BARRON'S

Next-Gen Givers

By Suzanne McGee
1 December 2008

The story in philanthropy this holiday season is becoming all too familiar. Individuals, foundations and corporations are all scaling back their giving, often leaving nonprofit beneficiaries in the lurch. Just last week, the Bill & Melinda Gates Foundation, the world's largest philanthropic concern, said it would slow its donations next year because of the hobbled economy and turbulent financial markets.

Behind the headlines, however, a surprisingly encouraging trend is taking hold: A new generation of donors is moving into place — an energetic and highly creative crowd that eventually could reshape philanthropy.

These younger givers — entrepreneurs, executives and latter-day members of old-money clans — are intent on leaving a mark now, not in their 50s and 60s. Some are even dropping the p-word itself. “We don't call what we are doing philanthropy; we call it having an impact,” says Peter Kellner, 39, managing partner of Uhuru Capital Management.

The new firm is about to launch a fund-of-hedge-funds that will turn over 25% of its partnership-incentive fees, or potentially as much as 5% of profits, to entrepreneurial ventures in developing markets, where it also will invest. “This is a model that combines the desire to achieve and the desire to do good,” says Kellner. “Why should we artificially separate these two drives in our everyday lives?”

That attitude is typical of the new generation of givers. “They want to make it a part of the way they live as early as possible, not just something that they do with any leftover money at the end of their lives,” says Peter Karoff, founder of The Philanthropy Initiative, a Boston-based philanthropic-advisory firm.

Already, these givers look to be more generous than their forebears. A survey conducted by Northern Trust, the private-banking concern, revealed that Generation-X millionaires (aged 28 to 42) gave an average of $20,000 to worthy causes in 2006, double the size of giving by their parents and grandparents. Take that, boomers.

“They aren't jaded, and they don't accept the status quo readily,” says Melissa Berman, chief executive officer of Rockefeller Philanthropy Advisors, which counsels big givers. “They have new perspectives and new ideas.”

Consider Kipton Cronkite. Shortly after the Sept. 11, 2001, attacks, the then 26-year-old junior banker went to see the works of 17th-century Italian painter Artemisia Gentileschi. He was struck by her powerful images of women struggling to assert themselves. “It was clear that something terrible had happened to her . . . and that she had turned to art to heal and exorcise that.” (Gentileschi was raped by a tutor, then tortured to try to make her recant. She didn't.)

Cronkite reckoned that the pain and trauma of a post-9/11 world might lead to art as enduring as Gentileschi's. So, he took some of his money — part of it inherited and part of it earned — and set up an organization to help young artists get started. “They needed help building their credibility, learning how to create an exhibition or price their works effectively,” Cronkite says.

He pulled together a blue-chip panel of art-world experts and had them screen artists who had submitted portfolios of their work online. The artists seen as most promising would get help from those experts to get to the stage where their work could be exhibited in a gallery.

Cronkite's Website, KiptonArt, now has 650 registered artists, and has hosted more than 30 events to bring together young artists and collectors. “Some are [now] getting representation at great galleries,” Cronkite says.

Cronkite hasn't let up on his full-time job: He works on the front lines of the financial crisis as an investor-relations pro for a big bank. But KiptonArt is far more than a charitable gesture — it is technically structured as a for-profit business. “It's about giving, about investing with a whole different set of rewards in mind.”

In contrast to grandparents who might have defined “giving back to the community” as contributing to local churches, hospitals and schools, many younger philanthropists think the most compelling projects are overseas. “It's global; it's what is going on in Africa as well as next door, because that is their life,” says Berman of Rockefeller Philanthropy Advisors.

Bryant Keil, founder of Potbelly Sandwich Works <javascript:void(0);> , a restaurant chain with 230 locations, is aiming in his philanthropy to succeed where diplomats have failed. He is creating something called the International Exchange of Peace, which will seek to build bridges between Arab nations in the Middle East and ordinary Americans.

