

Going Beyond the Private Foundation: An Exploration of Vehicles

A Fundamentals of Family Philanthropy webinar recorded on March 11, 2021.



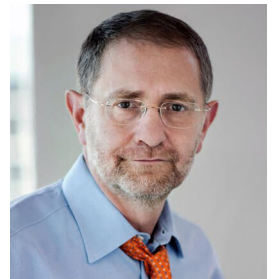
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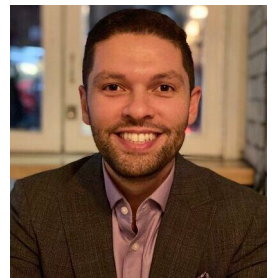
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Fund

Going Beyond the Family Foundation: An Exploration of Vehicles

Transcript of the Fundamentals of Family Philanthropy webinar, Going Beyond the Family Foundation: An Exploration of Vehicles. Recorded on March 11, 2021.

Nick Tedesco:

Welcome, everyone. My name is Nick Tedesco, and I'm the President and CEO of the National Center for Family Philanthropy. Thank you for joining us today for our monthly Fundamentals of Family Philanthropy webinar. The series provides guidance on the core tenets of effective family philanthropy from motivations and values to governance, grantmaking and succession. This series is also designed to equip giving families with the latest information on evergreen topics in the donor lifecycle through practical takeaways and diverse family stories that illustrate the important practices.

The practice of family philanthropy is evolving and so too are the structures that social impact practitioners employ to accomplish their objectives. Today's conversation will delve into the range of structures that advance the objectives of philanthropic families. We'll explore the decision-making factors that influence vehicle choice and examine how complementary vehicles may promote success.

In today's webinar, we'll explore three critical questions. The first, what vehicles can families leverage for impact. The second, how do different decision factors influence vehicle choice. And the third, why focus on giving vehicles and structure. We'll also explore some questions for families to discuss with their advisors and hear perspectives from our esteemed panelists.

Before we begin, let me briefly share about our webinar technology. We want this webinar to be interactive, so please submit questions for the panelists. To ask a question, please use the question box on the current slide. When sending in a question, if you wish to remain anonymous, please indicate that. As a reminder, this webinar is being recorded and a replay will be made available to all attendees. If you experience any technical issues, please reconnect to the technology or email jen.crino@ncfp.org. And as always, you're welcome to chat with us on Twitter about today's webinar using the hashtag #ncfpweb.

Now let me briefly introduce our panelists before turning it over to our moderator. Today we're joined by three esteemed panelists: Will Fitzpatrick, the Principal at Will Fitzpatrick PC; Mark Newhouse, the Co-Founder of the Left Behind Workers Fund and the General Partner of the Innosphere Fund; Eric Stephenson, Director of Operations at Align Impact and Co-Chair of the Cordes Foundation. We're also joined by our moderator, Sharon Schneider, who's the Founder and Principal of Integrated Capital Strategies, which specializes in setting up and working with hybrid impact organizations that use a range of tools to accomplish their social mission through grants and investments to advocacy and operating businesses. We're so thrilled to have all of you join us today, and Sharon, I'll turn it over to you.

Sharon Schneider:

Well, thanks everybody for joining us today to talk about this much more exciting topic than one might imagine, which is going beyond the private foundation; an exploration of vehicles. And as Nick mentioned, really the kind of cutting edge and the new evolution of philanthropy has really, really

pushed the boundaries. So, we're excited to share with you some of what folks are doing and how you might think about what your own family or what your own situation might call for or how you might think about multiple vehicles.

So, to start with, just a moment as you're probably most familiar with, traditionally philanthropy, and particularly family philanthropy, was really about grants. It was about giving grants. And there were two main vehicles to do that through, one being the private foundation, a freestanding 501(c)(3) private foundation that had its own tax return, its own accounting, its own compliance, possibly its own staff and governance. And a donor-advised fund, which was essentially a charitable checking account sponsored by a 501(c)(3) public charity where you could have advisory privileges over the funds, use slightly better tax treatment of assets donated into a donor-advised fund, but in return gave up a little bit more control. So, for a long time, the conversation was private foundation or donor-advised fund. And there's lots of articles about the differences between those, and we can share some of those in the resources section based on cost and flexibility and control.

But what's happened in the last 10 years is that more and more folks are saying, well, grants are one tool, but I'm going to add these other tools to my toolbox as well. Maybe I want to be making investments that might also advance my social goals. Maybe I want to start, run, support social enterprise, whether that is an operating business or a nonprofit, but an operating entity. It could be that they want to add advocacy and lobbying as they realize the impact of policy on the issues that they care about.

As a result of kind of adding all of these tools, we've had an explosion of different vehicles through which those tools are executed. So today, it's not uncommon for the clients that I work with to have a whole range of different entities that they use for slightly different parts of their overall impact organization. Maybe a family office that provides critical support. Maybe a public charity they set up. Multiple LLCs doing different things or serving slightly different roles in terms of public versus private, plus that original donor-advised fund and private foundation. So, it's much more of a kind of ecosystem and a group of organizations. And we'll hear more about one of the best known examples of that, the Omidyar Network, from Will Fitzpatrick, one of our panelists a little bit later.

So I always think that one of the first questions that often gets skipped over when we think about vehicles and what we're trying to set up for our impact work and our philanthropy is exactly what assets the founder or the family is trying to activate. So again, 10 or 20 years ago, there was really only your giving budget. So if you had a private foundation, that giving budget was the 5% distribution requirement. Or maybe if you were working from personal assets, it was sort of a set percentage that you wanted to give each year, a set amount.

