December 12, 2016
BARRON'S
PENTA

TRUSTED ADVICE FOR FAMILIES WITH ASSETS OF $5 MILLION OR MORE

SPECIAL REPORT
PHILANTHROPY

MILLENNIALS TAKE CHARGE

The economy and culture of Guilford County, N.C., have been rejuvenated by **Kevin and Elizabeth Phillips** since they took over their family's foundation. How millennials and their elders are working together to change America for the better.

VISIT US ON THE WEB
BARRONS.COM/PENTA

Family Foundations: Millennials Take Charge

How the younger generation is teaching their elders to be better philanthropists

Jessica Brown and her father, Bennett, are jointly digging into their family foundation.

Raymond Jones for *Barron's*

By Richard Nalley

THE ELDERS OF GREENSBORO, N.C., WILL probably tell you that the public image of the self-centered millennial generation needs a rethink. They have good reason. Kevin and Elizabeth Phillips, a couple in their 20s, have materially helped reinvent the economy and culture in Guilford County by employing their family's foundation to support programs that put every local kid through college, built a $78 million performing arts center, reduced chronic homelessness to zero, and established a modern nursing school. And those are just a few of the innovative philanthropic projects they helped unleash within the past five years.

Expect more such "narcissistic" behavior. By midcentury, an estimated $41 trillion in assets will have been transferred to heirs from the baby boomers; eventually, the lion's share will belong to the millennials, 92 million Americans born between 1980 and 2000. They are by far the largest generation in U.S. history, bigger even than the baby boomers themselves. A study by Goldman Sachs puts it succinctly: "Millennials are poised to reshape the economy."

Including how money is given away. Foundation Source, a service provider that helps families become more efficient philanthropists, notes there are over 42,000 family foundations in the U.S., holding assets of more than $400 billion. As millennials assume responsibility, with these enormous resources at their disposal, they will turn the world of philanthropy inside out as they rethink its basic tools and ambitions.

According to "The Future of Philanthropy," a 2016 Fidelity Charitable study, millennials are consistently much more optimistic than baby boomers that everything from nonprofits (47% versus 39%) to universities (40% versus 23%) to business (32% versus 25%) will help solve society's future challenges. Their charitable worldview is also far more sensitive to currents sweeping across many disciplines; 43% of millennials claim they are influenced by three or more trends, such as impact investing or social involvement in giving, compared with 23% of the baby boomers who are similarly influenced.

Those findings are being borne out on the ground. "The millennials [in our family] are the ones who usually push our buttons," says Maya Patel, president of the Newport Beach, Calif.–based Tarsadia Foundation. "They are the ones who ask us to look a little deeper and see what's new. Can we make a mission-related investment? A program-related investment? They are more interested in things like social entrepreneurship and social benefits—these are the terms thrown at us. And it's a great conversation to have, because we weren't familiar with giving in that way. They teach us quite a bit."

But here's the thing: The older generations aren't acting like the classic elders of the past, clamping down on youthful spirits. Often they are empowering the young upstarts to pursue their cutting-edge ideas for the good of the family and beyond. The Patel elders, for example, are giving the younger generation "a lot of freedom to explore, but we're trying to push their buttons, too," says Maya Patel. "They are in the field, out there working and seeing what's going on around them, so we are throwing it back at them and saying, 'Why don't you go out, research, and find new things?'"

Glen Macdonald, a family-wealth advisor and co-founder of the Wealth & Giving Forum, a platform for philanthropists, has also noticed this sort of intergenerational dialogue taking place. "It's very unlike the conversations the baby boomers had with their parents back in the 1960s and 1970s, when they often couldn't talk about money or ways to make the world better without tremendous tension, and there was no common ground," Macdonald says. "That's not to say that there isn't sometimes tension now, but in general it's a more productive tension. The new generation is coming into the conversation with positive energy and values grounded in facts and analysis. There's learning taking place on both sides."

So maybe the kids are just fine, after all, and need to be taken more seriously. The stereotype of millennials as job-hopping, selfie-taking narcissists living in their parents' basements has enjoyed a long run. But a more nuanced and sophisticated view of the generation's inner qualities is evolving inside family foundations and philanthropic organizations. As Jessica Brown, 23, of Atlanta's Mary Alice and Bennett Brown Foundation, puts it, "My cousins and I are aware that we have to roll up our sleeves and not just donate money, but time and effort—we have to go out and get our hands dirty."

And they are drilling down on the family foundation in a serious, meaningful way. Monica Issar, global head of J.P. Morgan's Endowments & Foundations Group, says its members are strategically "looking at all of the sources of capital that they have—assets, talents, skill sets, businesses—and putting it all together and saying, 'Let's not just use one, let's look at all of them and see how we can really make an effect and innovate through our family foundation or family office, and tie it to its mission and values.'"

BY MIDCENTURY, AN ESTIMATED $41 TRILLION IN ASSETS WILL HAVE BEEN TRANSFERRED BY BABY BOOMERS TO THEIR SUCCESSORS.