At 44, Keil is a child of the Cold War who grew up believing “all Russians are evil.” He adds: “I don't see how encouraging or allowing our children to grow up with [that kind of attitude about anyone] is helpful today.”

The first step will be to use the Internet to facilitate communications between students and their families in the U.S. and their counterparts in the Middle East. But down the road, Keil dreams of a giant global summit of sorts, with ordinary citizens replacing political leaders. “Maybe it's because I'm still young and energetic that I am willing to take on this kind of challenge,” he says. “I do know that I want my own four children to live in a more peaceful world.”

Kellner of Uhuru, who cofounded that firm with Neal Goldman, 38, is a veteran of global philanthropy. When he was 19, he met Bill Drayton, founder of Ashoka, one of the earliest “social venture-capital” organizations. Drayton established Ashoka in 1980 with the goal of providing financial and other forms of support to help innovators transform their local economies, environments and societies.

When Kellner won a Fulbright scholarship to study in Hungary — the country his grandparents fled decades earlier — he used his time there to set up a Hungarian chapter of Ashoka. Later, at 28, he co-founded Endeavor, a nonprofit that set out to provide support to entrepreneurs in a handful of emerging markets, from Egypt to Uruguay and other parts of South America.

In 2007, two Argentine entrepreneurs nurtured by the group took their e-commerce company MercadoLibre <javascript:void(0);> (ticker: MELI) public on the Nasdaq. That is just one of the 330 companies supported by Endeavor, and Kellner says they now pay an average of 10 times the average national wage in the countries in which they do business. “That is the kind of impact that really accelerates social and economic change,” he says.

The new fund-of-funds, with management help from a handful of folks, could allow Kellner and Goldman to ramp up their support of businesses in, say, Africa and Asia.

“With this idea, our investors can have their cake and eat it, too,” says Kellner. That is, the investors can make a profit from low-leverage, best-in-class hedge funds while still feeling that they are backing a business model with its eye on more than just the bottom line.

The approach caught the eye of Justin Rockefeller, the 29-year-old great great grandson of Standard Oil mogul John D. Rockefeller. No stranger to philanthropic activities or public service (his grandfather and great grandfather oversaw management of the family's philanthropic undertakings, while his father has served as a U.S. senator from West Virginia since 1985), the young Rockefeller has been “thinking pretty seriously about philanthropy for about 10 years now.”

He has wanted to find ways to be more effective with the family's resources. “As the family grows in size,” he says, “the assets that any particular member has in the later generations are going to be more limited, so it's natural that I am interested in finding ways to have as big an impact as possible with what I have.”

Uhuru, he reckons, can help with that, so he has become an early investor. For younger philanthropists, “distinctions between for-profit and nonprofit enterprises are getting blurred,” he says.

But Rockefeller remains committed to his day job, running a more traditional nonprofit that he cofounded immediately after the 2004 presidential elections, with Adrian and Devon Talbott, the children of Strobe Talbott, president of the Brookings Institution.

The three twentysomethings recognized that their generation felt disconnected from the political process, and created Generation Engage to address the problem. The plan is to bring young Americans in touch with politicians, and to sponsor videoconferences, electronic chats and other programs to encourage careers in public service. “What kind of world would we have without idealistic and ambitious young people who want to transform the world?” Rockefeller asks.

For other young donors, the cause may be narrower but the sense of urgency no less compelling. When hedge-fund manager Andrew Rabinowitz was 35, his seven-day-old daughter, Rebecca, died from complications of a virus that had been misdiagnosed. He and his wife, Phyllis, channeled their grief into creating a nonprofit organization aimed at preventing such tragedies: “When we looked around for a charity that did this, amazingly, there wasn't a single one focusing on newborn-children's hospital health care,” says Rabinowitz, who is chief operating officer and chief financial officer of Marathon Asset Management <javascript:void(0);> in New York. He launched R Baby in 2006, the same year his daughter died, starting with raising funds from his Wall Street contacts. Last year, a lavish gala at New York's Mandarin Oriental pulled in $2.5 million, which has already been put to use in, among other initiatives, developing a “blood library” at the University of Maryland Hospital for Children.

