizations complete projects. Other donors, both foundations and individuals, make effective use of challenge grants. The GreenLight Fund in Boston, for example, which is described below in the section on venture philanthropy, got its start with a combination of challenge grants from The Boston Foundation, private foundations, and interested private and corporate investors. It has since leveraged significant resources to seed organizations solving critical problems in Boston.

Capital or Endowment Gifts

Gifts to support endowment or capital projects are important building blocks in many portfolios. Such gifts can make a difference in the fortune of a nonprofit organization, and they appeal to many donors. Some investments of this sort are risky, and some are not. Ms. Freihold, for example, has been asked to make an initial capital grant to support the construction of a



no-kill animal shelter in the town where she lives. Stepping up to the plate as the first-in dollars for such a project can be risky. What happens if the rest of the funds are not forthcoming? One strategy may be to initiate a challenge grant (see above). She can also provide that the funds be used for a different purpose should the shelter fail to raise sufficient funds for building. In a similar vein, the Fortuna family has decided to fund an endowment at a summer camp for children with Type 1 diabetes after their grandson told them of the positive experience he had at camp. Funding this kind of special program makes a difference and probably does not carry the same level of risk as Ms. Freihold's gift to the shelter.

Naming

Similarly, donors who are willing to put their name on a project can leverage other gifts and add momentum to a fundraising effort. Often gifts for capital or endowment include naming opportunities. All three clients described above travel in circles where like-minded donors will react when they see that a friend/colleague has provided significant support for a project. Just as in the private sector, some donors are comfortable in the role of "angel investor," and some are not.

Nontraditional Investments

More risk, with the potential for greater impact.

Pooled Investments

There are a number of ways in which donors can fund collaboratively, creating investment pools to leverage their giving and work with like-minded donors. Giving circles, for example, allow donors to collaborate and share ideas. The giving circles can be informal, formed in much the way an investment club or book club is formed among a group of friends. They can also be more formal. Groups such as the Hestia Fund for women donors in Boston and the One Percent Foundation, committed to engaging

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young donors nationally, have formed giving circles as a way to bring donors together. The idea of pooling charitable dollars with a broad group may not appeal to all clients. The Strong family is very private and will not be interested. The Fortuna family might prefer to limit its group activity to the equivalent of a "family giving circle," if at all. Ms. Freihold might take pleasure in a giving circle composed of like-minded donors or,



more narrowly, female donors or donors who share her political perspective.

In addition to giving circles, funders who share a common grantmaking purpose may establish a collaborative. Donors come together in a variety of ways, choosing to pool learning, information or dollars. Some of the venture philanthropy work described below is structured in a funder-collaborative fashion. Members of the Working Group on Education Organizing (WGEO) are also members of Grantmakers for Education and have formed a learning network to focus on

make grants together, much like the learning circles described above.

Venture Philanthropy Increasing Potential Leverage

Just as the venture world has changed financial investing, the field of “venture philanthropy” has grown in recent years and has an impact on philanthropy. The goals of venture philanthropy are similar to those of venture investing generally. Through this strategy, donors can provide nonprofits longer-term capital commitments, strategic advice and professional relationships. New

Profit, Inc., a national venture philanthropy fund, was formed in 1998 and provides support to innovative social entrepreneurs and their organizations. The GreenLight Fund, noted above, provides seed capital to bring organizations with proven track records to Boston to solve critical problems. It provides an opportunity for individual investors to

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organizing communities for the purpose of school reform. The Partnership for Higher Education in Africa, which is made up of seven private foundations, shares information and collaborates on some grants, but its members make grants independently. Donors to the Four Freedoms Fund, which focuses on immigration reform and immigrant civic engagement and integration, meet regularly to conduct site visits, vote on grantees and

make financial commitments as well as other contributions.

While all three clients described above are qualified to add this “alpha” to their philanthropic portfolios, it will not appeal to all of them. As with nontraditional or alternative investments, these strategies are not for every donor. A donor such as Mr. Strong who is very conservative in his outlook might not be interested in models



that are a bit “off the grid.” Ms. Freihold may have the most interest because of her approach to risk and her availability to attend meetings and participate. She also has the resources and the temperament to accept that not all of her charitable investments will bear fruit.