Thinking across their family's entire platform was exactly what Kevin Phillips, 29, and his wife, Elizabeth, 28, had in mind when the Dallas couple moved back in 2012 to his native Greensboro, N.C., to take charge of the family real estate business and its newly funded Phillips Foundation, which has $60 million in assets. Elizabeth, a Southern Methodist University graduate with a background in philanthropy, and Kevin, a Goldman Sachs analyst, took on the roles of executive director and president, respectively, at the family foundation, which was focused on supporting the local community.

Realizing that they had to get the older generation of Greensboro civic leaders to buy into their multifaceted approach, they first courted the community through listening sessions.

"We decided not to take a top-down approach—this is what our family cares about—but rather to see what themes were boiling up from all our meetings and see where we could jump in and make a difference," Elizabeth says. This approach made a difference. Kevin, with most of his attention focused on the family real estate business, immediately noticed how "all these older people looked at [Elizabeth] and said, 'Hey, we need this younger generation involved in these issues.'"

In the five years since the couple returned to North Carolina, the Phillips Foundation's policy of making only substantial, needle-moving grants (from $500,000 to $5 million) has helped make Greensboro and the surrounding Guilford County a place where every high school graduate is guaranteed funding for college, thanks to a partnership with New York–based Say Yes to Education. The Phillipses have also helped put the county on the road to reducing chronic homelessness to zero, have contributed to building a massive Salvation Army Boys and Girls Club center, and backed a state-of-the-art nursing school. What's more, they acquired land and rights of way connecting a planned greenway bike and jogging path.

But it was the first priority to arise from Elizabeth's community meetings that put the Phillips Foundation, and the young couple running it, on the local map. For many years, Greensboro had discussed building a performing-arts center to anchor its downtown revitalization plan. It was, the Phillipses realized, a once-in-a-generation opportunity. But there was a problem: The project's earlier backers had "been laughed out the door," says Elizabeth, for promising to raise $20 million, a then-unheard-of sum in Greensboro.

She jumped in, contributing $3.5 million to launch a capital campaign. "It's a millennial mindset to be all-in for something you care about, instead of just writing checks," she says. "We decided to take a big and bold approach."

With two co-chairs, she formed Generation GPAC (Greensboro Performing Arts Center) and took a multipronged approach to mobilizing "everyone under 50." They held private fund-raisers, networked with young professional organizations in the community like synerG, and launched advocacy and education initiatives. From an initial 300 members, GPAC grew to nearly 600, and along the way, "We changed the face of the project, from 'old people who like the symphony' to 'this matters for the future of downtown and our community at large.'"

The fresh energy behind the project encouraged new donors to step forward, including outlet king Steven Tanger, who acquired the naming rights to the now $78 million project, which includes some $40 million contributed by nonpublic donors. The Phillipses have moved the project far beyond the initial $20 million goal that was ridiculed as way too high. The landmark limestone and glass Steven Tanger Center

MOVING THE NEEDLE

Millennials have the potential to reshape the world we live in because they have a much further-reaching worldview than baby boomers about how to make philanthropy more effective.

Three largest philanthropic trend gaps between millennials and baby boomers

	Millennials	Baby Boomers
Technological Advances	49%	23%
Rise of alternative forms of giving	32%	14%
Increased opportunities to connect with peers about giving	30%	11%

Source: Fidelity Charitable

The Tarsadia Foundation's Payal Patel, left, and Maya Patel are "pushing each other's buttons" and forcing both of their generations to grow.

Ian White for Barron's

for the Performing Arts—with its soaring Phillips Hall lobby—is slated to open in 2018.

The moral here: Competence isn't the exclusive privilege of those who have a lot of life experience. It can also show up in those just starting out in life.

It's an important lesson that some members of the older generation have yet to learn. Jen Bokoff, director of knowledge services at New York City's Foundation Center, has seen generational transitions that were "really, really tense." When a family brings in a multigenerational facilitator, the generation "with power tends to be the one working with the facilitators to set the agenda. This becomes an exercise in sharing the history and 'the way that we do business.'" They never bother to hear about the values and ideas that engage the next generation.

Alan Fox, who co-founded the Los Angeles–based Frieda C. Fox Family Foundation in 1999, was determined to take a different tack. His foundation formed a junior board, made up of family members ages 8 to 18, a practice that is starting to spread across the sector. The Fox junior board meets and proposes projects, which they research, including making site visits. The sponsors of the finalists then have to verbally report to Fox himself and the senior board. "They do an incredible job," says Fox. "I think to myself, I'm in business with 10-year-olds, and they're carrying their weight." Last year, the Fox Foundation's junior board funded $60,000 worth of grants. According to estimates from YouthGiving.org, junior boards have made more than $15 million in grants since 2001.

In such ways, the values and mission of the broader family are passed on. Fox's activist granddaughter, Jamie Semel, an original Fox Foundation junior board member in 2006, is now working to construct a network of youth charities. "When you think about Jamie's starting out at 10 or 11," says Annie Hernandez, the foundation's executive director, "they could have a 60- to 70-year career in philanthropy. When you think about their sophistication, about the impact they might have, it is stunning."