But what's happened over time is that people started activating more assets. So, the first bucket that got tapped into was the assets that are already set aside for a charitable purpose. For example, the endowment of the private foundation, which is that 95% that's just sitting there, and we started to say, what about that? Could I put that to use toward my goals? And same with the assets inside of a donor-advised fund. So, you may not be granting it away, but while it's there, could it be also activated through impact investing?

But the next bucket then came to be, well, this isn't set aside to give away or set in a charitable entity. Maybe it's my personal portfolio and it's my nest egg or it's my children's inheritance. But I'd still like these assets to be used or invested in a way that is aligned with my values. And so this is another bucket

in terms of may have different goals, may have a different return profile, those kinds of things could be quite different, but you still want them to be sort of part of your impact world.

And then finally, people may have other assets that's sort of strictly business. And frankly, one of the interesting things happening is not everybody has this other bucket. So, if you're seeking for 100% alignment, you may not have this. But lots of folks still do have kind of other assets that they say, eh, that's a traditional asset or business or portfolio or whatever.

So what led to my own work in this space was when I went to work with the Walton Family a number of years ago, and it was a big trend at the time of people were having LLCs. And we understood why you would want to have an LLC and use an LLC for your impact organization. There was privacy, there was control. But we sort of said, well wait a minute; but how are you actually structuring that? What is underneath the LLC, because I know you still have a foundation and maybe you have the staff over here. So what are you actually working with? And we went and did research with 20 different families or founding kind of couples and looked into what entity types they had, why they had chosen them. But then what turned out to be sort of more important or sort of more interesting and revealing was how they linked those entities into operating models.

And so one of the things that we used to kind of represent the different organizations, because it turned out 20 families, 20 totally different organizations. There was no sort of, oh, you can do it like A or you can do it like B. So we thought, all right, let's represent them in terms of not just the organizations they have, but the questions were really, where does the leadership sit, like the strategy sit? Where did the staff, the people sit? Where did the assets sit? Where does the decision-making go? How do you arrange the entities to work together?

We found that people could have the exact same entity types, but it could be arranged very differently for different outcomes. For example, one person might have a family office that holds the leadership, the people and does direct investing, and then uses further the donor-advised fund and the private foundation as sort of checkbooks. Money would flow or they would choose where to make a given distribution out of which entity at a transaction by transaction level. But those same entities could look really different. So, you might have a family office that's doing its own thing and maybe has an impact investing element within it. And then a private foundation that has its own staff, its own strategy. The funds within it are—there's an endowment there of significance that's intended to last. And then the donor-advised fund may be run very separately, perhaps for the sort of more private or personal giving of the family members or for next generation use or for some other use. So, same entities; very different structures between them.

And so instead of kind of trying to tell people, well, you can do A or B, we said, well, what are the things you should consider as you put together your own impact organization? And so we extracted out of that 20 and those conversations and interviews decision factors. These nine decision factors are really the things that you should be thinking about heading into the conversation with your advisors.

So number one, choice of impact tools. Do you want to use grants? Do you want to use investments? Do you want to use advocacy? What is it that you actually would like to be activating? Number two, your philosophy for achieving your goals. We'll dig into that a little bit more in a second. Prioritization of tax considerations. And folks, I have to tell you, this was one of the most important things we found was actually that tax considerations, if you don't look at the others, the advice you're going to get from your advisors is largely tax based. They're going to assume that your number one priority is tax avoidance or

tax management. And so what we thought was really important about this was that that's just one of the nine. So how much are you determined to pay the least amount of taxes possible versus some of these other issues?

This fourth one, desired level of control versus community. By control we mean both legal control, so an LLC that's private or family office obviously has the maximum amount of control. There's no disclosure requirements. You don't have to add anybody to your decision making. It's fully legally within your control. Private foundations still a high level of control, but legally the assets are not yours anymore. They are set aside for charitable purpose; not for your own use. A donor-advised fund, again, less control. Now you are just advising. You don't even have final authority over decisions. And so these different elements of how much do I really want to make sure that I have the final say.

But one of the other elements in terms of control versus what we're labeling community is this idea of traditionally, philanthropy was very sort of hierarchical and even patriarchal and the idea of we the people who have the wealth and who have amassed the wealth are the sole decision makers about what is best for our community. And increasingly, founders and families have at least some interest in saying, well, what can I learn from other people? Do I want to make decisions sort of with outside voices, whether that looks like a donor-advised fund that might have a giving circle, be part of a giving circle or an impact investing circle? Or bringing community members in to make—to be on a committee or to even be on the board as a supporting organization would have outside non-family members controlling the board. And so that interest in maintaining control for we the family or the founder versus kind of integrating the voices of the community and the beneficiaries turns out to be—lead you in different ways.

Number five, public identity. This could also be called privacy. What we found is that some people really went to the side of wanting to be anonymous and really low key and weren't interested in anybody knowing or giving any credit. And other people felt that they could harness their public image as an asset in the furtherance of their goals. So, getting a grant from the Schneider Foundation, maybe that means something. That's a badge of approval or inspires other people to give. So, it was really a range of how do you feel about privacy issues.

Appetite for entity building, number six there, is again some folks want to keep a really small internal team. I know multiple families that say, I never want more than 10 people on my impact work. And they're giving away or they're working with billions of dollars in assets. And wanting to keep that really small team is going to have consequences for what you build in-house versus maybe what you borrow or what you outsource and you partner with other organizations.

Leveraging top talent, number seven. So, this often had to do with not wanting to be bound by nonprofit compensation structures. As you know, compensation within a nonprofit, especially a private foundation, in an arm's length kind of way must be what is considered reasonable based on like job description, like qualifications, like experience. And so that means you're comparing to other more traditional foundations. And if you're trying to do this much broader approach, you might be trying to bring in skill sets like investment background or business background that you want to compensate that top talent at a different comparison point than traditional non-profit compensation. And so what you're trying to do in terms of talent, where you house them and what you pay them is an important consideration.