Geography

Most clients take a global approach to financial investing, and many clients have a similar viewpoint when it comes to their philanthropy. We work with clients to decide what the geographical focus of their philanthropy will be, and the *Philanthropy Dashboard* allows donors to monitor their geographical reach. It also helps them measure their support for “hometown” favorites against other organizations that are farther afield.

Step Four:

Identifying Other Pools of Capital Available for Deployment

For clients who want their giving to extend beyond their donations of charitable dollars, we can recommend deploying other pools of capital. This is not a new idea. For a number of years, some clients have directed advisors to invest funds in a manner that is consistent with their political or other beliefs. The

conventional wisdom was that, while this kind of socially responsible investing was possible, clients would sacrifice returns in order to stay true to their political and social beliefs. In recent years, as this more activist approach to investing has become more mainstream, the overall investment climate has changed, and the returns have in some cases matched or exceeded the financial returns on some more traditional investments. Clients sometimes feel that they can at least bank on some return, albeit not necessarily a financial one, viewing their

One of the advantages of the *Philanthropy Dashboard* is that it allows us to have conversations with clients not only about their current activities but also about strategies that they might consider.

charitable investments as “multiple bottom-line” investments. We include investments such as these as part of the *Philanthropy Dashboard* because they are among the various tools available to clients who wish to have an impact. One of the advantages of the *Philanthropy Dashboard* is that it allows us to have conversations with clients not only about their current activities but also about strategies that they might consider.



Socially Responsible Investments (SRIs)

Socially responsible investing has grown rapidly in popularity worldwide. In fact, the Social Investment Forum has estimated that approximately 12% of all assets under professional management in the United States were involved in socially responsible investing at the start of 2010. Tools such as the Domini Social Index and KLS Global Sustainability Index, and related subindices, help investors and their managers. To the extent that clients engage in this kind of investing, the *Philanthropy Dashboard* allows them to track the activity alongside their more traditional grantmaking activities.

organization dedicated to increasing the effectiveness of impact investing. Ms. Freihold is interested in exploring impact investments related to healthy food, and the Fortunas see impact investing as a tool that they may employ for the international “sleeve” of their philanthropic investments.

Social Impact Bonds

A relatively new type of impact investment, social impact bonds are not bonds in the traditional sense, because they do not provide a fixed rate of return. Instead, a social impact bond is essentially a contract with the public sector in which the investors make a commitment to pay for improved social outcomes. Repayment to investors is contingent upon certain social outcomes being achieved by the project. Although the idea of social impact bonds has recently garnered much attention in the United States, few opportunities to invest in these types of projects currently exist.

However, these opportunities may increase in the future, because President Obama has requested \$100 million to finance a pilot study on social impact bonds in the fiscal year 2012 budget. In addition, in May 2011, the Commonwealth of Massachusetts Executive Office for Administration and Finance issued a request for information on social innovation contracts, including social impact bonds.

These funds screen their investments for certain socially responsible criteria of interest to their investors, such as environmental impact, human rights and workplace conditions.

Impact Investments

In addition to SRIs, which generally apply negative screens, clients are increasingly drawn to the field of impact investing, which aims to solve social or environmental challenges while generating market or close-to-market rate returns. There are now a number of ways to participate in and measure such investments. Global Impact Investing Network, for example, is a nonprofit



Community Investing

Community investing allows clients to support development in economically challenged communities, through Community Development Financial Institutions (CDFIs) such as banks, loan funds, and credit unions. The CDFIs make below-market loans to individuals, businesses or other organizations to support development in the local community. CDFIs use a variety of mechanisms to help protect a client's investment, including careful selection of borrowers, technical assistance to borrowers and maintenance of loan loss reserves. Community investing can be as easy as opening a bank account at a community development bank or credit union or investing in a community development loan fund such as the New Hampshire Community Loan Fund or the Chicago Community Loan Fund. As noted above, Mrs. Fortuna is a member of the board of the Chicago Community Loan Fund and has made investments in the local community through this vehicle.

