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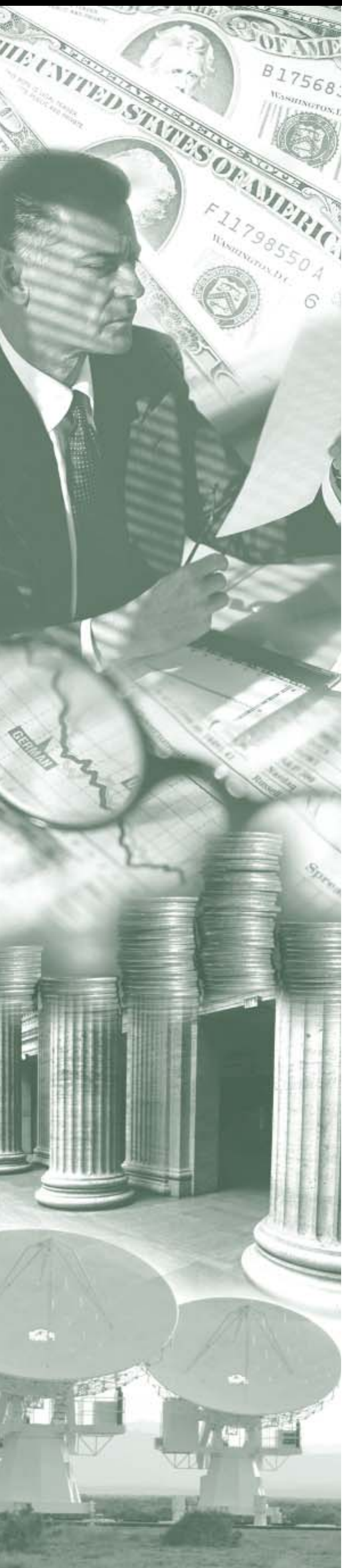


# Leaving a Lasting Legacy

*Sandra Champion, AIFA, President, Champion Partners*

Family foundations are often created to provide lasting legacy. Sometimes issues are centered around specific missions, and sometimes the legacy is as simple as instilling basic morals in the generations to follow. Preparing the next generation for transition takes a good deal of planning and documentation. Funding the legacy properly to reflect the intention of the founder is also critical.

Is proper funding a dollar amount? Is it a large equity position in a publicly traded company? Is it a family ranch? What should the funding vehicle provide?

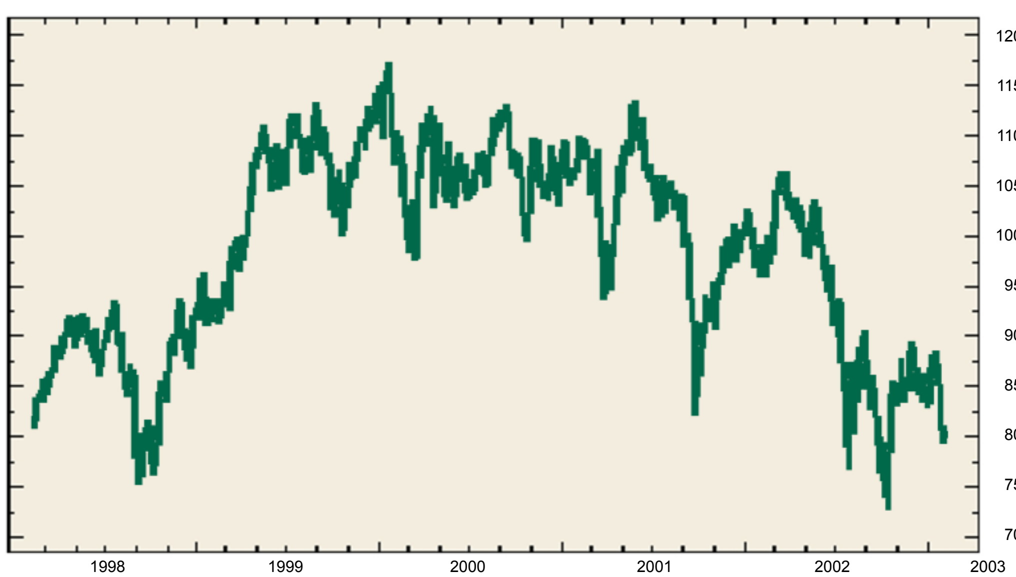
In 1964, David Packard and Lucile Salter Packard established a foundation that would allow for the tradition of giving to continue long after their passing. Their proactive philanthropy provided ample direction for the next generation. Their legacy of giving was well documented. After David"s death, the majority of his estate went to the foundation. The foundation continued to support the community in a manner that was consistent with David and Lucile Packard"s vision. Or was it?

