

Philanthropy Letter



FONDATION
DE LUXEMBOURG

“With great wealth comes great responsibility”

Bill Gates 2006

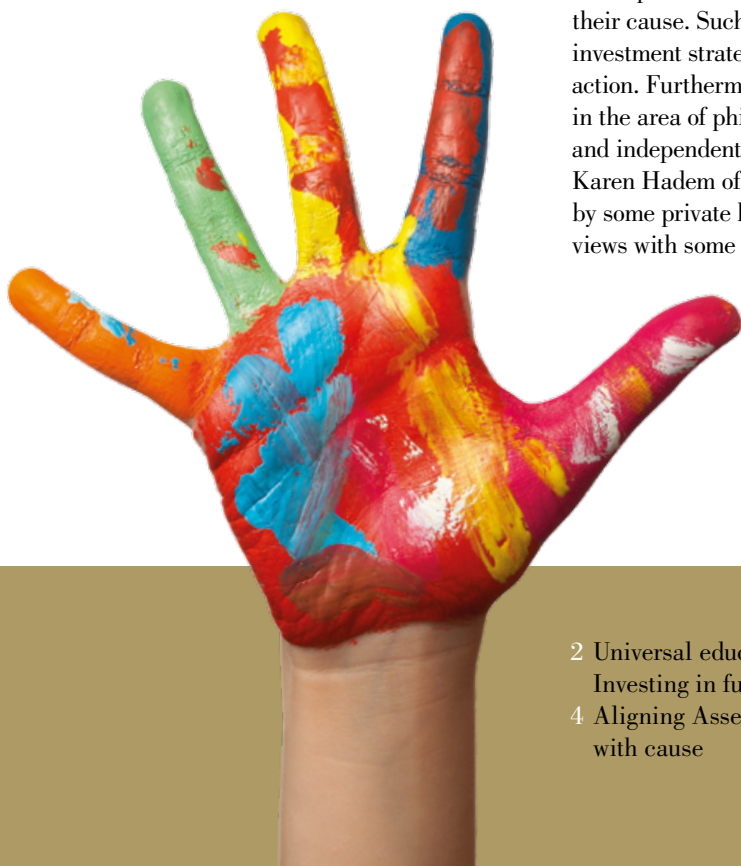
Philanthropists need to make informed and responsible choices not only when choosing which projects to invest in, but also when investing the endowment of their foundations. Therefore this second edition of the Philanthropy Letter looks at both sides of a foundation’s activities: the project and the investment side.

To illustrate how philanthropic giving can have a positive long-term impact, we are presenting a few projects receiving support through the foundations under our aegis in the field of education. The founders behind these projects often regard their support for youth projects, especially in the field of education, not so much as a charitable act benefitting a vulnerable child, but as an investment in the future. They believe that these children are the potential leaders of tomorrow and equipping them with knowledge empowers them to positively contribute to their communities and the well being of many.

While foundations are usually judged on the impact of their programs and projects, the Fondation de Luxembourg has from the start also focused on providing sound advice to philanthropists when it comes to their investment choices. This conviction that the investment strategy needs to be compatible with the foundation’s objectives is embodied in the socially responsible investment policy of Fondation de Luxembourg. Andreas Kraemer, Director of the Ecologic Institute and member of the Bellagio Forum for Sustainable Development, highlights in one of the articles the importance of aligning the asset management strategy of foundations with their cause. Such a holistic approach in combining programme objectives and the investment strategy can greatly maximise the overall impact of the philanthropic action. Furthermore, taking informed decisions is never an easy matter, especially in the area of philanthropy. This is why there is a recognized need for professional and independent philanthropy advisory services, as shown in the contribution of Karen Hadem of McKinsey. This view is confirmed by the concrete actions taken by some private banks active in Luxembourg. Find out more about this in the interviews with some representatives of the private banking sector.

We wish you a pleasant reading.

