

Executive research study

Philanthropy amongst ultra high net worth individuals and family offices in Europe:

The United Kingdom, Switzerland and Germany



| Bertelsmann Stiftung



June 2007

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Assignment introduction

Scorpio Partnership was engaged by **New Philanthropy Capital** (United Kingdom), **WiSE** (Switzerland) and the **Bertelsmann Stiftung** (Germany) to examine the views of wealthy donors and family offices in the United Kingdom, Switzerland and Germany.

The assignment was conducted to explore three key dynamics of the giving experience. Firstly, donors' perceptions of the giving experience and in particular, to identify the challenges faced in giving. Also, to understand how the experience can change over time and how it can be improved. Secondly, to gain real insights into current practices, attitudes and thinking, and to assess the knowledge base and needs of wealthy donors. Finally, to evaluate and determine donors information and service requirements in order to assist them in their decision making process and ongoing commitments to giving.

The research was conducted through face-to-face interviews with 34 individuals and family offices with a net worth in excess of USD100 million (or equivalent) between March and May 2007 in each jurisdiction. Scorpio Partnership considers this a unique insight into the landscape of European philanthropy. However, the limited sample size does not make the assignment statistically valid.

Each of the sponsors is the leading philanthropic charitable organisation in their respective jurisdictions.

About the sponsors

New Philanthropy Capital

New Philanthropy Capital (NPC) is a London-based charity which helps donors understand how to make the greatest difference to people's lives. They provide independent research and tailored advice on the most effective and rewarding ways to support charities. Their research guides donors on how best to support causes such as cancer, education and mental health. As well as highlighting the areas of greatest need, NPC identifies charities that could use donations to best effect. Using this research, they advise clients (including individuals, foundations and businesses) on issues such as:

- Where is my support most needed, and what results could it achieve?
- Which organisation could make the best use of my money?
- What is the best way to support these organisations?

To find out more see www.philanthropycapital.org or call +44 (0) 20 7785 6300

WiSE

WiSE is an organization that accompanies donors and their families in fulfilling their philanthropic aspirations. WiSE advises donors seeking to create new opportunities for social change and connects them with those acting with insight, expertise and leadership in the social field.

To achieve this objective, WiSE listens attentively to donors to thoroughly understand their needs and aspirations. They are then guided in choosing among the multitude of existing organisations; those that best meet their expectations and correspond to genuine needs. WiSE has developed tools and processes to meet the standards of transparency and impact, ensuring that the opportunities created will make a sustainable difference.

More on www.wise.net

The Berlelsmann Stiftung

In keeping with the longstanding commitment of its founder, Reinhard Mohn, the Bertelsmann Stiftung is dedicated to promoting the public good. It focuses on the fields of education, economic and social affairs, health, and international relations. Furthermore the Bertelsmann Stiftung promotes the concept of philanthropy and wants to bring fresh momentum to civic engagement. The Bertelsmann Stiftung was founded in 1977. It functions exclusively as an operating foundation.

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About Scorpio Partnership

Scorpio Partnership is a strategy consultancy to the wealth management industry and is based in London. The firm, founded in 1998, has conducted more than 300 assignments for over 120 institutions in private banking, fund management, family offices, technology and resource management, as well as for related service providers to the wealth management industry. Projects have been undertaken globally. The firm is independent and owned by management.

Scorpio Partnership specialises in qualitative interviewing of high net worth individuals and wealth management industry professionals to support strategic assessments and future initiatives. The information collected from these interviews forms the foundation for strategic recommendations to clients. Scorpio Partnership bases its interviews on an assignment brief and an interview issues guide that is developed in conjunction with the client.

In April 2007*, Scorpio Partnership was voted the best global consultancy to the wealth management industry for the second consecutive year and again ranked ahead of the top three global management consultancy firms.

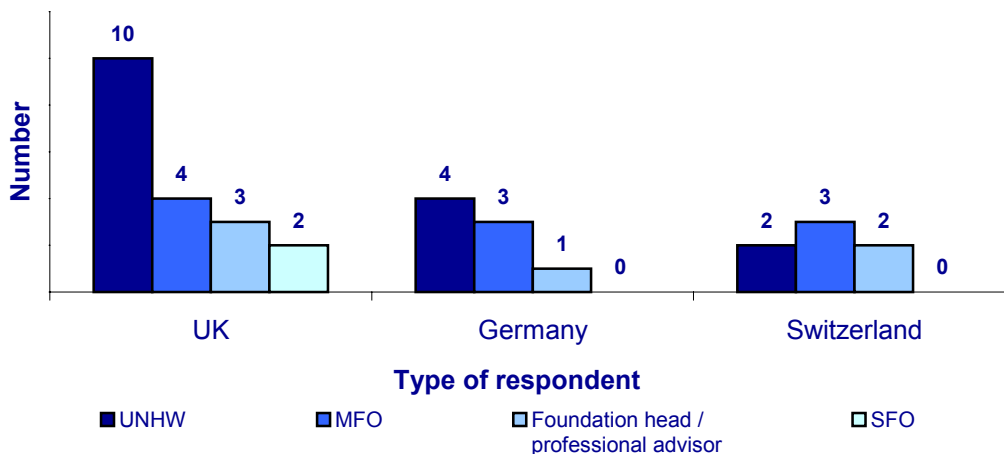
**WealthBriefing: April 2007*

Section one: Profile of participants

Scorpio Partnership interviewed 34 ultra high net worth individuals (UHNW) and family offices for this engagement. Interviews were conducted following an issues guide (Appendix I and Appendix II) for one-hour either in person or by telephone where face-to-face meetings were not possible. Interviews were conducted in English or the native tongue of interviewees where desired. The sample group is divided by jurisdiction and type below (Figure I).

Due to the qualitative nature of the interviews, quantitative data included in this report is used for indicative purposes only or to highlight general trends. The sample group is not sufficiently large to statistically validate the quantitative data.

Figure I: Sample size: All jurisdictions and respondents



Source: Scorpio Partnership

Definition of profiles

UHNWs: Individuals of extreme affluence and who are clients of their own family office. For the purpose of this research UHNWs are individuals who responded directly to questions concerning their own philanthropic activity. The majority are active in business and several head their own family office. The net-worth of these individuals ranged from USD90 million to >USD2.5 billion. It should be noted that UHNWs heading family offices have been counted as UHNWs because they spoke of their individual philanthropy rather than that of the family as a whole.

Single-family offices (SFO): Corporate entities established to manage the multi-generational wealth of a single family. Interviews were conducted with the head of the family office. This provided a long-term view of the philanthropic activity of a family over time. The net-worth of the SFOs in the sample ranged from USD1 billion – USD2 billion.

Multi-family offices (MFO): Corporate entities established to manage the wealth of several families and increasingly, the wealth of UHNW individuals. MFOs in Europe have often developed from SFO operations, where the SFO is seeking critical mass either because its own family members are increasingly less active, or to achieve economies of scale from systems and staff. Private banks also provide a dedicated 'family office' service for their largest clients. The net worth individual MFO clients typically ranged from USD20 million - >USD200 million.

Foundation head/professional advisor: Individuals who are permanently retained to oversee the philanthropic activities of a family or group of similarly minded families. This is traditionally a formal position at the helm of a family-endowed philanthropic foundation. However, as new forms of philanthropy have emerged, this field has expanded to include the head of philanthropy units within private banks and managers of bespoke venture-philanthropy funds. The foundations in the sample had endowments in the range of USD3 million - >USD8 billion.

The UK and Switzerland (particularly Geneva) represent cultural “melting pots” for the philanthropists in this sample. Interviewees in these jurisdictions came from a diverse range of countries including the USA, the Gulf States and Asia as well as Britain and continental Europe. In contrast the German sample were exclusively German onshore or offshore families.

The respondents fall into two distinct typologies (Figure II). **New philanthropists** are individuals or families entering the field for the first time, often after divesting from their business interests. **Institutional philanthropists** draw on a family history of philanthropic giving and often use existing structures and expertise in establishing their own philanthropic interests.

