

THE ATLAS FAMILY FOUNDATION

P.O. Box 725338
LOS ANGELES CALIFORNIA 90025-0338
(310) 394-6475 (310) 395-2017 FAX

Applying a “Long Term Investment Approach” to Grant making

By Richard Atlas

From Financial Futures to Baby Futures

Following almost 27 years at Goldman, Sachs & Co., dealing with institutional and wealthy private investors, I came to the world of philanthropy with no preconceptions about the fields’ best practices. By the time I retired in 1994, my wife Lezlie and I had been casually operating our family foundation for roughly a decade. Our grant making had no strategic purpose. We funded the schools our children attended, our own alma maters, local cultural institutions and non-profits where friends and clients were supporters. I was looking forward to moving onto this next stage of my life, with more time to devote to personal pursuits and to nurturing the most vulnerable and underserved members of our local community through the foundation.

Given that my interests had moved from enhancing individual and institutional net worth to improving human social capital it seemed prudent to learn about strategic philanthropy from professionals in the field. As I began studying the art of grant making I found myself increasingly approaching it with many of the same values and strategies that had proven successful in my professional career. This included an emphasis on relationship building (among grantees and other foundations), long-term commitments, involvement with outstanding people, exposure to innovative ways of thinking about problems, and solutions, and a deeper understanding of the economic and social diversity of our community. Ultimately, this led to the *application of an investment model to grant making*.

The focus area we chose for The Atlas Family Foundation—Early Child Development: Pre-natal to 3—is a direct outgrowth of this long-term investment approach.

And, while selecting the primary issue for the Foundation was one of the most important decisions we had to make, it wasn’t the only one. Below are five lessons drawn from the *investment model* that I believe can be applied to the process of grant making to help other philanthropists think more strategically about how they give and who they give to.

Five Lessons from the Investment Model for Grant-makers

- 1. Focus or diversify.** In the world of investing, focus carries high returns as well as high risks. Thus, wealth creation is most likely to come from a focused approach, in contrast to diversification that is typically associated with wealth preservation. And so it follows in philanthropy that focusing on one issue/area is

more likely to enhance your ability to make a significant difference, whereas spreading your grant making across many program areas/issues broadens your exposure, but may not allow you to have a meaningful impact in any one. An additional benefit of focus is the opportunity it provides to develop an expertise; a deep understanding of an issues many complexities. The more knowledgeable we become the greater our ability to understand related policy issues and cultural disparities, to develop relationships with experts in the field, both public and private, to share learning between service providers and other funders as well as more readily see the many complexities and opportunities for leverage.

Why Early Childhood Development?

The Atlas Family Foundation's mission evolved from a decision to approach grant making (the how?) using this *investment model*. We began (the what?) with an economic and social analysis of human development from conception to the end of life. We were searching to find where along the life span intervention services offered the highest return.

A growing body of neurological research had led to significant advances in our understanding of the importance of a child's earliest experiences – from conception through the first three years of life. In addition, there is now a robust body of clinical research that shows that interventions in these early years has the greatest impact on improving the lives of babies and toddlers. Thus, the Foundation saw early childhood as the period of development offering the most promise for our grant making. Studies have found that very young babies develop emotionally much faster than had previously been believed. From the prenatal to preschool years, the ingredients for our intellectual, emotional and moral growth take root. Before an infant has even begun to form her first words, she is capable of a full range of complex emotions and responses, from empathy and jealousy to frustration.

Children who experience trauma in these early years are more vulnerable to a wide variety of relational problems later in life. Studies show that children who experience extreme stress, poverty and trauma in their early years are more likely to fall behind in school, suffer from mental health problems, and be trapped in the cycle of poverty and incarceration.

Among the most compelling findings was a series of landmark studies over a 20-year period that showed significant economic returns from investing in early child development. Based on conservative estimates, researchers found that, for every dollar invested in early childhood programs, benefits ranging from \$3-8 were returned to the program participants and to society as a whole. These returns were less costly and arguably more successful than corrective measures later in life, such as special education, prison, drug rehabilitation and other forms of government dependence.

In essence, early intervention programs with a long-term commitment to vulnerable young children and their families offered great potential for a high return on investment: we had found our issue.

2. Do your due diligence – it's more than the numbers. Just as I would advise anyone to research a company's fiscal health and outlook before buying its stock, I recommend a close examination of the prospective grantee or program area before investing your philanthropic dollars. The key here is to know what you're getting yourself into at the front end: minimize surprises.

In addition, given that we are long-term investors, our first step is to get to know the people really well. While each of our grants is for one year, our intention is to remain an investor and supporter of the agency for many years. Therefore it is critical to understand the people with whom we will be working, the organizations culture, leadership style, how they interface with and treat their clients. We visit with the staff, board members and observe the content and tone of their interactions with clients. These issues are as important as the programs content and financial status.