Tonika Hirdman
Director General



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Universal education: Investing in future generations

“Today’s children are tomorrow’s decision makers.” This truism expresses in the simplest way, what the struggle to render education accessible to every child in the world is all about. Many philanthropists who recognised that education is a key factor not only of social but also of economic development, become involved in funding youth projects in developing and developed countries that target education. Among the foundations under the aegis of the Fondation de Luxembourg, eight foundations have set as one of their objectives the improvement of the quality and access to education. The people behind these foundations often don’t consider their engagement as a donation, but an investment in the future. The return on their philanthropic investment is the emergence of a new generation of educated young people that can have a positive social impact on entire societies.

Motivated by the firm belief that education is essential for the development of a child, an adult and even a country, the founders of the Education and Integration for All Foundation (EIFA), the very first sheltered foundation to be created under the aegis of the Fondation de Luxembourg in 2009, approached us with a project to support a network of schools set up by volunteers in Namibia to take care of children orphaned or vulnerable because their parents developed AIDS. In cooperation with VSO, an international UK based organisation, the EIFA Foundation is building and strengthening the capacity of the Mehozetu Network members in three key areas: psychosocial support; educational assistance; food security and nutrition. With the help of the foundation, the schools are being properly

equipped and the caregivers trained to look after all the children’s needs. The schools’ infrastructure needs are also addressed. Where needed, the schools receive new buildings and a connection to clean running water. An important aspect is also the creation of vegetable gardens ensuring food security and allowing for some income generating by the network members.

The desire to help the poorest and most vulnerable people in developing countries, especially children, is the driving motivation behind several other sheltered foundations. The Fondation Linckels-Voss has chosen to support the Luxembourg based NGO SOS Villages d’Enfants Monde with a project in Sinje, Liberia. While this organisation is best known for operating orphanages all over the world, this particular project aims to improve the overall situation of vulnerable children by strengthening their families. Based on the belief that the best place for children to grow up is amidst a caring family, the programme’s overall aim is to prevent the abandonment of children and enable families to properly care for children despite the difficult situation they live in. The foundation thus funds local centres that work directly with the communities to ensure that the basic needs of children are met and that the parents receive assistance to develop income-generating activities. While mobilizing community support the programme also works with local authorities to make sure they fulfil their socio-economic role and ensure the rights of children and their families.

A similar project in the region of Khozrm in Uzbekistan is supported by the Stiftung Pflanzen für Menschen.



Beneficiaries of the SOS Villages d’Enfants Monde project in Uzbekistan

The particularity of this project is the combination of three approaches to improve the living conditions of children who have lost their parents or whose families are in danger of breaking apart. Alongside the prevention work carried out through the family strengthening program, children, who no longer could be cared for by their parents, are placed with foster families that also receive support through this programme. For children without parents or family, several apartment buildings in the city of Urgench will be renovated and transformed into children’s homes. For all the beneficiaries of the programme, access to high quality education is a priority. The programme aims to improve the quality of teaching in the region by providing teacher’s training

and proper equipment including new computers for the schools.

Scholarships are another way through which philanthropy can provide unique opportunities for personal development to young people, who otherwise would not have been able to receive a quality education. Starting this year, nine young people having grown up in the Ijamido Children's Home in Lagos, Nigeria, will be receiving scholarships allowing them to go to University or complete professional education. This support from the Micah 6:8 Foundation will allow these young people to become respected and industrious members of society, able to take care of themselves and to contribute to the improvement of the socio-economic situation in their communities.