Figure II: Sample size: Typology of respondents

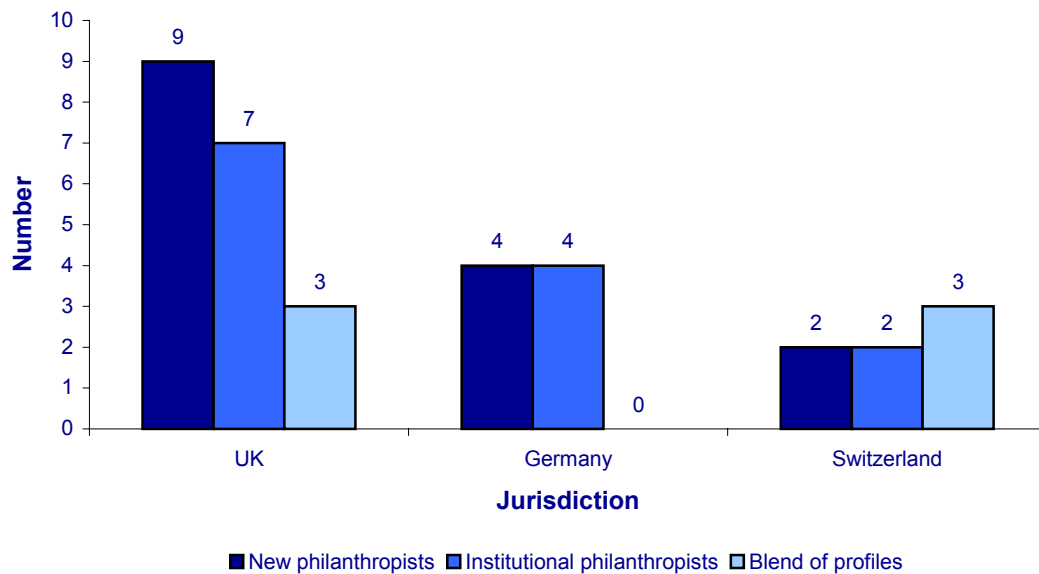
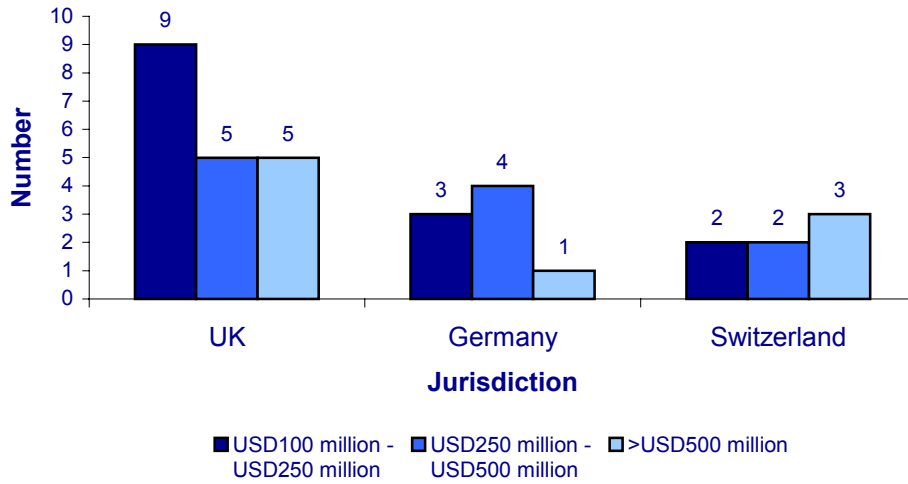


Figure III shows the research conducted with individuals and family offices in order to acquire a detailed understanding of the dynamics amongst the upper echelons of private donors.

Figure III: Sample size: Estimated net-worth of all respondents



Source: Scorpio Partnership

The diversity of respondents shows the different approaches families have adopted across Europe in dealing with philanthropy. For example, adopting a high level of strategic oversight and using professional staff for day-to-day management or taking personal involvement in planning and/or implementation of philanthropic activity.

Multi-family offices provided the perspective of a larger number of clients with smaller accounts. Foundation heads/professional advisors understand both the objectives of the family and the constraints of philanthropic operations and so are well placed to speak about the issues raised by this assignment. As one former trustee and ongoing advisor to a UHNW individual remarked:

“I am his [the principle] representative on earth for philanthropy. He just doesn’t have time.”

Section two: The giving experience

Motivation to give and general selection parameters

The motivation to give is highly varied amongst respondents, with 90% of the sample giving because of their experience of a particular issue or for historic reasons. Maintaining the family legacy, the desire to “give back” to the community, the capacity and desire to see change and disillusionment with government all motivate donors to give. Within families, individuals also have their own motivations to give, separate to that of the family as a whole.

Most of the families were highly focused in their philanthropy and almost all have a particular theme to their giving. The theme was typically defined either by a cause or by a geography of interest to the family. In some cases different family members might support different charities or projects under the banner of this overarching theme. For example, one family foundation had a strong focus on the developing world, but projects were as diverse as education, poverty and AIDS.

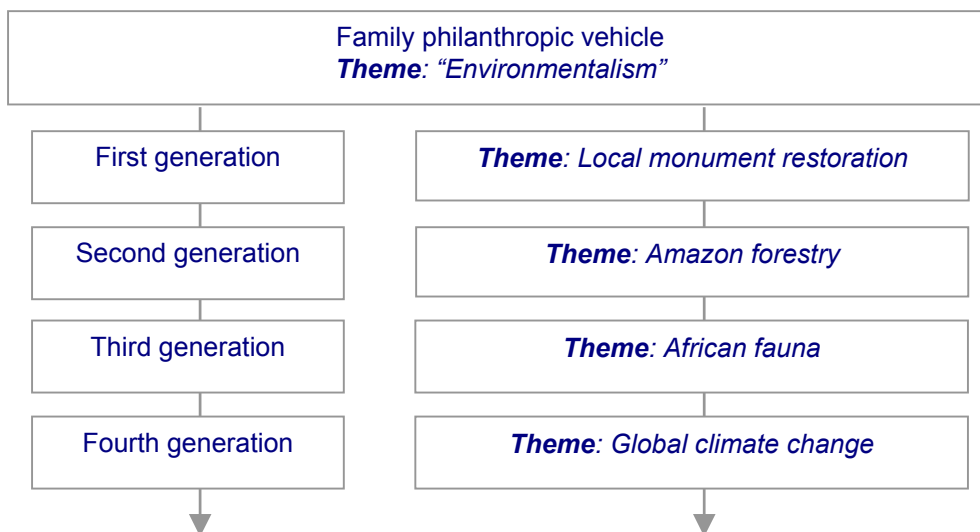
Only a small number of families had a narrow focus to the theme of their giving. For example, one family only supported education projects targeting 14-21 year-old children in Germany.

The interviewees are overwhelmingly cause or project driven. This becomes more apparent as an individual or family becomes increasingly more committed to philanthropy (as a percentage of their net worth or time). There is wariness amongst the sample group as a whole regarding the accountability of individual charities or the dependency on individual donors for perpetually funding. Interestingly, this wariness rises, rather than falls, in parallel with a donor’s experience of philanthropy and their relative wealth. This is one reason for the prevalence of philanthropic foundations in the sample. It is believed to be easier to retain oversight and focus on the donor’s objectives when the structure is tailored to their individual needs.

“He [an UHNW individual] has got his own structure and does not trust Oxfam and the others. I think if you are handing over a billion dollars it is different from USD100. They want to go and see how it is going”

Multi-generation families tend to pursue philanthropic objectives within an overarching theme (Figure IV). It is common for these families to maintain a philanthropic foundation with interlinked fields of interests. Individual family members essentially select their personal objectives from within this overarching theme.

Figure IV: Philanthropic evolution within a multi-generation family.



Source: Scorpio Partnership

UK-based families take a more international view in selecting causes than their continental peers. Themes of *global* climate change, *global* poverty, *global* terrorism and *cross-cultural* social reconciliation all feature strongly in philanthropic mandates. This international flavour is not surprising due to the international background and business interests of the UK sample group and also London's role as a centre for international commerce in shaping the perspective of UK-based clients. UK-centric interests include education, deprivation and the arts.

German-speaking families (in Germany, Switzerland and Austria) confine their philanthropic endeavours to their linguistic bloc. Unlike the UK sample, these themes and projects are geography constrained; usually to the Land/Laender of residence or business. Themes were diverse with the *local* environment, *local* church and *local* arts (classical music, opera, galleries, museums etc) all featuring in the sample.

Switzerland straddles the polarities presented in the UK and Germany. Swiss-based families give locally for international projects with relative ease because Geneva is a nexus for international charities. They are '*glocal*' philanthropists. Amongst less active members of the sample, donations are made to specific charities due to personal links (often through a family member within the charity) as the family believe this provides the oversight and accountability they require. This emphasis on personal contacts and people (as opposed to institutions) was particularly strong in the Swiss sample's general selection criteria.