Microfinance

Our clients are aware that the microfinance strategy has become an accepted investment approach not only in the developing world but also in the U.S. Certain organizations providing microfinancing to individuals accept donations, such as ACCION International. Other ways to support microfinance as a strategy include investing in a microfinance venture capital fund, such as the ACCION Global Bridge Fund, which makes small loans through ACCION affiliates to entrepreneurs worldwide. There are opportunities to support microfinance operations in the United States as well. In their travels, the Fortunas have seen the

impact that microloans can have. Ms. Freihold has read about microfinance and is interested to learn more.

Socially Responsible Mutual Funds

Socially responsible mutual funds are an additional vehicle for socially responsible investment and are growing in popularity. These funds screen their investments for certain socially responsible criteria of interest to their investors, such as environmental impact, human rights and workplace conditions. For example, the Ariel Fund, an approximately \$2.2 billion socially responsible mutual fund managed by Ariel Capital Management based in Chicago, has a \$1,000 minimum investment for individuals. Another example of a socially responsible mutual fund is the Pax World Balanced Fund, an approximately \$2 billion fund that is part of the Pax World Mutual Funds family based in Portsmouth, New Hampshire.

Step Five:

Identifying Human Capital Investments

Our clients generally apply more than financial resources to the organizations they support. As with financial investments, there is a range of possible investments, depending on client resources and interest. We consider these "human capital" investments as part of the philanthropic balance sheet, and they are included on the *Philanthropy Dashboard* as a way for clients to measure their own effectiveness as philanthropists.



Volunteering

This can be as formal as service on the board of directors of a nonprofit or as informal as serving meals at a homeless shelter, attending an annual fundraiser or participating in a “walkathon” or road race. All the clients listed above have been offered the opportunity to serve on a local board of directors. Mrs. Strong serves on a volunteer committee at the Metropolitan Museum of Art, and Mr. Strong serves on the board of the private school that their sons attended in New York City. They have limited their volunteer activities because they have

nonprofit board service at schools attended by family members and other organizations. They enjoy the camaraderie of board service and encourage their adult children to volunteer as well.

Short of board service, lending one’s name, resources and energy to an organization or a cause can leverage additional support. All the clients described above have circles of influence. Their willingness to leverage their human capital is an important aspect of their investment “portfolio.” Whether it is Ms. Freihold’s participation in a walk to end

childhood hunger or the Strongs’ purchase of a table at the annual dinner dance, these clients see that they can involve their friends, spread the word, and improve the prospects of the organizations and causes that are meaningful to them.

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Social Venture Partners (SVPs)

This model combines investment, pooled

been busy with other pursuits and because they prefer a more private approach to philanthropy. They also live in New York City, where the competition for such roles is significant. Ms. Freihold has served on the boards of local organizations but finds that the structure of board service and the need to attend meetings regularly do not mesh with her lifestyle. She is interested in volunteering in other ways. The Fortunas are all involved in one form or another with

investment and volunteering in one activity. Created in Seattle in the late 1990s, SVP brings organizations and individuals together to improve nonprofit effectiveness, borrowing from the venture capital principles of the engaged investment of money, resources and business expertise. Now an international organization with a goal of having 100 SVPs by 2020, this model offers an opportunity for clients to



collaborate with other donor investors to fund nonprofits and volunteer in leadership roles in a way that ideally creates measurable results. Ms. Freihold is involved in the SVP chapter in San Francisco, where she lives.

Shareholder Activism

Another activity that clients may want to engage in as part of their overall philanthropic investment is the voting of shareholder resolutions for or against various initiatives. In the past, brokers frequently voted shares in favor of management, if voted at all. Recently, individual investors have begun to take a role. For example, for the 2011 proxy season, Domini Investments, a leader in shareholder activism in the United States, filed 12 shareholder proposals. Although the experts disagree on the impact that shareholder resolutions have on corporate governance and behavior, at the very least these resolutions serve to draw the public's and the investment community's attention to these issues and the issuer's response (or lack thereof). Noting this as a potential activity to track under the category of human capital appeals to Ms. Freihold, who has a sense of urgency and does not want to leave one "stone unturned" in her quest to improve the world during her lifetime.