The founders of the Maor Ben Zion Foundation chose to concentrate on the

improvement and development of education methodologies in a developed country. Their aim is to maximize the educational experience of children from lower socio-economic backgrounds in Petach-Tikva, Israel, by developing and applying a new teaching methodology at the kindergarten level developed by the psychologist Dr. Rami Katz. Based on the neuro-developmental-functional approach, the project concentrates on adapting the routine working of kindergartens to the individual needs of children. Schoolteachers are trained to better understand the neurological developmental needs of children and to adapt their teaching tools and methods to the individual needs of each child. In this way each child is provided with the experiences and stimuli that are most important for the advancement of its own functional capacities. The project aims to provide a unique

experience during the school day, without having to alter the curriculum of the kindergarten. By attending to the individual needs of the students in a classical environment the children don't get the feeling of being exceptional which in turn, avoids the creation of stigmas that may lead to behavioural issues as a result.

All these examples of important youth and educational projects in different parts of the world have one aspect in common; they are projects that look to the future. While the immediate impact of the projects may be the improvement of the momentary living conditions of an abandoned child or the construction of a new school building, the long-term effects are practically immeasurable. The potential unlocked in these young minds is endless.



Children in Malawi benefitting from a Kindernothilfe project

Aligning Asset Management with cause



R. Andreas Kraemer

Director & CEO, Ecologic Institute, Berlin, Brussels, and Washington DC
Member of the Board, Bellagio Forum for Sustainable Development
Co-Chair of the Investment Advisory Committee, OekoWorld Lux SA
Co-Chair, Scientific Advisory Board, Oekom Research AG, Germany

Fukushima has reminded us to properly consider humanity and its role among the laws and the forces of nature, to accept with humility that we humans are fallible, and that nowhere on this planet is far enough away not to be affected in one form or another. Just as the unfolding global food crisis or the emerging scarcities of economically important resources, from oil to rare earth elements, dawns on us through price spikes, and the changing climate alters the environmental condition in which we live, we recall the lesson from the 1970s: There are limits to growth as we usually define it, and we need to think long-term about risks and unintended consequences.

Foundations, individual philanthropists, and asset managers battle with these issues not in the abstract but concretely when they weigh causes and strategies, establish priorities and management principles or guidelines, or decide where to place their money when making a grant or an investment. Whether large or small, working for the “betterment of mankind” or supporting a specific cause dear to one’s heart, the challenge is to align the principles that guide asset management with cause or mission.

Two separate worlds exist in many foundations: One side manages assets and invests, seeking the best return

possible within the limits that may exist but often without due regards to the overall mission of the foundation. The other, the grant-making or program side, allocates the funds available including the profit earned from investment to the cause or purpose of the foundation, often without understanding either the economics behind the endowment and the asset management strategy.

The two sides are rarely equal. In terms of age, status, authority, and decision-making power, the side that “brings in the money” often has much more clout than the “spending folk” operating programs and managing grants. Career patterns in the philanthropic world reflect that divide. A strong philanthropic leader can cut across the divide, especially the original founder with his or her dedication and business acumen, or a direct descendant. In the absence of such a leader, I suggest endowed foundations that have not done so, together with their external asset managers, establish routines to bring the sides together and address two questions:

- How can we ensure and monitor that asset management and investments directly contribute to the cause, or at least “do no harm”?
- How can we ensure our grants get best value for money or “environ-

mental, ethical and social return on investment”, judged against our mission?

The questions are not new; the key, however, is to have the discussion involving all sides, and to ensure they are in equilibrium or harmony with one-another. A useful starting point is the Bellagio Forum’s “Bellagio Primer for Responsible Investment Management of Endowment” (Bellagio PRIME), which is scheduled to be updated and re-published in 2011.

One immediate benefit will be a significantly reduced reputational risk to a prominent donor or foundation, which can no longer be accused of destroying with investments what it seeks to protect with grants. The risk of a personality enjoying media attention being drawn into scandal maybe obvious, but in this age of improving financial transparency and WikiLeaks, the consistency of asset management with cause or mission becomes ever more important even for those operating outside of the limelight.