Finally—two more. Concerns about conflicts of interest. What we found is that when you get into using multiple tools, grants and investments in particular, there can pretty quickly arise situations where your grants and your investments are maybe a little close for comfort. So, you give a grant to the school district to improve their technology, and at the same time you're invested in an EdTech company. And the concern is, well, can they buy from my EdTech company even if I don't put any pressure? The answer is usually not a legal question because it's not that hard really to deal with the legal conflicts of interest. You can kind of structure it in ways that make sure that you're not violating any actual legal. But that doesn't mean that an enterprising reporter couldn't come along and write a story and say, "Look it; she's making grants that benefit her own investments," or the other way around. So, the question is, how confident or comfortable does that founder and family feel with what we might call headline risk, that the appearance of a conflict?

And then finally, anticipation of evolution. So again, a lot of times it's an initial founder or founding couple that is setting up the organization, but their involvement and that of their family is likely to change over time. So, it may just be their thing on Day 1, but maybe they'd like their children and grandchildren and great grandchildren to get involved someday. Or maybe they're currently working on another business or some other enterprise and they're a little hands off, but some day they'd like to really jump in. Or frankly the opposite, which is I want to do this now as sort of the founder being the CEO, and then eventually they need to move into more of a board role because it's too much. They have too much going on to just take that day to day.

So, all of these different decision factors. To go back to that second one about the philosophy, we really saw this as one of the key important factors, so wanted to call it out. The difference is the separate approach on the left is where each tool or each vehicle, as it may be, has its own separate strategy. Maybe you have an entity that does your grantmaking. It has its own strategy, its own topic area. It could even be maybe your grants are all in education. And then over on the investment side, a strategy which is entirely different, run out of a different vehicle by different people, and maybe that's all on climate change. And so there are some people that saw those as, nope, those are different areas. We should keep them separate. And then there were other people that said, you know, I really want all the tools working on this one issue. If my issue is climate change, then sometimes the right tool is a grant and sometimes it's an investment and sometimes it's going to be lobbying or advocacy, and sometimes it's operations and operating entities. But those are all should be working toward the same strategy, and I really want all of those tools in my toolbox. And so we call that an integrated approach, which is the name of my consulting, Integrated Capital Strategies.

And so how that can again translate into the vehicles is that when you have a separate approach on the left, maybe you have a private foundation that's freestanding, has its own staff, leadership and assets and a family office, own staff, leadership and assets, and the two may not even coordinate. In an integrated approach, you're more likely to have sort of a senior entity that holds the leadership, the strategy, the governance, and then the individual tools underneath may be more of a checkbook. And again, the decision of which one to use is more of a practical analysis of different individual elements of that deal.

And then just to drill in a bit on the anticipated change in building for evolution. As I mentioned, it may be a change in the founder or family engagement over time. It could also be adding new focus areas. We find people often start in one place and either add or change over time. That may be generational or not. You may add new impact tools. So maybe started with just grants, but get to a point where, oh, we'd like to explore direct deals and impact investing that could complement our grantmaking, or I want

to add advocacy. Often advocacy is sort of a later addition. And just changes in the family's engagement over time.

So the way you use these decision factors, along with your advisors to come up with vehicles, is you go through each decision factors. How do we feel about that? Are we high privacy or sort of high public, harnessing our public image? So developing the preferences and then prioritizing them. So as I said, very often your advisors are assuming that tax avoidance or tax considerations are at the very top of your list. And if privacy is more important or control is more important or flexibility is more important, then that's something that is really important for them to know so they can give you the best advice.

And I'll give you one example. One of the families that I worked with had a cash liquidity event, and their advisor said, "Oh, great. I know you want to do philanthropy. We're going to set up a private foundation for you." And they put a couple hundred million dollars into that private foundation. And then when I was talking with them about nine months later, it turned out that privacy was a very high priority for them. And I said to them, "Now, you do know that your private foundation has a 990-PF that's a publicly available document and is in fact searchable. They can search for your name. They can search for a grantee. They can see all the grants you've made. They can see how much you donated. Like all of those elements, what you're paying staff." And they were horrified to realize that because no one had really talked to them about it. We ended up unwinding that foundation and putting the assets into various other vehicles because privacy was their number one concern.

So, quickly want to share a couple of, again, how this translates into having different vehicles arranged in different ways when you have different priorities. So, our Example A here, these folks wanted to use grants as well as investments. They had a separate philosophy. So, the investments were focused on, say, climate change and the grants let's say were early childhood education. They wanted high level of control as well as tax considerations. And so they kept the people and the ideas up in the family office and allocated the amount of time that those family—or that those staff members spent, they could allocate that down to the private foundation. So, if you're a staff person and you spend 80% of your time on the philanthropy, then they would allocate 80% and plus expenses down into that private foundation. So that was important to them.

But they wanted the privacy that a DAF provided as well. So, some work, whether it was just their personal work or their private work, they might do out of the donor-advised fund. They wanted flexibility with the staff roles, which again is why a staff person worked in the family office. So, if you're in the private foundation, you are limited. You can only be working on charitable entities. And when you're trying to leverage a lean staff, then you tend to want to have them do multiple things for you. So, by keeping them in the family office, you can still allocate some of their time to the private foundation, but they could work on other things. They could do investments. They could do personal giving. They could do lots of other things.