"... it is a lot like investment banking. You have to know the right people who can get things done."

In Geneva there is an emphasis on giving to social development projects and the arts. This allows donors to see the ongoing progress of their philanthropic giving. It is perceived as a relatively easy way for the family to get involved with philanthropy.

The more philanthropically active members of the Swiss sample group tend to be international in selecting projects to support. At this point they become more akin to their UK peers.

Structures and vehicles for giving

Foundations are the vehicle of choice among the sample for engaging in philanthropy, irrespective of jurisdiction, and are used by every family or UHNW with over USD200 million (Figure V and Figure VI).

Figure V: Frequency of donations and vehicles used.

Frequency / vehicle used	UK	Germany	Switzerland
Foundation or trust	12	6	6
Ad hoc	6	2	3
Annual	5	1	3

Source: Scoprio Partnership

Note: Several MFOs stated their clients fell into several categories.

Figure VI: Percentage of sample using philanthropic foundations as vehicle of giving

Net worth (USD)	Percentage
< 100 million	30%
100 million – 250 million	65%
250 million – 500 million	100%
> 500 million	100%

Source: Scoprio Partnership

The logic for establishing a family office and family foundation for philanthropy are strikingly similar. Oversight, control, trust and the desire for long-term relationships are all highly valued by individuals and families in the sample.

Where these criteria cannot be exactly matched in the market, these families build structures to fit their bespoke needs or join like-minded peers to achieve economies of scale. New philanthropists are, therefore, well categorised as *entrepreneurial*. Individuals from families with a legacy of philanthropy can leverage the multi-generation experience of individual family members, their advisors and networks to achieve the required structures and personnel. In effect these families are *institutional* philanthropists.

Commitment level is an important factor in relation to the philanthropic structures used by the sample, almost as much as a family's net worth. Irrespective of their net worth being below USD150 million, all individuals or families committing more than 15% of their time to philanthropy have at least one philanthropic foundation.

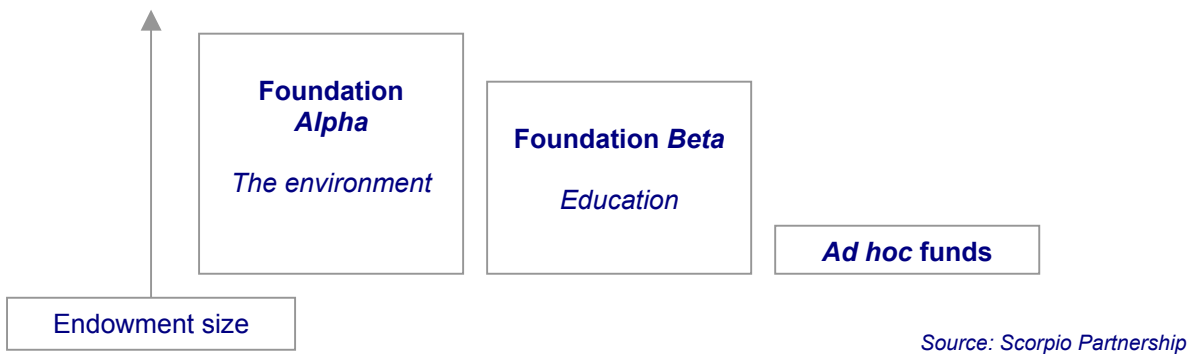
Philanthropists of more modest means (USD50 million – USD100 million) and who have less time to commit to philanthropy will support a series of linked charities. This forms the core of their philanthropic portfolio. This approach was most apparent amongst MFO clients.

On a geographic basis, the UK philanthropists in this sample were more likely to have set up their own philanthropic foundations. This generally reflected their more ambitious agendas, although it may also reflect the elevated wealth of UHNW individuals in the UK sample.

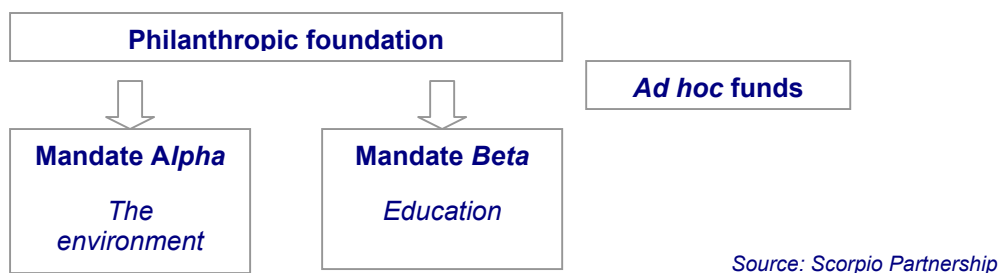
The most strategically minded interviewees in the sample group have segregated their philanthropic capital between core thematic interests and *ad hoc* gifts in other areas. UHNWs with a net worth in excess of USD500 million have taken this a step further if they engage in multiple causes. These individuals create multiple philanthropic foundations or sub-divide the foundation's mandate into specific fields of interest (Figure VII). This allows staff to develop expertise in one field for more effective giving. These individuals oversee their philanthropic foundations personally, employ in-house advisors for oversight or combine the two.

Figure VII: Segregation of vehicles and funds to bespoke philanthropic objectives

Model I: Multi-foundation strategy



Model II: Multi-mandate strategy



Reflections on recent philanthropic activity

Most of the interviewees find the philanthropic experience rewarding and stimulating. Individuals typically increase their level of philanthropic involvement with time often as a second career when they divest their business interests. But crucially, this growth in commitment comes on the back of positive experiences. In many cases philanthropy is a reinforcing cycle of involvement, positive experience, renewed commitment, deeper understanding and further success.

“... [Philanthropy] is like a drug. The more I do the more I want to do.”

Philanthropists have not experienced entirely plain sailing however.

Fraud was cited by 8% of the sample, although only one interviewee elaborated on in this in any detail. Disappointment with the progress of individual projects is also not uncommon, particularly amongst new philanthropists undertaking ambitious projects, such as founding business schools or hospitals. Most of these disappointments have been the result of poor or rash planning and weak understanding of the project.

However, new philanthropists are also more tolerant of hold-ups and failures and usually seek to mitigate their risk exposure by networking, using professional advisors and taking a more personal role in their philanthropic activities, either hands-on or through strategic oversight.

Institutional philanthropists call on established in-house monitoring systems to mitigate risk of failure.

“They have been philanthropists for several generations ... they have a feeling for these things on their own and experienced advisors in the family to assist.”

Challenges in philanthropic giving

“It shouldn’t be difficult to give money away ...”

The initial and start-up phases were continually deemed the most challenging phases by the entire sample.

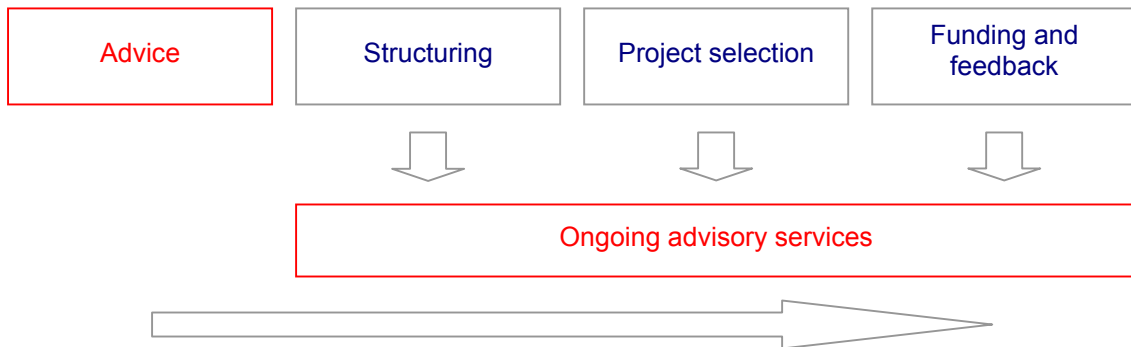
All the philanthropists in the sample had a clear vision of the overarching theme or themes they wanted to support. However, many highlighted that it was difficult to identify how they could best implement their vision. Problem areas included the structuring of their giving and the selection and monitoring of the projects to which they were donating. Specific problems identified by many of the new philanthropists were:

- Identifying advisors with experience in setting up foundation structures to match the objectives of the philanthropist
- Organising funding when several donors are involved in a project
- Selecting projects or charities whose approach matches the objectives of the philanthropist
- Analysing the feedback from projects or charities on an ongoing basis.