In more than 15 years of work with OekoWorld Lux SA, I have learned the value of talking across divides to get different perspectives, and to use a combination of approaches: Hard negative or “exclusion” criteria are useful not only for screening out undesirable

issuers of shares and bonds, but also in structuring the debate around emerging issues that test the limits of taboos. Hard negative criteria are good for external communication. Clear lists of additional undesirable but also a positive list of desirable characteristics that can be weighed against one another are essential not only for decision-making but also for reporting.

There are services that automatically screen the investment universe against any chosen set of criteria. While this is useful as a start, it does not in my view do justice to the complexity, and sometimes agony, of decision-making. In reaching decisions, we should be the makers of our rules, and not their slaves. Where we deviate from agreed rules, the reasons for doing so should be documented. Any deviation should give us cause to rethink the suitability of the underlying rule, and as the “social animals” we are, any rethink should be done jointly with colleagues on the asset management and grant-making sides.

Once a good level of engagement and reciprocal respect has been established, a promising but challenging strategy might be developed on how to further the cause not only with grants but also social investments in projects. These would be investments made by the grant-making or program side drawing on the expertise of the asset management side.

Today, most philanthropic grants are made to be “lost”, that is the grant-maker does not and in most cases should not expect a financial return. However, for some causes aiming to help those in need to help themselves, where circumstances are right, an angel investor giving credit or capital in combination with friendly advice may be more conducive to long-term success than a one-off lost grant.

Some voices say that reducing the investment universe by applying (or

screening with) non-financial criteria will perforce harm the financial performance of investments and in that way reduce the ability of foundations to achieve their objectives. Those arguing this point of view evidently lose sight of the harmful effects of some investments on the livelihoods of people or ecosystems and the services they provide. A rational approach to the dilemma requires at least a weighing of social and environmental costs of investments against the good done by the grants made from any profits.

More importantly, however, sustainable investment based on environmental, ethical and social criteria – such as they are applied by Oekom Research – should be understood as a stock picking strategy: A method for identifying long-term winners of the necessary and inevitable transformation of our industrial societies towards a sustainable, equitable and thus more resilient and stable society.

For instance, as we exclude nuclear power from the investment universe and weigh the merits of various technologies, products and services for efficiency or renewable energy supply, we should reflect on which businesses will flourish in a low-carbon economy based on renewable energies, and invest in those. The stocks thus selected will most likely outperform their competitors over the long term.

There is growing evidence that a sustainable investment strategy anticipating the transformational changes our industrial societies must make can result in outperformance compared to other, currently mainstream investment strategies. As the evidence mounts, it may become a fiduciary duty of asset managers particularly of large endowments to consider the so-called “non-financial” criteria as proxy indicators of the long-term potential of businesses.

The same applied to countries, with

the exception of Iceland, where the financial crisis since 2008 has exposed economic and budgetary weaknesses notably in the same countries that had previously stood out for their governance challenges as well as weak policies on social issues, environmental protection and resource management, and human rights. Those who had their eyes on the right indicators fared better than others.

Ecologic Institute is a global Top 10 non-profit environmental and development policy think tank focusing on the transformation of industrial society and integrating environmental and resource concerns into all policies in view of achieving sustainable development world-wide | ecologic.eu

The Bellagio Forum for Sustainable Development (BFSD) is an association of foundations and other donor agencies advancing the cause through dialogue, trust, partnership, and action; the Bellagio Forum has a focus on Responsible Investment Management of Endowments | bellagio-forum.org

ÖkoWorld Lux SA is the independent Luxembourg investment company specialising exclusively in ecological, ethical and social investment funds. Supported by outside experts and scientists, ÖkoWorld has more than 30 years experience in ecological and social investment, and with its award-winning flagship OekoVision family of funds, it is a formative player in the German market | oekoworld.lu (in German)

Oekom Research AG, based in Munich, Germany, is the leading rating agency for sustainable investment, covering share and bond issuers (companies, countries, and international institutions) developing innovative investment strategies combining sustainability research with a high rate of return | oekom-research.com

Has your philanthropy offer evolved?