The next model here, Example B, is someone who wanted to do grants, investments and advocacy. In this case, they wanted an integrated approach across those multiple entities. So they were actually doing the investments either out of the LLC, depending on the specifics of it, or the investments could be done out of the private foundation if it was aligned. And so they had, again, a decision tree. I've actually worked with families that we develop a decision tree about which vehicle. When you have an integrated approach, which vehicle do you end up doing it out of. And so they also added a 501(c)(4) that was working on the same issues, but had its own staff particularly because the advocacy arena has its own expertise as well.

And then finally, Archetype C, which used a foundation, a DAF and an LLC, but they were all very separate. And in fact, they even had a venture fund of their own. So, they were the only GP. No other LPs in the venture fund. But it was working on a sort of impact issue that they cared about, call it like oceans. Donor-advised fund was again separate, very separate for their personal work, and then the LLC and the private foundation working together on investments or kind of allocation of distributions. And so this allowed them to keep a lot of kind of separation, a lot of privacy.

But then number eight there, concerns about conflicts of interest. When we interviewed this staff, I believe this is one that told us that they were the investment team and the grantmaking team were in the same building. But when they ran into each other in the elevator lobby, they weren't allowed to talk. So they were very serious about not even the appearance that their venture capital fund was benefitting from their grantmaking activity.

So a couple of questions to discuss with your advisors as you think about vehicles and you think about how you might want to evolve or adapt over time. So which assets do you want to activate for impact? Is it that first giving bucket? Is it the entire charitable assets? Is it personal assets as well? Whether your preferences for each of these decision factors and then how would you rank them against each other. And then the question is which entities and operating models best support your preferences. And what we found is if you can take that second question and give the answers to your advisors, that's when they can come back and give you the best entities and operating models for you.

And then how do you want to measure impact? Is a good cause good enough? So, for some of these folks, again on the investment side in particular, the question of measuring impact is a little light. It's more like, oh, it's EdTech. It's climate related. It's a good cause. And what support do you need to do all of those things?

So in the realm of support, at this point I am super happy to introduce the panelists for a conversation here. So if you all want to come off of—or turn on your cameras and join us. Great. Well, welcome. Rather than me share your bios, I actually would love to have each of you sort of introduce yourself in terms of what is your current status. Would you call yourself a philanthropist, an impact investor, an advisor, a do-gooder as I think Eric likes that term? No, he asked me what do I mean by that. Explain to us kind of what you do and what your current vehicles are that you're doing your impact work out of. So, we'll just go in the order that you're listed here. So, Will, if you could kick us off. Oh, you're on mute.

Will Fitzpatrick:

You would think after a solid year of doing this that I would know that. Hi, everybody. I'm Will Fitzpatrick. And it's morning here. I'm in San Francisco. It's great to be with you. And I would say I put myself solidly in the category of advisor. It says attorney. I like to think more than just attorney, but advisor.

And in this context, it is because I spent about 14 years working with Pam and Pierre Omidyar from the beginning of their philanthropic journey. Basically, when Pam and Pierre had spent a couple of years having had their advisors tell them, oh, now that you say you want to be a philanthropist and you're a billionaire, of course you have to have a private foundation. And so it happened almost without them thinking about it. And then after a couple of years of working with it, they became incredibly frustrated

because of their own experience about why investing could be a really powerful engine for social change and having great impact, which I hear you talk about.

But for myself, it evolved for me so that after about 14 years with them, I've been spending a big -- and that was probably helping spin out, gosh, maybe 14 or 15 different philanthropies, which we can talk about the combinations of non-profits and for-profits, LLCs and 501(c)(4)s and (c)(3)s. I was spending a lot of time advising other families. And Pierre, actually, one of his last investments while I was there was thinking about going into journalism in a big way. Tried to buy the Washington Post. Ended up being beat out by Jeff Bezos and starting a journalism organization called First Look Media. And as a part of that process, he had me spin myself out into my own law firm, which ended up meaning that I was -- as opposed to informally talking with other families and friends of Omidyar Network, I was more formally engaging with them, which is where I am now. So I'll stop there for the moment.

Sharon Schneider:

Great. Mark.

Mark Newhouse:

Hi. I'm Mark Newhouse. Good to be here. So, I would describe myself I guess in this context as a philanthropist because I'm focused on outcomes of my dollars as far as impact goes. And I think what has sort of defined my trajectories over the last seven years has been that focus on sort of working to develop new models to not only deploy my money, but also to unleash other folks' dollars to realize the outcomes that I'm focused on.

So that's taken me in three different directions. The first was to set up a group to do impact investing from donor-advised funds. So I syndicated the first deal of that group. So using my capital, but also others'. And from that particular example then launched effectively an angel group of DAF investors who are investing out of their donor-advised funds.

Second then, I happened upon a new model for both doing philanthropy and impact investing, a private pay for success model that was pioneered by Lindsay Beck of NPX. And I managed to invest in their first transaction using that new model. And that send me on another journey to work with Lindsay and NPX to bring that model to Colorado in the form of a fund. And that was an example where I deployed a substantial amount of my capital in support of that launch. Because to get that moving, it was so innovative and so different, it felt like not only did I need to contribute my time, but also my dollars. So I was significant contributor to that fund launch. And so that was sort of my focus then in impact investing.

Then over the last year in more traditional philanthropy, I've been focused on what is a developing model in that space, which is direct cash as a model of philanthropy. In that case, that is the aforementioned Left Behind Workers Fund. And there, my big investment has been my time. And actually there, my target and ambitions were so large that my dollars were not significant. I have not used my dollars in that case, but my time. And that's taken me not only into creating a large fund using this new model, but also exploring other direct cash philanthropy here in Colorado.