“More people would get involved if they knew how to do it.”

The sample cited a lack of advice on how to start along the path on their individual philanthropic journey as a fundamental challenge. Indeed for many it was seen as a major gap at the start of the process, although many also felt ongoing advisory support from experts in the field would be beneficial, as illustrated in Figure VIII. Moreover, existing philanthropists saw the lack of readily available advice as a serious barrier to potential European philanthropists.

Figure VIII: The philanthropic journey



Source: Scorpio Partnership

It was particularly noteworthy that those who had the most structured approach to philanthropy with established foundations are more likely to require highly bespoke advice on specific issues, such as structuring, project selection and tailored feedback mechanisms. By contrast new philanthropists were seeking more generalist advice on what might be possible within the field of philanthropy and, importantly, how that could be realised.

Many did not feel their existing wealth management providers were able to support their needs.

“Lawyers and private bankers are very good at providing technical advice, but they are not interested in the psychic income. They cannot tell you if a philanthropy project will provide you with value for money.”

Interestingly, even many of the MFOs within the study that were adept at financial planning and wealth management did not feel that their philanthropy offering was as sophisticated as it could be. This was usually due to reasons of cost and economy.

It was also significant the overwhelming majority of those who took part in the study expressed a strong preference for advice over other forms of information. This is because advice is bespoke, more time-efficient and allows them to retain control of the process.

“I am dismissive of information now because it is so cheap and you can get it in huge quantities. It is all about advice.”

Sourcing personnel with the relevant expertise is also a key challenge to families establishing foundations for philanthropy or hoping to take more control of their philanthropic endeavours.

“What is absolutely crucial is to have a good dialogue with your administrator. You need one person who understands your interests.”

Several Swiss MFOs have recognised this challenge and are reacting by seeking to leverage their networks to source suitable personnel for their clients. This service is usually only offered to families who are setting up philanthropic foundations but will cover both board members and senior operations staff. In this way the MFO provides a value-added service to its client but remains separate from the project selection, funding and feedback of the families philanthropic activities. In the UK several executive search firms are developing teams to source bankers or public servants to take socially responsible investing (SRI) or pure philanthropic roles for families.

In all these areas, institutional families tend to leverage their internal knowledge base. This is most apparent in structuring. However, institutional families also leverage their networks to source the right individuals to screen and assess projects. New philanthropists are generally left to learn through a process of trial and error, source and develop a personal network, find a consultant or hire an in-house advisor.

Measuring success in philanthropy

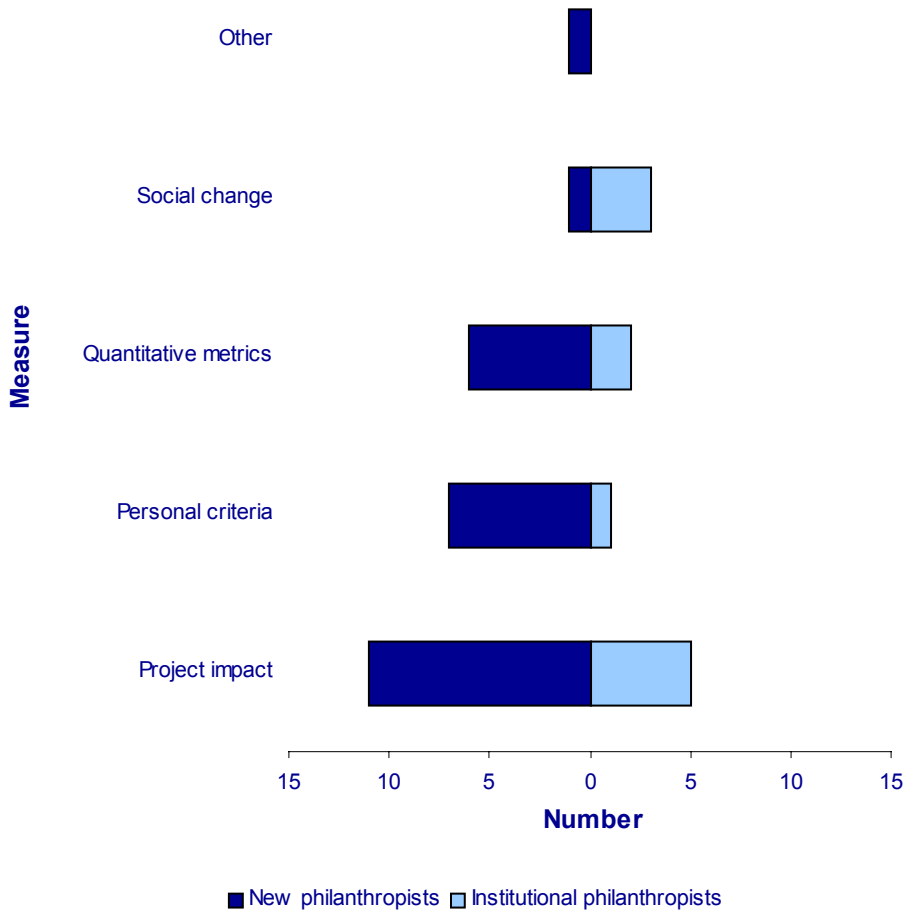
Receiving feedback and measuring success were both critical challenges to the sample.

“Philanthropy is like business ... I want to know my money is doing something positive.”

Measuring the success of philanthropy was important to the entire sample and only two interviewees donate without any due diligence or feedback processes. For sums under USD25,000 many philanthropists significantly reduce their due diligence and feedback requirements. Equally, for sums in excess of USD150,000, the demand for success measures increases significantly. Donors diligently track sums in excess of USD300,000.

Although the sample group was limited in size, it appears that first-time philanthropists tend to be more rigorous with finances than their more experienced peers who turn to their advisors to undertake this role. This links with the cycle of involvement, positive experience, renewed commitment, deeper understanding and further success that was evident across the sample group.

Figure IX: Measures of philanthropic success



Source: Scorpio Partnership:

Figure IX shows that the sample group are predominantly project impact orientated. In particular they desire to see *tangible* outcomes to their philanthropic endeavours. This links with the high ranking given to quantitative metrics as a measure for success.

New philanthropists in the sample were more likely to define their own criteria for success than their institutional peers, whereas institutional philanthropists placed higher importance on social change.

Quantitative measures for success are highly desired by the sample group as a whole. However, only those with a philanthropic foundation (or employing one of the sponsors) have the capacity to use quantitative metrics.

Frustration was expressed at the lack of feedback from charities on how an individual donor's funds were spent. However, interviewees were also aware that their reporting needs created a burden for charities and project managers.

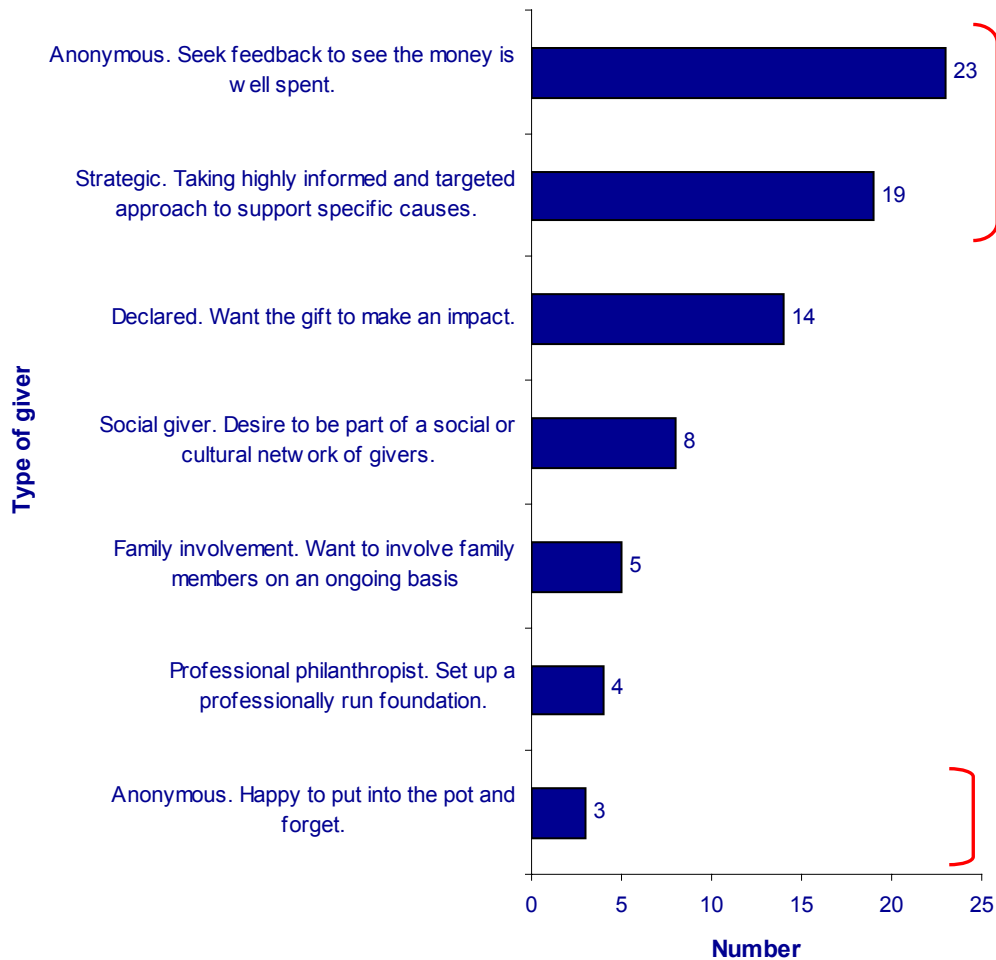
Section three: “What kind of giver am I?”