Both David and Lucile had felt blessed by their good fortune and a responsibility to give back as much as possible to the community. As we all know, the estate of David Packard was composed primarily of Hewlett Packard stock. It was a large concentration of that stock that fully funded the foundation. By the turn of the century, the size of the foundation had grown to $18 billion dollars; an amount that David and Lucile would have been delighted with, given the amount of good that could be directed by their foundation. In that year, the foundation awarded $616 million in grants. Today, the foundation is valued at approximately $4.8 billion dollars and will make grants of approximately $200 million. Still a healthy sum, but was this in line with the beliefs of the founders?

David Packard believed a great deal in responsibility. Was it his responsibility to provide the direction for the next generation with regards to managing the assets of the foundation? Did he believe that a concentrated position in any stock would provide consistent funding for any program?

Figure 1 is a technical chart of the Hewlett Packard stock price. This position in HPQ made up over 70% of the portfolio value of the David and Lucile Packard foundation. Where is the consistency in this picture? Is it realistic to believe consistency can occur?

**Figure 1.**
**Hewlett Packard Stock Prices**
**(1998 to 2003)**




Source: Bloomberg, LP

There is a responsibility of properly managing the foundation's assets in the business of giving. By meeting that responsibility, we can continue to support the programs that are somewhat dependent on private dollars. Diversification is the first step.

## Nuts and Bolts

### David and Lucile Packard Foundation

The David and Lucile Packard Foundation maintained an 86% position in Hewlett Packard stock in the foundation's investment portfolio. The value of that portfolio has declined over 60% since 2000 (see Table 1). They have reduced spending, cut staff and are in the process of diversifying the portfolio: "long, slow, and steady diversification of the portfolio." They just sold 200 million of HPQ since June of 2002 in an effort to stabilize the grant-making budget.

### William and Flora Hewlett Foundation

The William and Flora Hewlett Foundation, sister to the David and Lucille Packard Foundation, diversified their holdings. Hewlett Packard stock accounts for less than 2% of the total portfolio. The recent death of William brought the holdings to a level of approximately 50%. Grant making has been relatively consistent up until this point (see Table 2).

### Annie E. Casey Foundation

The Annie E. Casey Foundation plans to divest over the next five years to avoid steep losses. "It's like having only Enron in your pension plan."

### Linda and Ken Lay Family Foundation

Speaking of which, Linda and Ken Lay had 90% of their $52 million foundation portfolio concentrated in Enron stock. Will Houston ever recover?

**Table 1.**
**David and Lucile Packard Foundation**

| Year | Value | Grants |
|---|---|---|
| 1998 | $ 9.5 billion | |
| 1999 | $13.0 billion | |
| 2000 | $ 9.7 billion* | $616 |
| 2001 | $ 6.2 billion | $451 |
| 2002 | $ 4.8 billion | $250 |
| 2003 | ????????? | $200 |

*High of $18 billion

**Table 2.**
**William and Flora Hewlett Foundation**

| Year | Value |
|---|---|
| 1998 | $ 1.9 billion |
| 1999 | $ 2.7 billion |
| 2000 | $ 3.9 billion |
| 2001 | $ 6.0 billion |

### Bill & Melinda Gates

The Gates maintain a practice of diversifying away from Microsoft stock as it's donated to the foundation. They invest in a portfolio comprised of bonds and non-stock investments. The portfolio has not experienced the same type of fluctuation as those foundations that have had exposure to the stock market. With their eyes on programs and giving, they are still the nation's largest grant maker.