When the staff at The Atlas Family Foundation initially meets a potential grantee, our initial objective is to establish a relationship of trust based on our shared goals. We position ourselves as partners in social change. While this granting process can take longer than traditional foundation practices, *a strong, philosophical match is an essential ingredient to our sustained grant making strategy.*

3. Invest long-term – because change doesn't happen overnight. It's a well-known fact in common stock investing that the longer you hold onto your stocks, the more likely your returns will yield positive results. For example, in the case of common stocks, *annual* returns are much more volatile than are 5, 10 and 20-year rolling returns. In fact, over the past 75 years, 20-year rolling returns all have positive outcomes. That is not the case over shorter time periods. That's one of the reasons why many successful investors have low turnover in their portfolios. Also, turnover carries transaction costs that eat away at investment returns.

We believe that the same goes for philanthropy. Long-term support for an organization you believe in, including grants to cover capacity building, operating costs, technical assistance and other mundane yet critical housekeeping necessities over a nonprofit's life cycle, will do more to advance your issue than investing in short-term projects and campaigns.

Nevertheless, most foundations fund a program for only a year or two and then move-on. They seem to be very concerned that their grantees may become dependent. The reality is that non-profits are dependent upon private foundations, just as for-profits are dependent upon private investors. If it's not your foundation, then it's another. Yet, if a program is successful, why withdraw support? Why not sustain support to leverage impact? That way, program staff will spend less time re-merchandising, repackaging and grant-groveling and more time delivering effective services. Would

we require a successful investment manager to leave a successful investment strategy to pursue the latest and most fashionable approach in order to retain our account? No: just the opposite.

As of April, 2006, we have been continuously funding our Grantee Partners for an average of more than 7.5 years, with a range of between 3-11 years. We add about one new Partner each year.

As Leslie Kautz, an investment advisor to large foundations and large endowments, has said, “Perhaps a goal of philanthropists should be to give their grantees more autonomy to act according to their best ideas and be freed from things that distract them from their true mission, e.g., fundraising.” In other words, set grantees up with enough capital to succeed, rather than give them just enough to sink or swim.

For these reasons, early on, our foundation made a conscious decision to invest in the sustained success of visionary organizations by supporting them for the long-term.

4. Foster relationships of trust with grantees – and give them more than money. One of the things that troubled me when I visited foundations was the uneven power dynamic between grantors and grantees. Because the promise of money is often the elephant in the room, grantees are reticent to admit failure, which in turn closes doors on what could be learning opportunities; alternatives to improve their organizational effectiveness and the funders deeper awareness of the challenges they face. Grantors end up with a myopic, misleading understanding of their grantees’ work. Wouldn’t we all be better off with a balanced relationship between foundations and service providers? Each of us is supplying resources to influence change – one supplying financial resources and the other service resources. Without the service resources, the foundations assets would remain dormant. And, without the Foundations financial support there would be no service resources to deliver.

In addition, writing a check is only a piece of what we do. We frame our approach as an investment, not charity. For us charity is giving money away. Investing has additional characteristics. Once we make an investment in an agency we bring other resources to the relationship. Many of these are in response to needs brought forth by our wonderful Grantee Partners, who, we believe really know what’s required to take their programs to the next level. We assist with Board development, Staff development and provide connections to other funders. As an example, most of our Grantee Partners are faced with facilities expansions or renovations. This is not something we fund. However, other foundations generously support capital campaigns and we actively provide introductions. In addition, some of our Grantee Partners have limited experience dealing with foundations. We help them expand their development strategies, suggesting approaches to specific funders and attending meetings/presentations to new funders as a satisfied, supportive and experienced *investor*. If you invest in a small company, wouldn’t you do everything you could to help it be successful?

It is important to mention, that we are very careful to recognize the line between being supportive and intrusive and believe the trusting, long-term relationships we have with our Grantee Partners allows them to let us know if we're getting close to that line.

5. Build partnerships to succeed. In the era of public spending cutbacks, and, just as important, thinking about efficiency as well as effectiveness, partnerships – whether they're between private and public entities, foundations and/or community groups – have become a critical solution for ensuring that social programs receive the support they need.

One of Goldman Sachs's core values is a focus on creating and sustaining long-term trusting relationships with clients and staff. There is a belief that by treating clients and staff as partners, long-term benefits accrue to all. We try to do the same with our grant-making partners. This includes other foundations and public agencies funding the same programs as we. By being an integrated part of the communities where we do business, we develop relationships that give us leverage in serving the needs of the service agencies who work with the babies, toddlers and families we wish to assist. We treat our grantees as our partners. In fact, we call them our Grantee Partners. It is a level of respect and acknowledgement whose consequences include open communication and trust resulting in leveraging the resources we are supplying the community.