Semel, now a senior at Brandeis University, and Hernandez helped guide Frieda C. Fox's founding role in Youth Philanthropy Connect. YPC, a network of family foundations with junior boards, has evolved to where the current leadership represents 25 organizations, and in 2015 served 761 youth philanthropists and supporting adults with tailored programs. "There are youth philanthropy programs all over the country," Semel says, "and until a couple of years ago, they weren't talking to one another or learning from one another."

Networking comes naturally to the millennials, of course, and for philanthropy, that may pay big dividends. "One of the things that's becoming more of an expectation in my generation than in any other is that you can't solve the world's challenges independently," says Payal Patel, 27, whose family's Tarsadia Foundation was one of YPC's four founders. "The ecosystem around philanthropy needs to start working together, from the nonprofits to the foundations to political policy and financial institutions. Change can be realized if we'll work across the system. There should no longer be silos."

Breaking down those silos, even across foundations' own platforms, is one of the millennials' major themes. After all, solving problems, not check-writing, is the root of everything, and that requires all of the leverage an endowment can bring to bear, whether alone or in partnership with others. "The millennials aren't thinking just about funding nonprofits, but about actually fixing something," notes Page

Kevin and Elizabeth Phillips listened to the locals of Guilford County, N.C., to discover what was really needed.

Justin Clemons for *Barron's*

Snow, chief philanthropic and marketing officer at Foundation Source in Fairfield, Conn. "It's more of an entrepreneurial mind-set."

True—and the most pressing issue for many next-generation social entrepreneurs isn't so much the 5% of their endowments they have to spend each year, but what to do with the other 95% of their funds. They are rediscovering overlooked tools such as program-related investments, or PRIs, and mission-related investments, or MRIs. These vehicles, which can be used for a variety of purposes, including loans and seed-capital development, allow foundations to look beyond the limited lens of traditional grants. The Phillips Foundation, for instance, structured a three-year MRI loan from its endowment to provide bridge funding to Akola, a Dallas-based organization that helps women in Uganda create jewelry and bring it to market. In another case, the Phillips Foundation used a PRI to guarantee a construction loan to a local avant-garde artists' center. And that's what many millennials try to create—a virtuous circle of investing and grant-making that materially moves families closer to their grandest social ambitions.

Enter the frequent disconnect between family-foundation portfolios and their missions. The Phillipses initially found that only 7% of their portfolio was aligned with their values. (It's now up to 68%, on its way to 100%.) It isn't difficult to see why it doesn't make sense for a foundation to own stock in, say, a company that makes clothes in Asia with child labor when it funds children's health care in Illinois. But knowing what to do about it and still earn money is more complicated. Here, too, multigenerational families are moving rapidly up the learning curve. (For ideas on how other families are effectively aligning their investment portfolios with philanthropic missions, see "Impact Investing Done Right," *Penta*, Nov. 28, 2015.)

Gen Xer Eric Gimon, chair of the investment committee of the $110 million asset Flora Family Foundation in Menlo Park, Calif., and board member of his family's massive Hewlett Foundation, was among those who three years ago urged his family to engage in impact investing. There was "anxiety on the part of the older generation as to how it would work," he says. "There was concern that it would impact performance or just complicate things."

The Flora Family Foundation now devotes 5% of its endowment to impact investments such as mission-related funds, like the North Sky Clean Growth Fund III (resource efficiency and industrial innovation), Vision Ridge Sustainable Asset Fund (diversified focus), and Lyme Forest Fund IV (investments with conservation values). But it began its journey by investing cash with credit unions that had specific missions but were insured by the Federal Deposit Insurance Corp. The foundation then advanced carefully up the risk spectrum by placing bonds with, say, CleanFund, which finances clean-energy upgrades. They also invested in public equities through a screening company called Aperio.

While the foundation had been badly burned by screening before, when its stock portfolio became heavily tech-weighted just before the dot-com bubble burst in 1999, there was also an awareness that the younger generation "had to make some mistakes and learn about our portfolio theory through doing, and how we evaluate things," says Gimon. That's why, initially, families often devote just a few manageable percentage points of the portfolio to impact investing.

Take all of this together and perhaps it's time to find the millennials a seat at the grownups' table. As Kevin Phillips points out, for the philanthropic and commercial sectors alike, "change is not only the constant, but it is also rapidly accelerating. Our generation is used to seeing change as a constant, and I think [the older generation] should lean on us and say, 'Hey, you have a fresh pair of eyes; you should be invited to the conversation.' Just from the perspective of our own survival, we can't stick to a model that worked 20 years or 30 years ago. If you aren't inviting the millennials to the conversation, you'd better start, because somebody else is, and they are going to eat your lunch."

And that goes just as much for family foundations trying to be the best in their field and make a difference in the world, as it does for for-profit companies trying to stay relevant by creating the hot products of the 21st century. ■