Lifestyle Choices

Clients can add to their philanthropic impact by making certain choices in their personal lives. While these may not "move the needle" beyond their own family, they can improve client outlook or "investor sentiment." Ms. Freihold has chosen a vegetarian lifestyle and drives a hybrid car. This contributes to her sense of well-being. She feels that she is doing her part to reduce her carbon footprint. Similarly, Mr. and Mrs. Fortuna have decided to downsize, selling the large house that they lived in while they raised their children.

Another activity that clients may want to engage in as part of their overall philanthropic investment is the voting of shareholder resolutions for or against various initiatives.

Like Ms. Freihold, the Fortunas want to reduce their carbon footprint. While their choices may not change the world, they derive satisfaction from knowing that they are making a contribution by means of the choices that they make in the areas of diet, housing and use of volunteer hours. The Strongs are very health-conscious and have made the decision to eat only organic meat and vegetables. They have an income that allows them to pay the premium for such



items, and they feel that they will help sustain organic farmers and allow them to ultimately devise more cost effective ways to deliver their products.

Family Legacy

The phrase “think globally, act locally” resonates with our clients. The Fortunas and the Strongs care deeply about conveying to the next generation their sense of commitment to community. When a family asks “how they are doing” this includes their questions about long-term investments in the human capital of family. This can also extend to friends. When we talk with clients about their desire to “have an impact,” this is necessarily part of the discussion.

Step Six:

Measuring Outcomes

Our goals are to help clients understand the scope of their activity and to track and measure their progress against goals. There are a number of ways to look at this. At the most basic level, clients want to know that their investments are being put to good use. The level of reporting back to the donor depends on the size and complexity of the gift. When working with clients who make significant gifts, we like to see some kind of progress report from the grantee coming back to the donor. The definition of “significant” depends, of course, on the donor and the organization. A client who makes a larger or more complex gift,

whether it is a capital commitment, a challenge grant, or a planned or multi-year gift, for example, would expect to have a relationship with the grantee to understand the progress of the project. Clients also want to understand their impact on a sector or community. This goes beyond progress reports and requires careful analysis.

We also like to take a moment to talk with clients about how their investments look overall. This conversation sometimes takes place at quarterly client meetings or during calls where we can discuss all the client’s investments. Are they taking advantage of the various strategies available to them? Have they engaged the next generation in a way that is consistent with their values? Have they prepared for family transitions? As noted above, the exercise involves both quantitative and qualitative analyses. The *Philanthropy Dashboard* is a tool only, but it is well-known that the way to get a job done is to have the right tool for the work involved. The *Philanthropy Dashboard* allows clients to look at their philanthropic investments in a larger framework and allows them to see all of their activities in one place; whether they are charitable giving, board service or personal volunteer activities. It provides a consolidated report for clients who have numerous bottom lines – a common theme in the area of philanthropic investment. In short, it allows us to help clients answer the questions, “How am I doing?” and “What am I doing?” – critical questions for donors in today’s complicated world.



About the Authors

Nancy B. Gardiner

Partner, Director of Philanthropy
and Family Office Services

Nancy Gardiner works with families on governance, succession and all facets of family office creation, operation and management. She also advises individuals and families on all aspects of charitable giving, including the creation of charitable vehicles such as private foundations, research, succession planning, and structuring of individual and family gifts. Nancy also counsels development offices on issues relating to major gifts.

Marcia M. Governale

Associate

Marcia M. Governale works with the Hemenway & Barnes Business Law Group representing businesses at all phases of development in equity and debt financing transactions, mergers and acquisitions, technology licensing arrangements, commercial lending transactions, corporate restructurings and governance, and general commercial transactions. Marcia also works with the firm's Nonprofit Group on a variety of matters, including formation of tax-exempt organizations, regulatory compliance and contract negotiation.