Choosing what kind of giver to be

Most interviewees deliberately choose to be anonymous givers to the cause of their choice but actively seek feedback on how their money has impacted the cause. (Figure X). Wealthy philanthropists generally choose causes in a strategic manner.

There was no noticeable geographic differentiation in these findings.

Figure X: Giver profiles



Source: Scorpio partnership
 Note: Interviewees selected multiple profiles.

Very few philanthropists are willing to contribute money to a cause without feedback. Those that donated without any feedback system were generally disengaged from the philanthropic experience.

Commitment levels

Fewer than 10% of the UHNWs in the sample considered themselves professional philanthropists. This was defined as spending more than 40% of their working time in philanthropy. There was no pattern discernable between new and institutional philanthropists as individuals tended to become more philanthropically involved as they divest from business interests. It is important that philanthropists have positive experiences during the explorative stages of the philanthropic journey for their ongoing engagement.

The level of commitment is also connected to the role played by an individual within their philanthropic foundation. Those individuals committing more time are likely to oversee the strategic direction and areas of focus on a regular basis, almost in the role of chief investment officer. Alternatively, they will be active selecting projects and making field visits, acting more like a chief operating officer. For less time-committed members of the sample, the role is more akin to that of a chairman, only overseeing the long-term overarching themes.

Strategic giving

“It is the only way to think about philanthropy.”

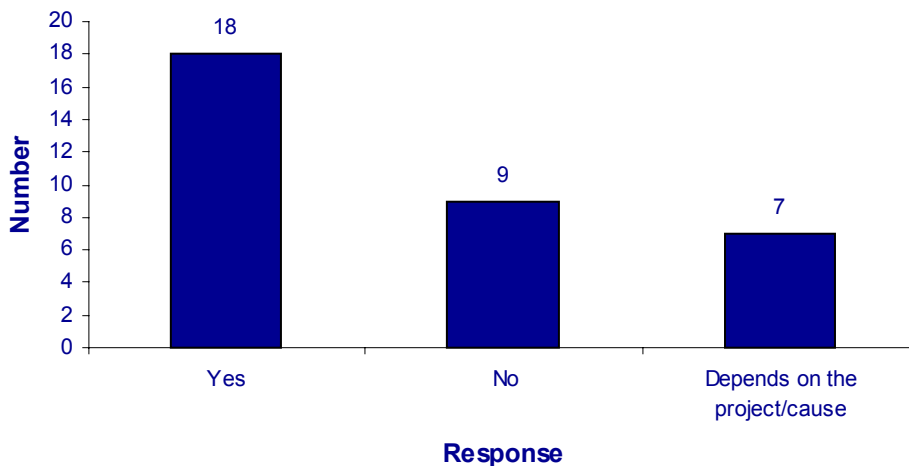
Strategic philanthropy – using an overarching theme and structure in selecting a cause and projects to support – was widely regarded as important. Every interviewee thought strategy was fundamental to philanthropic success. However, under review, there is a gap between thought and implementation of strategic philanthropy.

The most strategic philanthropists have defined methodologies for selecting areas of focus, filtering fields of interest and letting the research agenda guide their decision on what to support. Most would characterise their support of individual charities as a function of their strategic objectives; they do not regard their activity as supporting the charity *per se*.

Interestingly, while there was a unanimous view among the sample group that a strategic approach to philanthropy would be ideal, most MFOs interviewees considered only 10% - 20% of their clients to be strategic in their philanthropic approach. These clients also tended to have their own foundations for philanthropy. The MFOs felt that the 80% - 90% of clients who lack a strategy are largely detached from philanthropy due to ongoing business involvements and time restraints.

Irrespective of the overarching approach to philanthropy, over 50% of the sample consider their approach to philanthropy strategic (Figure XI).

Figure XI: Do you consider your approach to philanthropy strategic?

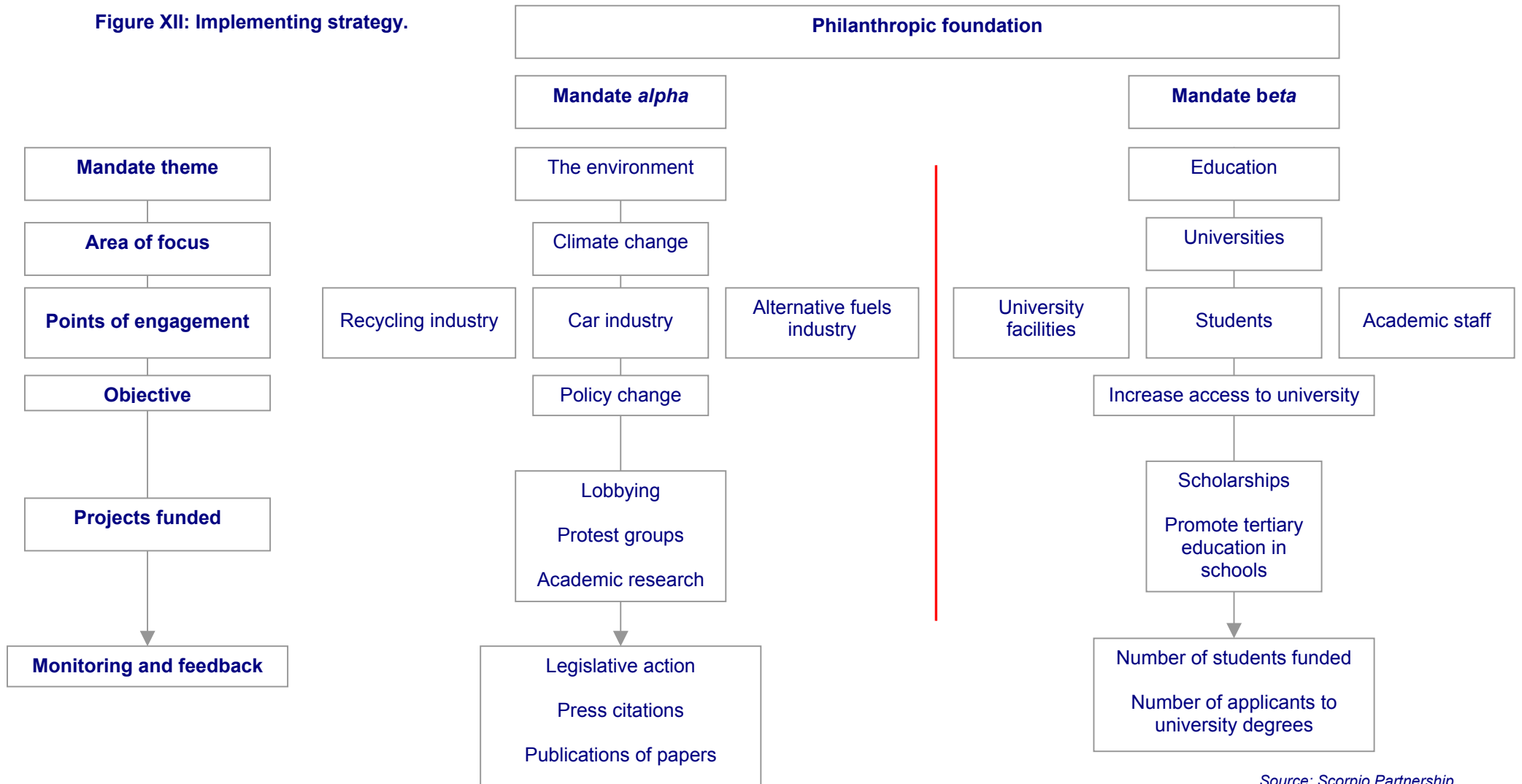


Source: Scorpio Partnership

This suggests, in fact, that the UHNW segment of the market is highly polarised between those who are active and strategic givers – and who are represented in the sample for this study – and those who have no involvement in philanthropy at all.

