FOUNDATIONS AS INVESTORS?

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PERSONAL BACKGROUND

• Ed Kacic, President, Irvine Health Foundation (1989)
• Education
  • Undergrad, CSUN
  • MBA, University of California, Irvine
  • Chartered Alternative Investment Analyst
• Foundation Executive since 1981
WHAT IS A FOUNDATION?

• "The Ford Foundation is a large body of money completely surrounded by people who want some.”
  --- Dwight Macdonald
WHAT IS A FOUNDATION?

- Foundations are creatures of Internal Revenue Code
- Types and sub-types 501(c)3, Sec. 170b…
  - Public and private foundations
    - Operating foundations
  - Specific requirements re payout, investing, self dealing
- Today, I’ll focus on types like IHF
WHAT DO FOUNDATIONS DO?

• Allocate capital
  • Usually from an endowment
  • Goals vary – but in general: social and community betterment
**HOW DO FOUNDATIONS DO THEIR JOB?**

- Historically, through grants to CBOs (Responsive, RFPs, Initiatives, etc.) – diverse “portfolio” of grants
  - Still done today
  - Can be difficult to measure ROI
- More recently – the above + other means
  - JVs, Strategic Partnerships, etc.
- Future? The above + investing: change on the horizon?
  - Traditional methods = lots of “frictional” cost
  - So…new approaches?
• Foundations tend to have endowments
• Endowments are invested—typically a diverse portfolio
  • Asset allocation, etc.
  • Equity, fixed Income (1960’s — today)
    • subsets: e.g., Growth/Value, Corporate/Gov’t., etc.
• Then, the rise of “Alternative Investments”
  • The search for enhanced return/risk mitigation
“ALTERNATIVE INVESTMENTS”

- Generally, not “plain vanilla” stocks/bonds
  - Hedge Funds – many types (L/S, Merger Arb, Converts, etc.)
  - Real Assets – (Real Estate, Energy, Commodities, etc.)
  - Private Equity – (Venture Capital, Buyouts, etc.)
Several categories of Foundation investments:

- PRI – Program Related Investment
  - Part of tax code – certain rules relaxed
  - Notably, 20% ownership rule
• MRI – Mission-Related Investment
• Trending over last several years
• Align investments with Foundation mission
FOUNDATIONS TODAY

- POI – “Plain Old Investing”
  - “Standard” investment operation – generally outsourced
  - Most/all of the endowment at most foundations
FOUNDATIONS AS VC

- Experience with Allocating Capital
  - Upside/downside
- Accustomed to looking at new ideas/new approaches
- Mission driven
- Interests can be aligned with entrepreneur(s)
SHOULD I/WE...?

- Foundations are not alike
- Not all are good targets
- Not easy to get into/approach
- Not all are interested in your industry/business
- Not all are ready to be investors
- Most have long lead times
- However...
FOUNDATIONS WHO INVEST...

- Are “sticky” to some extent
- Have networks/connections to others
- Are good partners
- Are mission driven to succeed
- Provide a “halo” effect
- Will tell their friends/colleagues about good experiences
SO...SHOULD I?

• It depends…
• If so:
  • Do your homework
  • Find best way to approach (hint: usually personal connection)
  • Be patient
FINALLY…

• Good luck on your endeavors!
QUESTIONS?