And then finally, it's gotten into another leg, which Sharon mentioned, which is advocacy. And so coming out of the Left Behind Workers Fund, there's a specific advocacy focus. We are getting ready to

introduce a bill that will address some of the issues we were trying to address with direct cash. So that's been my kind of trajectory, this mix of my own time and where necessary my own money, but all focused on achieving specific outcomes.

Sharon Schneider:

Thank you. Eric.

Eric Stephenson:

Hey, thanks for having me. All right. Philanthropist, impact investor, do-gooder and/or advisor. So all of the above, some better than others. I'd say at Align we have attained that's really strong backgrounds in understanding complex estates, trusts, foundations, DAFs, LLCs. And the intersection of impact and philanthropic strategy implementation with tax and insurance considerations. And I see one of my colleagues, Ishita, on the call. I'm blessed to be able to lean on her for philanthropic guidance as we structure vehicles for clients. I work on the client service side as well as operations.

And then with my Cordes Foundation hat on, that's our family's foundation founded by my wife's parents, Ron and Marty Cordes, after the sale of a financial services firm back in 2006. And my wife and I co-chair that today, which I think we'll jump into a bit later. Thanks for having me.

Sharon Schneider:

Yes. Thank you all. And I'd love to get you each to come in a little bit more on the structures that you have in place. So, Will, maybe you could use Omidyar in the sense that they've been pretty public about how the money flows and how that structure works. And kind of talk us through the evolution, as you alluded to, from a single Omidyar—I think your phrase was from on to off. No, from off to on. From off to on.

Will Fitzpatrick:

Right, which was the Omidyar Family Foundation to Omidyar Network. And you might notice actually in the Omidyar Network, the board foundation does not appear. Even though there was a foundation as part of the network, it was actually called—is called Omidyar Network Fund, Inc., because Pierre and Pam really didn't want that foundation word in it. And it actually goes a little bit to your point about community versus control. And this is structural, but philosophical, which was that they were very strongly feeling like they were aware of what they called the top-down approach. And they used to call it the subcontractor approach, treating your grantees as subcontractors to fulfill your vision of how the world should change. And that was very much antithetical to their model, which was network and the idea of how do we create a smarter network.

And so from a structuring standpoint, Omidyar Network is just a brand name. It is actually, well, two big entities and then sub-entities. It's an LLC and a private foundation. And each of them are separately funded by Pierre's and Pam's trust at the top. So, there's a trust at the top. And then all of the staff and all the expenses are borne by the for-profit, which this is now think back 15, 16 years ago, there are other things one could have done. But again, to the great concern about not conflicts, happy to deal with actual conflicts, but worrying about the appearance of impropriety and the appearance of conflicts, chose to just not—the 990 has no expenses on it and there are no salaries. From the perspective of the

IRS really having a struggle approving the idea of us having a foundation that was going to have this kind of connection to an LLC. There was a lot of questions. It took probably a year and a half for them to approve it. It was a very valuable thing to come out that clean and pure about it.

So there is one board because the LLC does not actually have to have a board, but they take the same approach, which is the same governance across the whole thing. The formal governance obviously has to be with the private foundation, but they emulate exactly the same. So there's one board, there is one staff and there's one strategy with the idea that we're going to identify problems first and then tools and solutions second. But I also was loving your decision factor slide and was going to have a little quibble, kind of an enormous tiny quibble which is that your number one factor, which is choice of impact tools, I would put last. And in fact, I would not even say it's a decision factor. I would say it's the output of all the other eight things. Then you final pick the tools once you've got all the other things. So yeah, I'll just stop there for the moment for structure.

Sharon Schneider:

And I'll just tag on that. I remembered telling one of the families that I was working with that the Omidyar Network paid all the expenses out of the LLC using non-tax advantaged dollars, and they were just so floored. Because for them, using tax advantaged, they were pushing everything they possibly could into that foundation, and in fact having a foundation because a donor-advised fund cannot pay those kinds of expenses. And so that was just such a great early model I think for the field of, hey, by the way, you don't have to be ruled by tax-driven considerations.

Will Fitzpatrick:

Yes. And I guess I would go three thoughts that come to mind about that, because it's such a big topic. The original thinking and reasoning for that is that we knew we were going to be doing just as much investing as grantmaking, and so to the extent that we're going to have expertise internally, we wanted to be able to apply it across both. And so absolutely, our investors, our grantmakers to be able to look at investments and vice versa. So that was really big.

The second factor, which has just become so huge as I think about this more as an advisor to hybrid social entrepreneurs is just where does the intellectual property sit. And the question about if you're really going to try to be creative about where things go in the future. I think of nonprofits as a little bit of a black hole, especially private foundations but also public charities, which is that IP can go in very easily. It can't go out very easily. So that ends up having such a big impact across all of these philanthropic efforts, I find.

And then the third piece I would say is that all the intentions were absolutely pure and have remained pure. The truth is that from a tax planning perspective, if you take the long view and you have a trust at the top, I think they're getting all the tax advantages that they would anyway. It's just that the private foundation is not enjoying all the savings it could. But from a macro ecosystem perspective, it comes out the same.

Sharon Schneider:

Yes. Thank you. Mark, I would love for you to sort of talk us through. You have a number of donor-advised funds. And as we talked about, it's sort of one of them is a little bit more of a holding container

for assets that you wanted to donate, wanted to have in a charitable vehicle, but are not really doing a lot right now. And then as you do each of these projects you mentioned, they are a new donor-advised fund in each case, I believe. And could you talk us through a little bit about that, and particularly about why does the impact investing group that you have been a part of use a donor-advised fund to hold each new investment rather than, let's say, a special purpose vehicle or an LLC.