Committed philanthropists who have more than one interest will typically separate mandates and staff to ensure that each area of focus has its own strategic approach (Figure XII). Several multi-generational families use this approach to run unrelated themes (such as environment and poverty) in their philanthropic foundations.

Figure XII: Implementing strategy.



Source: Scorpio Partnership

Advocacy

72% of the participants regarded themselves as advocates of philanthropy, although 53% said they would not initiate the discussion. This links to the personal nature of their giving and the view that the personal experience cannot be replicated.

However, most of those who took part in the study were willing, and in many cases, pleased to share their experiences. In effect, those who took part in the process were self-selected advocates of the philanthropic process.

It is therefore perhaps also worth considering the numbers of those who declined to take part in the study. In the UK, 45% of the UHNWs and family offices approached declined to take part. In Switzerland the figure was 65% and in Germany it was 89%.

Clearly, UK-based families are more inclined to share experiences. Indeed, many commented on their willingness to speak to peers where they engage with the same philanthropic causes.

Germany stands in marked contrast to the UK. Here there was a general unwillingness to discuss philanthropy at all. When asked about the reasons for this general reticence to share experience, the responses suggest that this is primarily a matter of culture.

“We have a saying which translates as ‘give but do not speak’ ... I think this succinctly sums up our clients’ attitudes.”

“The family do not discuss their philanthropic activities with anyone as a matter of policy and principle.”

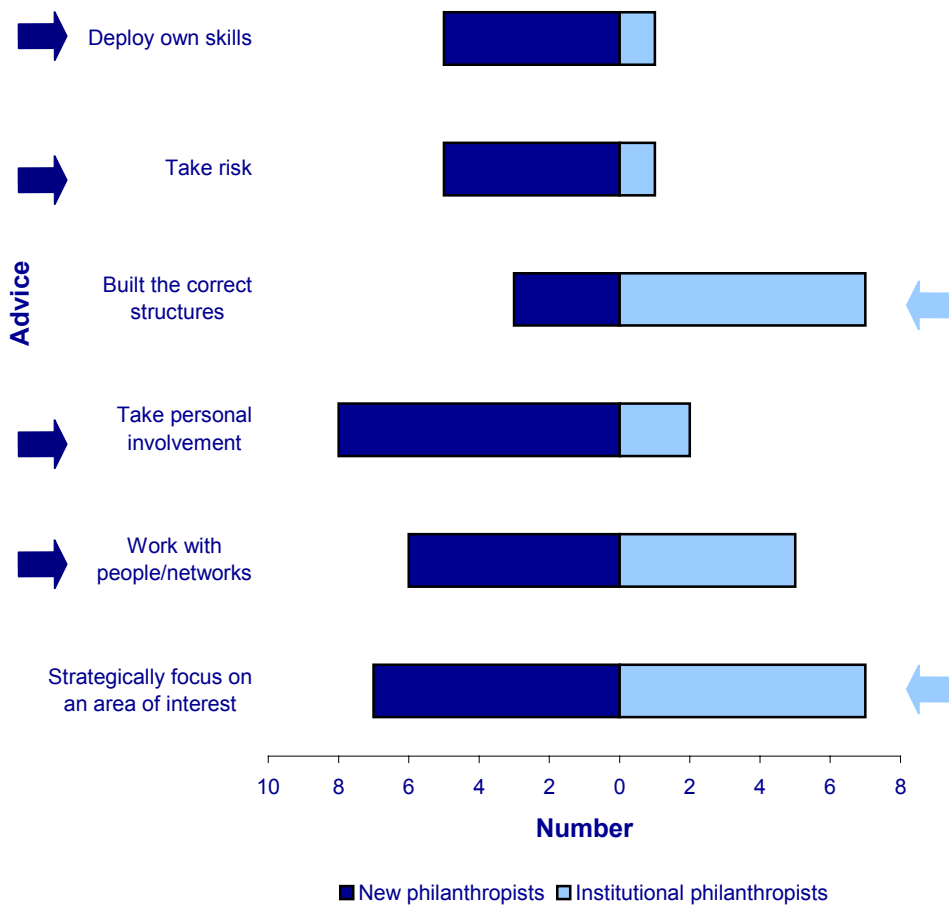
As in other matters, the UHNWs and family offices based in Switzerland straddled the spectrum between the UK and Germany. This was true both of those based in Geneva and in Zurich.

Advice to other donors

Despite marked variance in the advocacy level, background and philanthropic theme of individual interviewees, there was a remarkable similarity in the general advice they would provide to other potential philanthropists. Key recommendations to would-be philanthropists are to focus on an area of interest; to work with professionals (either advisors or sourcing in-house staff); and to connect with networks of other philanthropists to learn from their experiences.

Segmenting this advice between new and institutional philanthropists provides a more layered analysis (Figure XIII).

Figure XIII: Segmented advice to potential donors from the sample group.



Source: Scorpio Partnership
 Note: Interviewees chose up to three pieces of advice to pass to prospective philanthropists.

There is a correlation between new philanthropists and advice relating taking personal involvement, working with people and networks, taking risks and using one’s own skill and judgement. These qualities are highly reflective of the experience gained by new philanthropists in *business*. Conversely, institutional philanthropists are more focused on structures – a more *operational* approach. These correlations are not influenced by geography within the sample.

Section four: Advice and information

When do wealthy donors look for information?

“The first dollars should be spent on information and advice.”

Over 90% of the sample group recognised the need for expertise in the philanthropic process. Foundations conducting philanthropic activity are staffed accordingly. However, there is a shortage of access to the right advisors and personnel to meet the needs of these donors.

“Because I have made money does not mean I am good at giving it away ... It is a completely different skill.”

There is also a distinction between the age at which new and institutional donors begin to look for philanthropic information. New donors tend to become inclined toward the field in their late 30s and most active from their 40s or 50s. This lag-factor is overwhelmingly linked to a substantial liquidity event – usually the point of divestment from major business interests.

In contrast institutional philanthropists are introduced to philanthropy during their mid or late teens and become more involved post-university. Serious commitments to the donors' field of choice (in time or capital) are most common from late 20s onward. Members of institutional families with consuming business commitments may seek advice and information at any point along this timeline. They are raised like institutional philanthropists and then re-enter the family's philanthropic-fold at the point of divestment from their business.

“I grew up surrounded by philanthropy and business. I have always been aware.”