	PROGRAM AREAS			
	<u>Health</u>	<u>Education</u>	<u>Arts & Culture</u>	<u>Total</u>
1. INVESTMENT OBJECTIVES				
<i>e.g., Investment horizon, geographical focus, anticipated size and scope of investment</i>				
2. PHILANTHROPIC INVESTMENT FUNDS				
Private Foundation				
Donor-Advised Fund				
Personal Giving				
Other				
TOTAL				
3. SIZE OF INVESTMENTS				
\$0-\$9,999				
\$10K-\$49,999				
\$50K-\$99,999				
\$100K-\$499,999				
\$500K-\$1M				
Over \$1M				
TOTAL				
4. INVESTMENT OPTIONS				
Direct Gift				
Capital Gift				
Pooled Investments				
Endowment				
Planned Gift				
Venture				
5. GEOGRAPHY				
New York				
New England				
United States				
International				
TOTAL				
%				
6. HUMAN CAPITAL				
Board Service				
Site Visits				
Special Events				
Other				

	PROGRAM AREAS			
	<u>Health</u>	<u>Education</u>	<u>Arts & Culture</u>	<u>Total</u>
7. CUMULATIVE				
2009				
2010				
2011				
TOTAL				
%				
8. RELATED INVESTMENTS				
<i>e.g., SRI & impact investing</i>				
9. PRIVATE GENEROSITY				
<i>e.g., support for individuals in need</i>				
10. IMPACT				
<i>e.g., programs or organizations helped, capital projects, individual lives impacted, legislative/policy changes</i>				

We are pleased to be helping you as you chart your philanthropic course, and we look forward to working with you. As a start, we have found that it is helpful to gather information about your goals, desired process and interests. This form has been prepared to aid you in organizing that information. Of course, we understand that the words and numbers in a questionnaire do not always capture the passion or interest in a particular cause or project. This form is useful as a tool but is not the only resource in planning philanthropic activities. If insufficient space is provided for any information, please include it on a separate sheet.

FAMILY INFORMATION

Will you be making philanthropic decisions alone or with a spouse/partner? Will your children be involved? Will other friends or family be part of your efforts? Sometimes philanthropic strategies such as planned giving involve splitting gifts between charitable interests and family members. For all of these reasons, we ask for some information about you and your family.

	You	Your Spouse or Other
Full Name		
Other Names Used		
Date of Birth		
Citizenship		
Send Mail to:	Home [] Business []	
Home Address		
Street		
City, State, Zip Code		
Home Phone		
Facsimile No.		
E-mail address		
Occupation/Business		
Business Address		
Street		
City, State, Zip Code		
Business Phone		
Business Fax		
E-mail address		

Children		
Name	Date of Birth	Address (if not living with you)
Others, Family or Friends Who Will be Involved in Your Philanthropy		
Name	Relationship	Address
PREVIOUS GIVING (if applicable): Please describe generally your giving to date, including giving vehicle or fund, average size of grants, and funding program.		
CURRENT ACTIVITIES: Please describe your current volunteer activities, including board service, if any, and other regular or intermittent volunteer efforts.		

GOALS AND OUTLOOK

1. How would you describe your investment horizon?

Short-Term []

Moderate []

Aggressive []

2. Do you plan to undertake your philanthropic giving alone or in collaboration with family or others?

3. Are there issues that inspire you or keep you awake at night?

4. Do you want to focus your giving on a particular program area or areas? Are you interested in supporting specific institutions? Are there areas or issues you would like to avoid? Please elaborate.

5. Will your giving have a geographic focus?

6. What is your preferred method of funding? Please check all that apply and use space to the right to elaborate.

- Support for program _____
- Support for buildings and projects _____
- Operating support _____
- Support for policy _____

7. When you think about impact, are you interested in activities that go beyond philanthropy and might include the following? Please check all that apply and use space to the right to elaborate.

- Private investment _____
- Additional volunteer activities _____

FINANCIAL INFORMATION

1. Please describe the financial commitment that you would like to make to philanthropy and please indicate whether you anticipate that this commitment will change over time.

Depending on the size of your commitment, we may want to discuss vehicles such as a private foundation, donor advised funds or planned giving.

2. Do you have assets, a home, retirement accounts or tangible property that you might want to consider as part of your philanthropic giving? If so, please describe them.

3. Do you have access to other charitable funds that may impact your total giving?

Corporate matching funds _____

Family foundation or other funds _____

Signature: _____

Date: _____



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