Christian Funke, Head of Private Wealth Management, Deutsche Bank Luxembourg S.A.



During recent years, the rising number of news articles concerning philanthropic ideologies have been at the forefront. Not only by the many examples of very rich donors but also by many private clients

who have been thinking more and more about giving something back to society or wishing to act as patrons to the more disadvantaged amongst us. Due to the increasing wealth in the industrial countries and the awareness that their own children are well established or that there are no direct heirs, the willingness to fund social projects has increased dramatically in the past few years. Hence succession planning and - in this context - philanthropy has been an important general topic in client meetings. The relationship manager, together with the estate planner, identifies the clients aim and the projects to be supported. Our foundations, launched in collaboration with Fondation de Luxembourg, have shown the success of this common approach. Finally it is a “win-win-win-situation” – for the client, the Fondation de Luxembourg and the banker.”

Yves Ducaté, Head of Belgian Desk ING Private Banking



Since 2009, ING Luxembourg has wished to take up an active role in the Corporate Social Responsibility. That CSR is developed around 3 main principles: People and Community, as for example

our project “ING Chance for Children” where ING supports children experiencing a difficult situation. Business, for each Visa transaction ING pays a contribution of one eurocent to the ASBL “Hëllef fir de Puppelchen” an association active in rehabilitation. Environment, ING Luxembourg reduced his carbon footprint by 13,93% in 2010. In the same way, ING Private Banking Luxembourg has increased awareness of its commercial staff to philanthropy and has organised different training and workshops on the subject. The consequences of the ING corporate engagement and the awareness to philanthropy, for the Private Banking Wealth Management were new business opportunities. The multiplication of “philanthropy solutions” for our clients has allowed us to enhance our advice in succession planning.

Jean-Claude Finck, CEO Banque et Caisse d’Epargne de l’Etat, Luxembourg



Luxembourg State and Savings Bank (BCEE) has a long tradition of dedication to social responsibility in a very broad sense. Since 1989, the important social role the bank is called to play in Luxembourg society is even expressly inscribed into BCEE’s organic

law. This pervasive and thorough involvement in social welfare as a whole has as a consequence that BCEE sees no need to establish a separate vehicle or foundation for philanthropic activities. Philanthropy is one of the manifold expressions of social responsibility, and thus BCEE offers professional advice to clients who wish to donate part of their wealth to philanthropic aims, be it during their lifetime, or after death. BCEE also supports cultural and social projects with a philanthropic background, either financially or through active participation of a large number of colleagues working at our bank who devote part of their leisure time to benevolent work with philanthropic organizations. BCEE’s active involvement in environmental and lasting development projects, as well as a series of carefully chosen investment targets packaged in assertedly ethical investment vehicles, gives a final and fulfilling touch to the bank’s philanthropic input in the broadest sense.

Espen Raakil, Head of Family Office SEB Luxembourg



Our objective is to be the preferred discussion partner when a client decides to make a donation. To achieve this, each private banker needs to have a broad knowledge of the important steps in philanthropy

structuring. Our approach to philanthropy is the same as to Private Banking: get an in depth understanding of the client’s objectives, use all available internal and external resources to design and implement optimal structures for the client’s wealth, and ensure an adapted and responsible asset management. In areas of project selection and impact assessment we prefer to partner with experts dedicated to philanthropy to ensure quality in the delivery. Solutions range from legal and administrative services provided to independent Swedish foundations, to donations made via our German philanthropic foundation “SEB La Vida”. Fondation de Luxembourg has proved to be an invaluable partner for clients where the philanthropic project is the focus, and a perfect complement to our own offering.