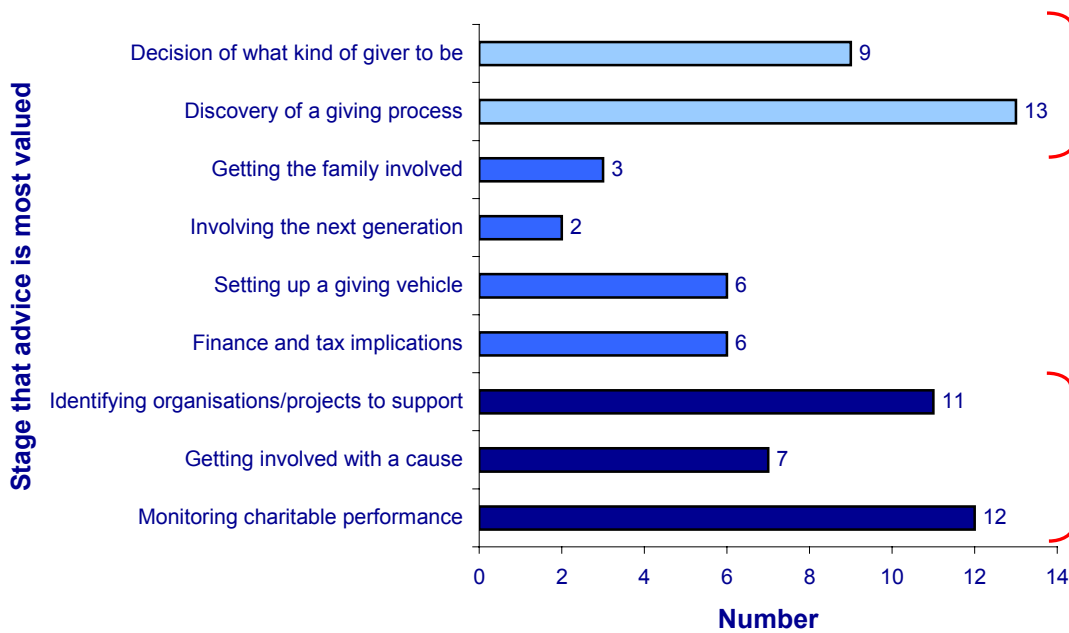
Availability, delivery and gaps in information on philanthropy

“ [There is a need for] *advice and information on how to give effectively.*”

New philanthropists cited the lack of obvious places to turn to for independent bespoke advice on how to, or whether they should, become philanthropists. Institutional families have internal expertise to call on at many of the stages of this process via their foundations or the relevant advice can usually be sourced through their networks.

Responses suggest that the need for advice was most required during the initial, start-up phase (light blue) and the project selection and feedback stages (dark blue) of the philanthropic process (Figure XIV).

Figure XIV: Stages where information would be most useful to the sample.



Source: Scorpio Partnership

Foundations present an obvious way to source and retain expertise close to the donor, hence their prevalence amongst the sample group. The German sample also held a disproportionately high need for advice at the tax and structuring stages. This is accounted for by the complexity of tax law in Germany.

Networks and other sources of information

Networks are important to the sample and their existing networks are likely to have been built organically over years.

A common sentiment amongst existing philanthropists was that networks should be restricted to individuals interested in the same field in order to be worthwhile, rather than being expanded into generalist philanthropic circles. In contrast, potential philanthropists were seeking a forum where they can learn the fundamentals of philanthropy before focussing on their chosen field.

Networks were regarded as important in the exchange of ideas and projects between donors as well as introductions to their advisors. Networks also fulfil a due-diligence and coordinating role between the most active philanthropists as alliances of funders can be forged in these forums. These alliances are often project focused and therefore fluid.

Despite the commonalities, there are marked differences in the form and accessibility of networks across the geographies.

In the UK, networks are relatively easy to access once they are identified. A number of formal networks have been established, driven primarily by private banks that are seeking to support their clients' activities in philanthropic ventures. Informal networks are also emerging focused toward specific areas of interest. These groups have grown organically and are, deliberately, less formal in structure. The onus is much more on communication and collaboration between potential funders with established areas of interest.

Switzerland is perceived as a small community where like-minded individuals can readily find each other if they want to. Networks are therefore highly interpersonal and can be used as a means of identifying the right individuals to lead family foundations for philanthropic causes. Between family foundations these relationships can be quite formal. Of note, this approach means that existing networks can be difficult to access for new philanthropists.

German UHNWs and families use networks much less frequently, due both to the localised focus in giving and the high level of anonymity related to philanthropy. When families network, they tend to do so based on longstanding links, often originating from outside philanthropy. Family advisors tend to use professional events to maintain contact with each other. Families are rarely involved at this level or attend such events personally – essentially using their advisors as a screen from public scrutiny.

Section five: Deciding what to support

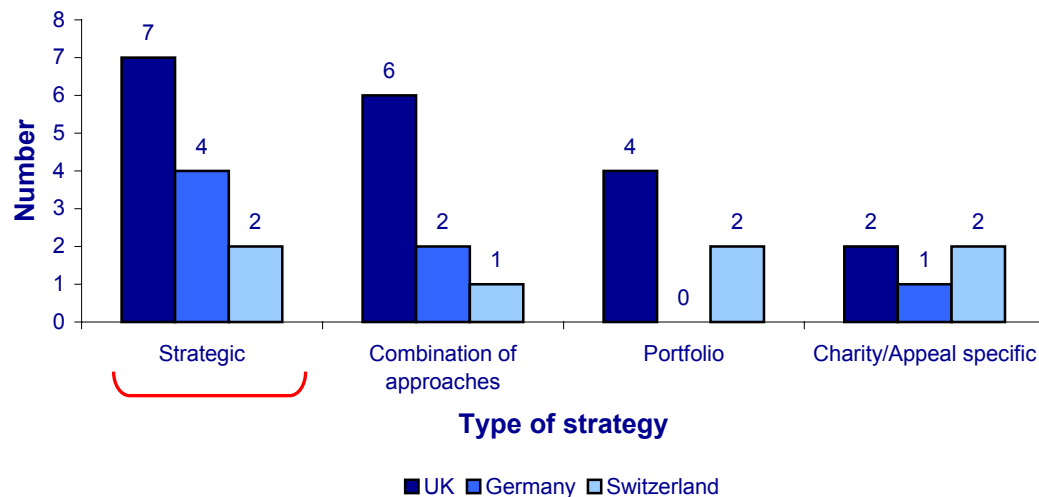
Strategies for cause selection, evaluating and approving support

"It has to be a success."

The sample group employ a wide variety of overarching approaches to philanthropy. A top-down strategy, where a donor selects the over-riding strategic theme for his giving, dominates the sample group as a whole. A bottom-up approach, where donors are motivated by a specific appeal on an *ad hoc* basis, was less common due to the unpredictable nature of giving on a reactive basis. Those who adopted this approach tended to have smaller funds available.

A number of participants construct a portfolio of charities or causes that are given to on a consistent basis and managed accordingly. Finally, a portion of the sample donated using a combination of the above methods. Figure XV illustrates the popularity of the various approaches used, across the three jurisdictions.

Figure XV: Overarching approaches to selecting philanthropic causes.



Source: Scorpio Partnership

Three key themes emerge from analysing the process for selecting projects or charities:

1. The need for a project or charity to **deliver** its objectives;
2. The need to communicate with **management** both before funding and on an ongoing basis. This communication provides due-diligence, oversight and makes individuals within institutions accountable to wealthy donors;
3. A clear **"exit-point"**. This comes when a project becomes self-sustaining or transfers to a larger donor, often the government or a larger non-governmental organisation.

Several interviewees confirmed that they have adopted different strategies at different stages of the philanthropic process. The most common way is to bring together an informal portfolio of charities and develop over time to a full philanthropic foundation. This evolution is dependent on capital, time and positive experiences.

New philanthropists are highly impact-orientated. They view their philanthropic causes in a similar vein to research and development or venture capital and they like to fund projects at inception. They use foundations to develop the means of achieving these objectives.

Institutional philanthropists are also project-orientated but are, in general, more conservative than new philanthropists. Institutional philanthropists are also less likely to be involved in the sourcing of projects, instead relying on the foundation board and operations personnel to do this.

Delivering financial support

Reflecting the project approach of donors, the average length of funding is three to four years. This timeline is the result of two reasons. Firstly the sample act as catalysts for philanthropic projects so funding conforms to this relatively short time-period. Secondly there is concern that a charity or project will become dependent on the donor for long-term support

Some projects are funded for longer (up to eight years) in recognition that 'project churn' – where donors move from project to project– needs addressing. Also, projects such as lobbying governments or large-scale public works such as establishing a business school require a long-term funding package. This can stretch beyond 10 years.

In addition to these longer-term commitments, many of the donors also offer *ad hoc* funding. Although this is generally done as a one-off and is unrelated to project funding.

Most in the study would not be averse to withdrawing funding if a project fails to deliver as agreed. However, the withdrawal of funding is rare, reflecting the relatively high risk-tolerance of the group as a whole.

Forms of funding vary. Examples include matching funds raised by employees of a family business, capital incentives to delivery objectives in time or beyond expectation as well as seeking co-investment from likeminded philanthropists. The fund-raising dimension is based exclusively on informal or personal networks and an area that some philanthropists would like to see expand.