### Ford Foundation

Henry Ford gave direction to the foundation to divest itself of Ford stock. He feared that the foundation would not be able to meet its obligations if the market took a downturn. The Ford Foundation currently has an extremely well diversified and yet very conservative portfolio. There is no position in Ford stock. The conservative nature of their investments is the position they took as result of aggressive investing and many mistakes in the 1970's.

### Robert W. Woodruff and Joseph B. Whitehead Foundations

The portfolio was down more than 15% by year-end 2000 as a result in heavy concentration in Coca Cola stock (see Figure 2).

## Conclusion

In a word, concentrated positions can create wealth, but it is diversification that protects wealth.

With diversification as a recognized need, there are still more questions that the families and the foundations must answer. Will divesting of the legacy holding somehow weaken the intent of the original donor? Is the legacy investment what holds the history of the family together? Does elimination of the legacy holding diminish family loyalty or family respect?

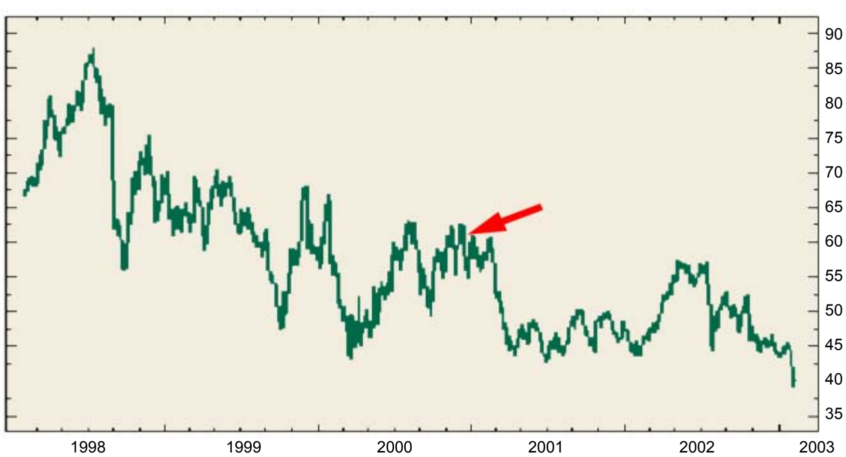
As you can imagine, each family member in each generation will most probably have a different answer. The intent of the donor is best served when he or she is still able to articulate their intent clearly without the dilution of time and interpretation. ■

### About the Author

Sandra J. Champion, AIFA, president of Champion Partners and managing partner of Philanthropic Partners, has been actively involved in the investment industry for more than a decade and has strongly advocated the implementation of change from transactional sales to value-based consultative solutions. Her expertise in the area of foundations and endowments ($497 billion industrywide) has given her national and international recognition. Sandy is published and is a featured speaker at various events across the nation. An active and recognized as a leader in the Investment Management Consultants Association and an Accredited Investment Fiduciary Auditor, Sandy is currently working on a collaborative project with the Center for Fiduciary Studies to create a book that defines UMIFA and UPIA and the regulations that govern foundations, endowments and trusts. She may be reached at 949-887-3115.

Champion Partners is a national consulting firm dedicated to providing support and education to the segment of the advisor community that wish to advance their business in areas of foundations, non-profits and substantial families. Philanthropic Partners is a division within Champion Partners that provides education and direction for the philanthropic community in areas where financial understanding is needed.

**Figure 2.**
**Robert W. Woodruff and Joseph B. Whitehead Foundations**




Source: Bloomberg, LP



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