Mark Newhouse:

Yes. So what we have found is that as we make investments from folks' donor-advised funds so the reality is the first recognition that there's a lot of dollars in donor-advised funds that individuals have that are not activated. And so the first recognition was that could we create opportunities for impactful investments that they would make judgments themselves as essentially acting like angels. And what was the ready category of dollars that would enable them to make those judgments and feel comfortable about focusing on impact and outcomes rather than on financial return. And the recognition was that pool of ready funds already there were donor-advised funds. So that's the source. We recognized that was a very untapped or underutilized source of capital.

Then the second question is, well then how do we make an impact investment in that way? We know that angel groups set up LLCs to make an investment in a for-profit company each time. What we found was that it was simpler once dollars were in DAFs, though this isn't perhaps—wasn't typically done, i.e., most DAF providers wouldn't support this kind of structure, that it was very—there was really very efficient would be to simply put these dollars into a common DAF for each transaction. So, when we make a, for example, a loan to a nonprofit, we create a special purpose DAF and put the money into that special purpose DAF. And then that special purpose DAF is the single investor or loaner or in the third party. And then that third party, when it pays back, that DAF can then flow back to the DAFs that the individuals who contributed. So that works, and it's most about finding a willing organization who can operate that higher level of complexity efficiently.

Sharon Schneider:

And you had also told me that it helped align everybody's incentives as well. Can you speak to that?

Mark Newhouse:

Right. Yes. I'd been part of impact investment groups in the past, and it was hard to get people to agree on impact, but then easy to get people to agree on what they thought would make money. And so what happened was we kind of dissolved to, well, let's pick the ones that make money and it's sort of icing on the cake with the impact. By starting with donor-advised funds, the maximum return that an individual's going to get has already happened. And so they're more free to think about impact rather than return. And that has yielded to a much more healthy and impact-focused angel group than the previous version.

Sharon Schneider:

Yes. As a formal social entrepreneur who had both impact investors and conventional investors, I thought that was such an interesting kind of alignment and such a really useful framework. Thank you.

Eric, tell us about the Cordes Foundation and the supporting organization structure.

Eric Stephenson:

Yes. Yes, for sure. Ron Cordes sold AssetMark in 2006, which created the foundation and other certain charitable trusts. Later, a donor-advised fund and an LLC were also both created, all working towards the same mission, which were economic opportunities for women with a specific focus on two sectors, and that was financial services, his background, and ethical fashion, which was the background of his daughter, my wife. He had sold it back in 2006. Then he bought it back in 2013 with two PE firms. Sold it again in 2016, and then IPOed in 2019. Today, it has about \$75 billion of AUM. And I'd say along the way in each one of those steps, we've leaned on sound legal advice. And it was really a close family friend of Ron's who he's worked with since the 1980s. Almost like our own Will Fitzpatrick, somebody you could lean on for good advice and just providing guidance on what the appropriate structuring was.

So, it was bittersweet. Last year he retired, which is great. He built a great business and now he's he's doing what he loves. And now we kind of lean on RPK. You might know Chinton Panchal, who's also become a really close friend, was at our wedding, for sound advice. So I think moral of the story, if there are five love languages, I might add one other, and that's sound legal advice. So, yes. No, it's just been a great journey.

Sharon Schneider:

Could you explain what a supporting organization is and why was that the original vehicle?

Eric Stephenson:

Sure. Yes. At the time of the sale, Ron was still involved with AssetMark pretty heavily. Like most sales, you stay on for a certain amount of time to ensure a solid transition. So, with that said, there was a time limitation. So, a lot of folks might go to a DAF rather than a foundation because they just say, hey, I'm not sure I can take on all the things that are required here.

Now, a good thing about a foundation and foundation to a DAF is you could always say if you're too busy, you can roll it into a DAF, but you can't go the other way. So there were certain things about a foundation that we wanted like certain structuring, decision making, a board. We didn't want to be anonymous, nor have our grantee partners or impact investments anonymous. So a supporting foundation was a good hybrid where you could still have your board. You had an administrator on the back end who could handle a lot of those 990 submissions, accounting, all that good stuff. If you were sending out grants, they could do that for you. While at the same time, you also aren't bound to the same 5% payout that a private foundation has. So, if you are super busy, that's a nice hybrid structure. So that's why we ended up choosing it.

Sharon Schneider:

And it came with some slight differences in governance. So, a supporting organization has to have board members that are independent, representative of the supporting organization. How did that part sort of play into your thinking and how has that worked out?

Eric Stephenson:

Yes. Great question. So, at the time, again, going back to close friends and building cool businesses. At the time, Ron had helped create a new nonprofit structure called ImpactAssets, which was a donor-advised fund that really prided itself on doing impact investing. So today, we are a supporting organization of ImpactAssets. And their kind of senior executives and folks on their team make up the majority of the board. You can also elect certain independent advisors. They have to be approved by the supporting org. And then the rest of the board, including myself and my wife, Ron and Marty, are made up of family members.

Sharon Schneider:

And you mentioned that it started with a supporting org and then later added an LLC. Could you talk about what triggered that and what the separate use of that LLC has been?

Eric Stephenson:

Yes. It was really around going towards a desire—not desire of control, but depending on the investment we were making, the advice we got was if you're getting a certain percentage of equity ownership in a company, it started to make more sense to do that via an LLC structure rather than a DAF or supporting org structure. So the LLC tended to make larger equity investments that were just getting up above the 15, I'd say 15% to 20%-plus of equity ownership, we wanted to do that at that vehicle because of that legal advice.

Sharon Schneider:

And you were running into, Will, what's that called, that—when you own too much of the business? Excess business holdings?

Will Fitzpatrick:

20%.

Sharon Schneider:

20% excess business holdings. The other reason I'm seeing --

Eric Stephenson:

Yes, I would defer to Will on that question.

