# How to add brains to generosity



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Four years ago, when Pfizer bought Roger Newton's company Esperion Therapeutics for $1.3bn, the pharmacologist and co-discoverer of the cholesterol-lowering drug Lipitor was deciding how to use his share of the windfall. "My wife and I had always been philanthropic, but we'd never had the ability to do so many things," Newton says.

His private wealth adviser introduced him to Foundation Source, the Connecticut-based philanthropic advisory firm. With its help, Newton created the Esperance Family Foundation, using 25 per cent of gross proceeds from the company's sale.

Newton, who lives in Ann Arbor, Michigan, credits Foundation Source with providing the knowledge and administrative ease he needed to run a family foundation. "It was the link between Lehman Brothers and Foundation Source that allowed us to make astute investments," he says. "I learnt I could work with a central organisation that would do all the accounting and reporting, cut all the checks, collaborate with my bankers and introduce me to a network of foundations with mutual interests."

Everyone from Aristotle to Andrew Carnegie has bemoaned the challenge of giving away money wisely, and the recent proliferation of specialised non-profit organisations both nationally and abroad presents untold complexity for the more than 75,000 private foundations in the US. With $455bn total assets under management and annual giving of $25.2bn, results-oriented foundations are turning increasingly to philanthropic advisers to help define and implement their charitable goals. Many donors say these advisers allow them to indulge in the joy of giving without getting mired in the minutiae of administration.

Hundreds of philanthropic advisory firms have emerged in the US, and they differ widely in philosophy, capacity and approach. Some pride themselves on custom service for a few ultra-high-net-worth clients. These firms may help foundation members articulate a mission and direct the foundation to a select list of charities based on its strategy. They may direct leadership or financial seminars for family members, and often function as a foundation's staff, running meetings, assessing grant proposals and playing an ongoing managerial role.

Other philanthropic advisers specialise in research; a foundation with established foci may come to this type of firm to request a white paper on non-profits in its desired space.

Still others, such as Foundation Source, use a scalable, internet-based platform that allows all clients access to a database of non-profit organisations and the ability to seek guidance from a subject expert. Through Foundation Source's front-end technology, clients see that their back-end needs, such as fiduciary and reporting requirements, are being met.

Methods aside, most philanthropic advisers tout their ability to connect foundations with similar concerns, enabling donors to join forces to potentially greater effect.

"We help our clients think about what they really want to accomplish," says Doug Mellinger, vice-chairman and co-founder of Foundation Source. "When they first get started, a lot of people don't know what's possible; they think it's just about giving money, and then they learn how strategic philanthropy can be."

Today's prosperous are drawn to philanthropic advisers because they are distributing more wealth during their lifetimes, as opposed to issuing a bequest at death. "People are shifting their giving forward," says Paul Schervish, director of the Center on Wealth and Philanthropy at Boston College. "More wealth holders at a younger age are asking how they can use their money for deeper purposes."

Melissa Berman, president and chief executive of Rockefeller Philanthropy Advisors in New York, goes further, saying the affluent now feel social pressure to be philanthropic, particularly after Warren Buffett's decision to donate his fortune to the Gates Foundation. "There is now a powerful expectation that families of growing and significant means should be involved," Berman says.

But because donors are often still working and may have young families, they lack the time and energy to do research and legwork themselves. When smart charity begins to feel like another full-time job, benefactors turn to philanthropic advisers.

These advisers credit their recent increase in business to a natural evolution in the field of philanthropy, a move away from reactive "chequebook giving" towards tactical plans aimed at specific outcomes. Instead of buying a table at a friend's charity event, foundations are starting to "think in terms of major projects, not just a portfolio of grants", Berman says. "They want to build and manage the entire project rather than handing it off to somebody else."

Given the tremendous wealth generated over the past two decades, as well as the record $41,000bn to $136,000bn Schervish foresees will be inherited in the next 50 years, both self-made individuals and well-heeled families' younger generations are progressively applying management principles and technological innovation to the business of philanthropy.

This new breed of philanthropist is entrepreneurial. "They think in terms of social return on investment: 'How can I make the greatest difference with the money I'm prepared to give?' They're more likely to demand results, and to use the language of business," Mellinger says.

New philanthropists are also likely to look outside their home nation. "Their businesses are often global so their giving vision extends beyond their immediate community," says Steve Beck, chief executive of Geneva Global, an advisory firm specialising in international grants. "International philanthropy is more difficult. Great giving opportunities are harder to spot and harder to qualify. So there's a greater need for expert advice."

But do not confuse these business-minded donors with the sharp-elbowed "venture philanthropists" of 10 years ago. They say they are less fervent and more realistic: they want to work with charities, not swoop in to run them. "There's no longer the assumption that just because someone is good at making money they're good at giving it away effectively," Beck says.

Contemporary altruistic "investors" are also accustomed to all kinds of consultants and, as with Newton, are often directed to philanthropic advisers by their private wealth managers. In cases where a philanthropic advisory firm does not house assets or manage money, representatives work with wealth managers and lawyers to ensure that a client's philanthropic dollars are well spent.

Moreover, the capacity of philanthropic advisers to outsource foundation management and back-office functions has reduced the cost of running a foundation, and thus reduced the barrier to entry. One used to need at least $3m to $5m in dedicated charitable funds to make the expenses of foundation management worthwhile, but now Foundation Source claims its clients can start a foundation with as little as $250,000. The firm's turnkey model has been applauded for democratising philanthropy.

Moneyed families are also hiring advisers to help combat the "shirtsleeves to shirtsleeves in three generations" phenomenon. Instead of trying to dictate from the grave, elders hope to instill social conscience and a strong work ethic in their children, and communicate the responsibilities and pitfalls of privilege.

"Wealth creators tend to be benevolent dictators, and inheritors have only seen that style of management. We teach them a different process," says Doug Freeman, chairman and managing partner of IFF Advisors in California. IFF even retains a clinical psychologist to mediate more profound family disputes.

Parents are using philanthropy to teach their children the decision-making and analytical skills that will help preserve fortunes long term. Children learn early how to investigate and justify investments and how to debate and build consensus with peers. A child may be included in family meetings at six, then made a foundation officer with limited giving potential by the age of 10. By his late teens, he may have much larger grant-making capacity and take a significant role in steering the foundation.

Newton's children participate in Esperance Family Foundation meetings and can make their own donations. They have spent time in China working with the children their family supports. "We're not hiding anything," Newton says. "They know they have a very positive impact on the lives of well over 100 kids. Instead of building a 20,000sq ft house and buying a Maserati, instead of being indulgent and narcissistic, we saw it as an extension of what we had been doing before. You can only get so much from material things, and we've learnt that the gift of time, love and philanthropy is far more meaningful."

Some warn that competent private wealth advisers should assist clients in identifying their desired legacies; philanthropy, they say, need not become the domain of yet more "experts" who charge additional fees. But when it comes to establishing a game plan for how to give and to whom, the well-off are turning more and more to philanthropic advisers for their deep knowledge of social injustices and their access to the most effective non-profit organisations.

Many believe philanthropic advisers are at the heart of a virtuous cycle in philanthropy. "People now have the wealth, the will, the knowledge, the organisational strategy and the technical abilities not only to attend to needs but to solve big issues," Schervish says. "These forces have come together for the first time in history, and foundations are making a huge difference."