Wealth advisors and philanthropy



Karen Hadem

Senior Expert,
Social Innovation and Philanthropy Practice,
McKinsey & Company

In line with our mission to help leading institutions achieve substantial, lasting improvements in their performance, McKinsey & Company supports a diverse group of foundations, individual donors, and companies to solve management challenges related to social investments. In 2007 McKinsey & Company launched an internal global knowledge initiative to build knowledge around philanthropy in various geographies and identify concrete opportunities for growing and improving philanthropic marketplaces around the world. As part of the research, our interviews with more than 150 wealthy families have shown that philanthropy is recently taking on a higher profile across the globe. Bill Gates and Warren Buffett alone have dramatically boosted awareness of philanthropy globally and have motivated others to follow their lead. In the European Union more than 40% of today's foundations have been created in the last decade. Similarly, in emerging markets like Brazil, India, China or the Middle East, several new foundations with billions of dollars in assets have established themselves recently.

One additional reason for the fast growth of philanthropy in the last few decades is the unprecedented growth in private wealth, which increases the potential for philanthropy. Two factors determine how much of this potential actually translates into charitable giving – the participation rate (i.e. the share of people engaging in philanthropy) and the donation level (i.e. the amount of money each philanthropist contributes). While the par-

ticipation rate increases with income (to more than 80% for HNWI) the proportion of income donated decreases. Nevertheless, the wealthiest donors are still the most important philanthropic investors as a small number of donors generate a large proportion of the total amount donated. As illustrated by the Exhibit, the contributions of the wealthiest individuals – often the top-earning 2 to 4% of households – constitute more than 30% of philanthropic donations in most analyzed countries.

Given the importance of HNWI philanthropists, a considerable portion of our research focused on their experiences with philanthropy and on opportunities to make them invest more and more effectively. Across the different countries we interviewed more than 150 wealthy families, most of them billionaires. Initially we were surprised by the high response rate to our requests for meetings and the willingness of the very wealthy to discuss their philanthropic endeavors with us. We soon learned that philanthropy is an issue very close to the heart and high on the personal agenda for many. All our interviewees were eager to contribute to our research and to receive the results in return. As the sector is not very transparent and data about philanthropic activities is rare in most countries outside the US, there is an enormous interest in getting more information.

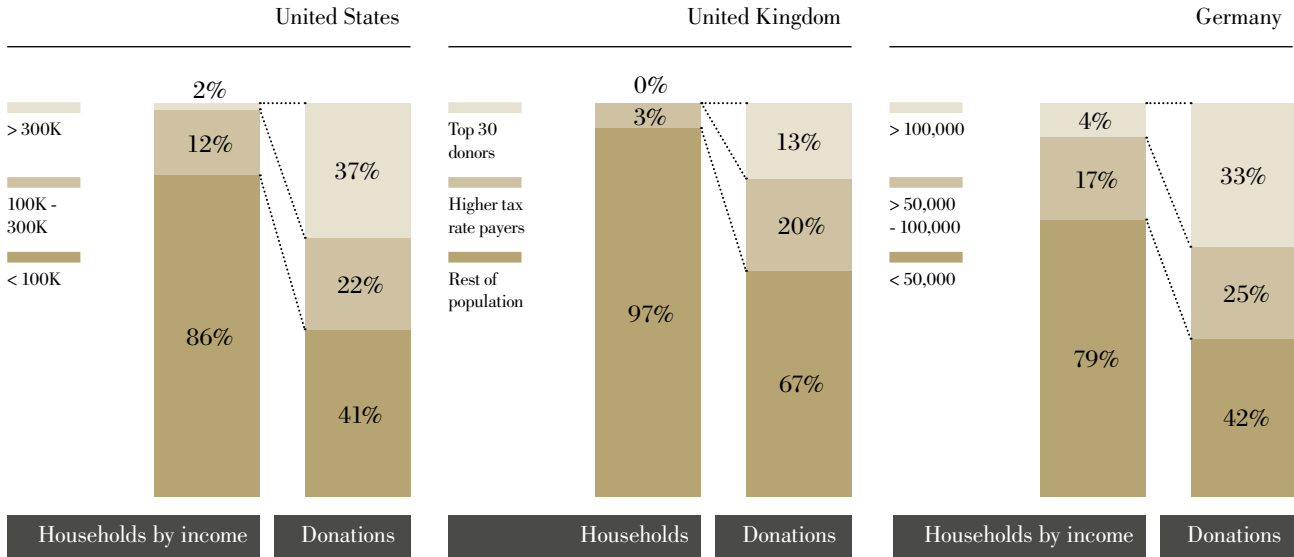
Our interviews with wealthy families indicated that there is a strong willingness to donate more, but due to a lack of time, visibility and knowledge about how to do it right a lot of this potential