Sharon Schneider:

The other reason actually related to that that I've seen for using an LLC when you get into more direct deals and for-profits is if you want to have a board seat. So, I know that ImpactAssets for example says, well, if you're investing out of your donor-advised fund at ImpactAssets, then you cannot have a board seat. And when you have a significant enough stake and you want to have a board seat, then doing it out of an LLC can allow you that flexibility. So again, there's that control question as well.

Eric Stephenson:

I was just going to say, last thing I'd say there is when they created it, it was also early days of impact investing. So, the thought of using any type of corpus or endowment to do these types of investing just didn't really exist. You needed those multiple vehicles to do unique investments, which today I think are just a bit more normal.

Sharon Schneider:

That's a great point, which is that I think DAFs in particular have really evolved from 10 years ago they were very uncomfortable with doing this weird stuff and direct deals, especially in—like PRIs (program-related investments) are a foundation concept. That's not even a concept for a public charity. They kind of will adopt it and mimic it, but it's not really a relevant concept.

And what I've seen, and I'd love for Mark, maybe you can talk a little bit about the DAF sponsor that you work with, but is that over time, the donor-advised fund sponsors have not only become more comfortable with the idea of doing impact investments, direct deals out of your donor-advised fund, but in fact are making the argument that it should be encouraged because, again, if the criticism is that you could put money in a DAF and park it there and not do anything with it, then this is just activating more assets that would otherwise be not advancing a charitable purpose, but invested in the traditional market. And so there's more specialized donor-advised fund sponsors that really more and more encourage and facilitate and have expertise around these non-grant instruments. It used to be like, oh, you could do it out of your donor-advised fund. It was a grant to a 503(c)(3) public charity, and it was very limited. They have really, really innovated quite a lot.

Mark Newhouse:

Yes. We work with Impact Charitable here in Colorado. I think there is an interesting tension, though, in the DAF space, which both is helping us. Understanding is helping us, but the tension is pricing. So since one force in the DAF world is just to lower the fee basically to zero, which then discourages anything that's complicated because the fee is driven down to zero. And so therefore, that model of sort of pricing on the basis of assets managed is tested when you want to do something complicated because the pricing goes up. And so that's the path that Impact Charitable is trying to navigate, being the expert and facilitating this more complex models for DAFs. But the pressure will come from the fact that DAF asset pricing continues to go down.

Sharon Schneider:

Yes. Yes. That's a great point. And again, if you're using a kind of low-priced DAF, then you're unlikely to be able to do some of this.

Mark Newhouse:

Right.

Sharon Schneider:

Yes. Great point. And in fact that is often, by the way, one of the kind of consider the price of impact investing is the due diligence and the transaction costs are just higher than if you were purely motivated by return, and you just kind of say, yep, I'm going to suck it up. So not always, it's not a given, but especially at the direct deal level.

I'm going to switch us over to some Q&A here. We have about 15 minutes left, and I see we have a question in the box here. And as you see at the bottom of your screen, there's a little Q&A box there. So, if you'd like to ask us a question, you can pop it in there.

So, the first one here, panel, is, "I'm part of a very traditional 30-year old family foundation which functions well. We're conducting a strategic review now, and I'd love to bring some of these ideas to the table. Do you have any examples of similar organizations that have adopted some of these more creative approaches successfully and how they brought around those who were satisfied with the private foundation model? Those in the, if it's not broke, don't fix it category."

Eric Stephenson:

I might just weigh in there with my Align Impact hat on. We work with about 50 families today. And with the old family office saying, one family office, one family office. Everybody is just so different. There are some families that use that single private foundation as a way to bring the family together, do philanthropy and work towards a single mission. And that works if that mission is pretty standard across the family members.

But if you have one family member super focused on climate, or the E of ESG, and then the other one like the S, that might be a bit more difficult. So, we've seen them say like Warren Buffet did. Let's split these vehicles into a couple different vehicles for these specific family members versus that single foundation model. And you can do that easily. When I mention private foundation, the DAF, that might be an easy way to start certain slivers of maybe a family member wants to do something specific.

So, totally depends on the family. And I think bringing them together works if that's the goal of the family, and then splitting them apart could also be really effective, too.

Sharon Schneider:

And I would add to that that a lot of times families, especially in the older generation, when they say it's working well, they are measuring that in terms of the impact on the family. So, we're getting along, we're making decisions, we feel good about the work. It's working well for us. And one of the sort of levers that I've seen often next generation members kind of push is what I might call then the external mission. So how it works for your family is your internal mission. Then they start to say, yes, this is great for us, our family. This is a great way for us to come together and share our values. But how is the impact we're having in the world? And if we want to be having greater impact in the world, could some of these tools help us to advance that goal out in the world? So, I think it actually, in my experience, it comes down to challenging when you say it's working, what do you mean by that? That's one thought.

Will, did you have something to add on that one?

Will Fitzpatrick:

I was just thinking about how generational, I just watch it being so generationally focused, especially around this impact investing idea. Which by the way, I really am beginning to hate the phrase because -- I think just what does it mean exactly? But the idea that you can invest and have social impact I think is so intuitively obvious to the digital millennials, the same folks who also it's obvious that one does not need to have paper. And just from the warhead there with the giving pledge, it really did the grandparent, the parent and the kid generation in terms of if it ain't broke, why fix it, to the parent generation of, oh, wow, exactly the example you gave, which was I could see an ed investment, but all we do is foundation work around education. I don't think we can. And then the third generation which is why would I do anything else with my money?

Sharon Schneider:

Our next Q&A asks, "Does the panel have any examples of rural examples that utilize the approaches they've discussed?"