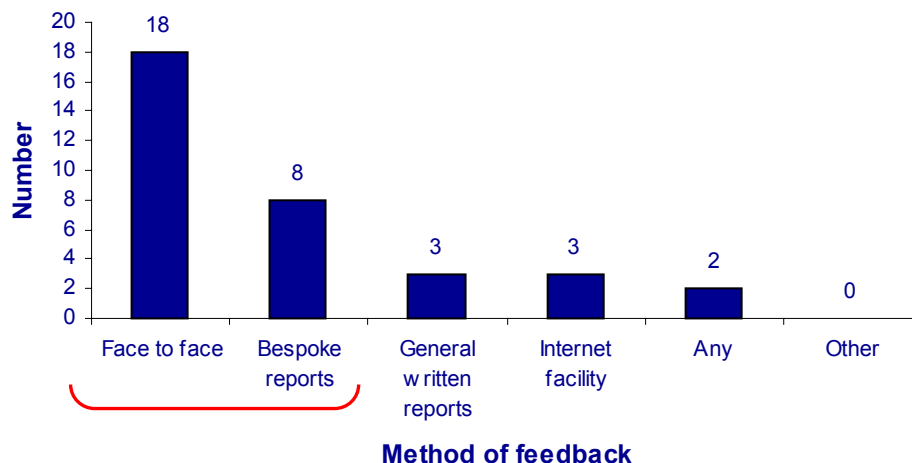
Feedback from recipients

All the donors in the sample welcome feedback from project management, and most will review any written materials in detail. Feedback is important as it is used as a way to monitor the ongoing progress of the projects or causes. Feedback is also usually a precursor to the release of further tranches of funding.

Most of those in the sample expressed a preference for face-to-face or bespoke feedback from the management teams of the projects or causes they support (Figure XVI). Indeed, many were critical of generic feedback as they regarded it as unreflective of their contribution. Face-to-face feedback is often coordinated by the foundation and typically involves a bi-annual meeting with the project or charities' management to discuss progress and future goals.

Brevity was desired from bespoke reports. Donors will request more detailed analysis if desired and are conscious of over-burdening charities with reporting requirements. Only the least involved philanthropists do not review the bespoke feedback they received. There is no difference between new and institutional philanthropists on these points.

Figure XVI: Preferred methods of receiving feedback.



Source: Scorpio Partnership

A minority of the sample voiced concern that reporting placed an excessive burden on the projects they support. This minority are interested to explore forms of feedback that gave donors the requisite information without taking up valuable time and focus.

Reviews of strategy and implementation

Reviews of strategy are the result of two scenarios. Firstly, as a result of succession within the family or branch of the family that controls the philanthropic foundation. This is an infrequent and highly personal event to the family so the advice of outside experts is unlikely to be sought. Secondly, strategy can shift as a result of a global issue that inspires the donor to take action. The most prominent global issue of the last 10 years has been the environment, particularly climate change. In such cases, the services of experts are likely to be sought if the shift is to an area where the donor has little or limited experience.

Implementation meanwhile is largely the responsibility of foundation managers and staff. They in turn will provide reviews of the progress of implementation on an ongoing basis to family members. Among foundation managers, there was a view that more support from expert consultants regarding best practice on how to implement the foundation's objective would be beneficial.

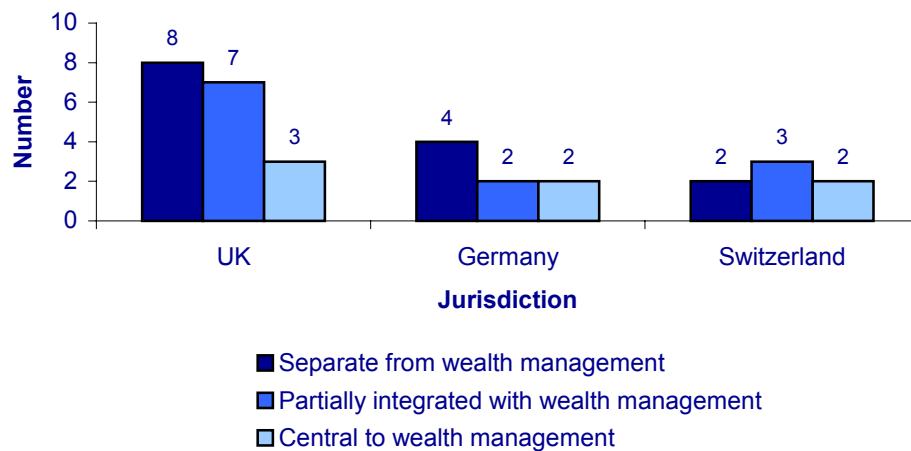
Section six: Interaction with advisors

Integrating philanthropy into wealth management

The view among respondents was that philanthropy is increasingly being integrated into the wealth planning of UHNW individuals and family offices of all types. This is reflected in Figure XVII. However, there is a significant minority who keep their philanthropy separate from their wealth management activity.

The trend toward integration has been acknowledged by a number of private banks and other professional advisors who now include philanthropy services as part of their overall product and service offering.

Figure XVII: Integration of philanthropy of wealth management.



Source: Scorpio Partnership

There was a correlation between levels of giving and the level of integration with the individual's overall wealth management plan. Those families that did consider philanthropy core to their wealth management contribute over 10% of their annual net worth to philanthropy. This compares to an average 5% contribution among the group.

However a more significant correlation was between the donor's level of personal involvement and the integration of their philanthropic activities into their wealth plan. Those spending more than 20% of their time on their philanthropic activities tended to place giving closer to the core of their wealth planning, while those less involved due to ongoing business activities for example, are less likely to consider the matter central.

Very active philanthropists, who spend more than 40% of their time on the issue, have also found synergies between their philanthropic and business interests. In one case, the individual has harmonised their businesses and giving vehicles to mutually reinforce each other. They can devote time to the issue and pursue a moneymaking career *because* the two are integrated.

Demand for wrapped-philanthropy exists among specific segments

Individuals and SFOs worth over USD150 million are not inclined to use a philanthropic service that would provide an end-to-end or "wrapped" support solution. The majority expressed a desire to retain oversight, involvement and some form of ownership of their philanthropic endeavours, as illustrated by the prevalence of individual philanthropic foundations amongst this client segment.

MFOs in Switzerland and the UK both believed a wrapped offering could be beneficial providing a “virtual” philanthropic foundation for their smaller clients with assets between USD50 and USD100 million.

"Probably for clients [with] smaller amounts [of capital] and people who do not want to be hands-on ... but family offices want control"

"A green field philanthropist would probably benefit from this, but [family office] clients learn quickly from their own experience and like to do their own thing."

These clients joined the MFO to achieve economies of scale and to gain access to a service. The synergies are more obvious than for a family that is used to retaining control of all its affairs.

SFOs where the family members are not all philanthropically active could also see benefits to a wrapped service as a grant making philanthropic foundation is not economically viable. In both these cases, an emphasis was placed on building a solid, long-term dialogue between the family and the philanthropic advisor.

In Germany no family was receptive to the idea of a wrapped offering provided by an outside consultant.

"if I outsourced philanthropy to someone the family would say they lost control."

Remuneration of advisors

The large majority of respondents in the UK and Switzerland are willing to pay advisors for information and advice as long as it is value added. By establishing foundations with philanthropic mandates, most recognise the value of spending money to give money efficiently. However, most had set up foundations in order to bring advisors in-house, thus enabling the donor to maintain more oversight and hold their advisors more accountable.

"[Advisors] are like business managers or a CEO. You ... buy the best people in to get the right results."

Externally sourced information and advice must add a tangible value to the effectiveness of giving, for example, by identifying new ways for SFOs and UHNWs to give through their own foundations or efficiently sourcing projects or charities for donors to support.

Since many new philanthropists have achieved substantial financial success, often in relatively short periods of time through their business activities, they often expect to be able to apply similar business criteria to their philanthropic activities. Demonstrating an equally entrepreneurial or innovative approach to philanthropy will be a critical tool for the sponsors to demonstrate in building a relationship with such individuals.

A significant minority of respondents would prefer to pay for advice on a consultancy or pro-rata basis. These respondents felt they would turn to advisors for specific issues such as governance or structuring, grant making techniques, project sourcing and even feedback processes.

Families least likely to seek counsel from external advisors were those who are either highly engaged with their specific topic or disengaged from the process entirely. Many families believe research should be conducted in-house as a way of engaging with the charitable community or because they themselves are the experts in their specific field.

"Even if I could get them [the family] to pay attention they would probably laugh me out of the room for suggesting the idea [of bringing in a philanthropic advisor]"