does not materialize. Many of the barriers that limit more and more effective donations by HNWI can be addressed by intermediaries. Philanthropic advisors can provide information and help their clients navigate this opaque sector. They establish links between donors and recipients, providing information, advice, and vehicles that help donors make informed decisions.

According to a research study conducted during the summer of 2008 among 100 European private advisors, 60% believe that philanthropy will become a core service to wealthy clients by 2013. In fact, there is significant evidence of growing client demand for philanthropy services in Europe: 63% of respondents received more requests in 2008 than two years earlier. Naturally, this demand will be a driver of growth in philanthropy services.¹

In addition to specialized philanthropic advisors, many other professional advisors like bankers, wealth managers, lawyers or tax accountants support their clients on topics connected to philanthropy. By integrating philanthropic advice into their existing service portfolio, they become a true “one-stop shop” for investment advice. There is a strong positive correlation between levels of donations and the level of integration with the individual's overall wealth management plan. Individuals who view philanthropy as a core element of wealth management contribute more than 10% of their annual net worth to philanthropy compared to an average of 5% among their peers.² While more than 80% of HNWI

Donation distribution by income category



Affluent households account for majority of donations, 2005 - 2007⁶

are active in philanthropy, only 11% are requesting philanthropic services from their financial advisor. In Europe philanthropic services by banks are only reaching 6% of the HNWI.³

Clearly, banks and other wealth advisors can play a pivotal role in shaping their clients' philanthropic engagement. However, many banks and wealth advisors still hesitate to address the issue, as they do not have the relevant in-house expertise and are reluctant to invest in developing it. In the US, more than 90% of wealth-management advisors raise the subject of philanthropy with their clients, whereas only 15%⁴ of Irish advisors

and 18%⁵ of British advisors do the same. In our global survey, half of the financial advisors had never discussed philanthropy with their clients. The results from our interviews with wealthy families mirror this picture. Two third of the HNWI are disappointed by the philanthropic advice from their bank. In their view, the wealth advisors do not sufficiently engage on this topic and the few who do did not show real experience in the philanthropic sector.

On the other hand, several positive examples show that this need not be the case. Banks with well-established philanthropic advisory services were recommended by several HNWI as

best-practice examples. Similarly, among the wealth advisors we talked to, the ones who systematically include philanthropy in the topics they discuss with clients reported how much this helped strengthen the client relationship resulting in increased client trust and loyalty. Some banks are using philanthropy as a door opener to broaden their exposure to other family members and to engage with the next generation of clients. There is a huge chance for wealth advisors to include philanthropy in their toolbox. It will certainly improve their client relationship, maybe even provide additional business opportunities while contributing to making this world a better place.

¹ STEP Journal, February 2009, "The role of advisors in philanthropy", Eichenberg, Specking

² Study "Philanthropy amongst UHNWI and family offices in Europe", New Philanthropy Capital, WISE Partnership, Bertelsmann Stiftung, Scorpio Partnership, 2007

³ Financial Advisor Survey, Merrill Lynch/Cap Gemini, 2007

⁴ The Community Foundation for Ireland, 2008

⁵ Finance and Philanthropy Survey, 2007

⁶ Source: Boston College Center on Wealth & Philanthropy, HMRC, U.K. Charity trends 2004/05/06/07, U.K. giving 2005/06/07, Statistisches Bundesamt Germany