Mark Newhouse:

The Colorado Donor Impact Fund made an investment in a LaMedichi, which is a rural-based savings program, primarily serving immigrants. And so this is based in Western Colorado, and there are a lot of folks there who provide work to support the tourism industry out there. And this program is to help —is basically to create a savings club using a tech platform and help them develop saving habits over time.

Eric Stephenson:

And I'd add in, I think I walk away from every panel with Will saying, "oh, that's a really cool saying, how you talked about the subcontractor model." I think all the vehicles we're talking about today can be used in a strategy that is targeting advancements within rural communities in the US. CDFIs I think are—they've been on the ground for a long time. We tend to see folks, if they're doing a CDFI investment through a foundation, you could write that as a PRI. The rural community assistance— I'm sorry, what was it? It's RCAC, Rural Community Assistance Corporation, is a great CDFI. And as we look at CDFIs, there's a lot of them doing housing. But if you're looking for unique CDFIs, we've really targeted some type of co-op ownership structures, supporting that, and doing business in rural communities. So RCAC is just a good example of one of those.

Sharon Schneider:

Yes. And the foundation I was working with last year, we did out of the foundation—so again, you can use tools in lots of these. And foundations can do impact investments and foundations can do recoverable loans and grants and equity and all these things. The private foundation made an investment out of its endowment into the Colorado—oh, I just lost the name of it, but it's a \$19 million sort of venture capital-like fund focused on rural businesses in Colorado. So they got half the money from the state. They got the other half from private investors, including a couple of foundations, including ours. And so that's expecting a traditional VC return profile, and it's part of our overall investment portfolio.

But we loved it because it was so specifically looking at rural businesses, and because they then used not only traditional kind of venture capital terms for their deals, but also explored revenue-based financing or sort of loans as opposed to purely venture capital, which is not right for every rural business because

they're trying to create rural jobs in a remote part of Colorado. Not likely to be the next Amazon. So, you don't want to treat it with the financing tool that's looking for the next Amazon. So, we loved that particular one.

Okay, let's see Q&A. "Are you seeing increasing interest from clients in recoverable grants?" I will quickly, and then maybe, Will, you can mention this. But I would say not as much, because in order to be a recoverable grant, which is a tool of a private foundation, it has zero interest and zero collateral. And so actually what we're seeing more and more is people want to move toward things that are more like a traditional—a program-related investment has all of the trappings of a traditional loan or investment. And so I'm actually seeing less recoverable loans, which is more favorable and I think should be a tool in the toolbox for the recipient. But I actually see people moving with more interest toward more traditional investment instruments. What's your experience, Will?

Will Fitzpatrick:

Yes, I would agree with that. For me, the recoverable—and I'm sorry; actually I was thinking about recoverable grants. Oh yeah, recoverable grant is a little bit of a stepping stone tool for folks to get into the deeper commitment of actually making something like a PRI. It's a way of continuing to use the standard tool, but recognizing there are market forces at work here. And so, to me it's a little bit of a compromise, but great. And I've definitely worked with them. It's just that you are basically, you're kind of using a traditional tool to accomplish a new purpose, and so it's good to look around and recognize that you can do it a little bit more recognized the market. It's like you're doing a weird sort of backhanded subsidy or something. It's like just know what you're doing there, and you can do it other ways. But it's partly when you're stuck with the grant tool and you want to do something else, but you haven't developed your systems. It's a great way to participate before you got the systems there.

And then I'll say from the opposite standpoint was we're talking about these things, just that Omidyar Network, as much as it was great for us to come up with this hybrid model so we could do all this stuff, the truth is I realized after a couple of years of watching folks who only had a foundation and were really being creative of pushing the bounds of PRIs and expenditure responsibility grants and all these other things, that we would just be like, oh, that's complicated. Let's just use the LLC. We were actually being really uncreative about we were so traditional, we just looked at our private foundation. And it took us five or six or seven years of doing this before we really started doing it to the point that at one point I think around 2008 when we're all having a financial crisis, I asked the question like, could we actually have done all this through a foundation? And the answer is no. A lot you could, but a big piece that is missing is coming at it looking like a commercial entity with heart. And people need to be receiving money not from a foundation to raise other money.

Sharon Schneider:

Yes, market signals. I'll just add one more interesting thing I have seen on recoverable grants lately. Another framework for those who might not be familiar, a recoverable grant, you could also call it a forgivable loan. And one of the things I have seen people doing that I thought was pretty interesting lately is they're issuing like a 7-year loan. Repayments wouldn't kick in until Year 3 or Year 4, but starting in Year 2, you can earn forgiveness by reaching impact milestones. So it's sort of again, it's a much simpler tool. And it motivates and aligns motivations almost like a pay for success, but it kind of uses that traditional structure to again ease you into that idea.

Mark Newhouse:

And the low-cost DAF providers, as you come to them and ask about an impact investment, you should just ask for a recoverable grant. And they'll say yes to the second and no to the first.

Will Fitzpatrick:

Mark is a storehouse of how to work the DAF situation. There's a whole second thing. I have so many questions, like who are the actual innovators would be a whole topic you could tell us.

Sharon Schneider:

Nicole asked, "On your chart showing an integrated approach, you show the foundation and DAF under the LLC. Is there a legal relationship between these different vehicles, or are you more just showing the fund flows and strategy?" Thank you for that clarification. It is the latter. So a private foundation legally has its own governance, its own separate entity and a donor-advised fund as well. It's under the supporting or the sponsoring organization. So that is more about showing fund flows and strategy. Great.

Nick Tedesco:

Well, this was extraordinary. I hope that we can continue this conversation, absolute lightning in a bottle. So, thank you all so much for this, Sharon, Eric, Mark, Will. I really cannot thank you enough.