

# 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 AS INVESTORS

- 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.)



# FOUNDATIONS TODAY

- Several categories of Foundation investments:
  - PRI – Program Related Investment
    - Part of tax code – certain rules relaxed
    - Notably, 20% ownership rule

# FOUNDATIONS TODAY

- 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?