Goldman Sachs understands that healthy communities – and fluency and sensitivity about the relationships that hold communities together – are necessary in order for our clients to optimize their prosperity. It's an approach I now apply to my philanthropic efforts.

We have established 3 different types of collaborative relationships:

- Collaborations among Private Funders:

Often we are faced with a Grantee Partner proposing a successful programs expansion requiring financial resources beyond our capacity. We will contact other funders who we believe may have interest in the project and convene them for a common site visit/presentation by the service provider. We will work with our Grantee Partner, assisting them in the preparation of an agenda and advising on presentation format.

In these situations, the collaborating funders generally accept a common grant proposal. When we come together as a group, the funders have the opportunity to listen to each other's concerns and reasons for support. We learn from each other, funders as well as our Grantee Partner. The Grantee Partner is saved the time and expense of multiple site visits and multiple formats for grant proposals. Finally, we believe that our focused strategy is an asset as the collaborating funders recognize that we have deep knowledge and understanding in the specific program area, have already vetted the agency and program and our commitment to the Grantee Partner is long-term.

- Collaborations between Private & Public Funders:

About 4 years ago we began to develop a better understanding about the importance of public policy issues impacting the field of Early Child Development in Los Angeles County. With the help of others we were directed to leaders of L.A. County Departments of Public Health and Mental Health whose focus was the same populations/communities as ours. As we began developing relationships with public agency heads and department leaders we were struck by their passion, commitment, knowledge and dedication to the same goals as our own. We also learned that they had little dialogue and minimal relationships with private funders; in most cases none at all. Yet, we were all funding the same programs. This made no sense.

With the belief that there were significant opportunities to be gained by public and private funders developing trusting relationships with each other, sharing knowledge, information and wisdom, we initiated a Public/Private Dialogue Group around the issues of Pre-natal to 3. We meet quarterly to discuss what each of us is doing; programs we are funding, review needs assessments, policy and communication issues and opportunities. In addition, we have arranged presentations by experts in the field of Early Child Development. We are all becoming more knowledgeable about the research and science of neurological development and how to translate the science into programs and services to impact lives. We are learning how working together creates opportunities for leveraging our resources.

- Collaborations among Grantee Partners:

Collaborations between our Grantee Partners have taken two forms. The first occurs twice a year when we bring them together for a half or full-day convening around a particular issue/domain related to Early Child Development. While the presentations are excellent opportunities for professional education, the biggest benefit seems to be the relationships our Grantee Partners develop among themselves. Our Grantee Partners are learning from each other as the trust that is established during these meetings makes it comfortable for them to call on each other outside the convening where they become each other's teacher/student.

The second form of collaboration between Grantee Partners is best defined by an example – The Westside Infant-Family Network. In 2003, six west Los Angeles community organizations came together to provide in-put to the organization, Zero to Three, which was studying the idea of opening a Western Regional Office in Los Angeles. However, in addition to the discussion around the opportunities for Zero to Three, the participants discussed their needs to improve secure attachment outcomes for their pre-natal-to-3 populations and the limited capacity in their community to serve these needs.

We suggested an opportunity for an interagency collaboration and a willingness to fund the hiring of a consultant to work with the agencies thereby allowing them time and resources to develop a community approach to solving a problem. What evolved after 18 months of meetings was a collaboration among St. Joseph Center, the Venice Family Clinic, the Westside Children's Center, the Mar Vista Family Center, the Westside

Family Health Center and the Santa Monica Malibu Unified School District Infant & Family Support Program resulting in the creation of the Westside Infant-Family Network (WIN).

This collaboration represents what has heretofore been a missing link in assuring secure attachment for families facing the most severe challenges: holistic mental health care including case consultation, therapy, and medication for families with children aged 0-3. With a cooperative, community-based structure that employs a shared team of clinicians and psychiatrists to treat families on-site at each agency, WIN is a new service delivery model that capitalizes on the strengths of each organization and the long-standing relationships they have built with their clients to provide culturally sensitive mental health services. Just as critically, it links these programs – clinics, childcare/school readiness agencies, social services – more closely in service provision, mission, and best practice dissemination such that each organization builds its capacity for care.

Making Smart Investments for Our Future

When we founded the Atlas Family Foundation, we knew above all that we wanted to invest in human capital -- the potential of people. Our investment in early child development is an investment in the economic and social future of California. It's an investment in the lives of the next generation who must learn to work cooperatively and live compassionately and with empathy for their neighbors. It's an investment in our family and community structures. And it's an investment in the health of society as a whole, founded on the belief that the modern evolution of human beings – from early childhood on up – is less about “survival of the fittest” than it is about our willingness to nurture and care for the most vulnerable among us: infants and toddlers.