The library tracks “every virus that can kill a baby, and all an emergency room doctor has to do is send them the blood sample,” says Rabinowitz. “The cost to the patient and hospital of the test is zero.”

In search of a mass audience, Rabinowitz is now organizing R Baby's next big fundraiser, a Mother's Day run in Central Park co-sponsored by the Roadrunner's Club. “We could create a big surge in public outrage about the issue,” he says.

Also propelled into philanthropy by a wrenching experience: David Kim. In 1989, a sergeant in his Army artillery battalion was killed in action during the U.S. invasion of Panama. Kim felt he had to do something for the man's baby daughter, and for the children of other soldiers killed in action. “I knew I couldn't follow what seems to be the pattern and wait until I retired to do something,” say Kim, today a partner at private-equity firm Apax Partners <javascript:void(0);> .

So six years ago, at age 35, Kim created the Children of Fallen Patriots Foundation. Its mission is to provide full funding to send the children of slain soldiers to college.

Kim says the Afghanistan and Iraq wars have only made his cause more urgent. “Maybe I would be better connected and more skilled at fund raising in my 50s; but today is when the need exists, and I have all kinds of energy that I might not have then.”

His organization has so far given more than $250,000 to some 60 children of soldiers killed in the line of duty. And in a big event held this autumn, Children of Fallen Patriots raised $700,000, greatly exceeding its target ($500,000).

For all the new paths that people like Kim are forging, some of the new philanthropists remain firmly indebted to the examples of their parents and grandparents.

Arabella Philanthropic Investment Advisors' 37-year-old founder, Eric Kessler, got an introduction to global causes from his grandmother, who took him as a child to an anti-nuclear-arms rally in New York's Central Park. “Simon and Garfunkel played!” he recalls. Reaching adulthood, Kessler homed in on environmental issues. “My family's foundation had supported these causes, and we had gone out to help hands-on, cleaning up prairie land and volunteering with other environmental groups.”

Wealthy families have long viewed philanthropy as a way to introduce their children to the concept of managing money. But generational tensions invariably emerge. Recently, Kessler was retained by an affluent family to try to encourage their children to become engaged. “The parents supported the opera and museums; the kids were 18 and 21, and wanted none of it,” he says. “They just wanted to surf.” But after he hit upon causes that engaged their interest, like clean water and public access to beaches, the parents realized that “their children could be very philanthropic indeed.”

Christopher Brink didn't need any convincing to take on a philanthropic leadership role. As the first executive director of the $5 million Brink Foundation, Christopher Brink's job is to identify promising nonprofits working to alleviate poverty and other social ills in the family's hometown of Tampa, Fla.

Three years ago, when Brink was 26, his father began the process of selling his stock in the company he'd owned, beverage company Mona Vie. That's when the younger Brink began looking for ways to funnel some of the profits back to Brazil, the source of fruits like acai berry that were used in Mona Vie drinks. He set up a partnership with a pastor in the Rio de Janeiro slums, which ultimately provided tutoring services to more than 1,000 children. With the company's sale complete, Brink will move on to manage the philanthropic activities of his now-wealthy family.

“My experience in Brazil gives me insight, and a way to break the ice with the nonprofits, so they are more likely to look past my young age.” Youth, he believes, can make a positive difference. “I'm not cynical or pessimistic. I still believe that we can make a difference.”

He admits that optimism may be tested during the recession. When it became clear that cash-strapped parents might have to withdraw their kids from the Tampa YMCA after-school program, Brink had to shelve hopes of launching a $15,000 tutoring program and reallocate the cash toward keeping the kids in the program. “I guess I'm still young enough to be disappointed at having to compromise. At the same time, I know that without our support, these children wouldn't be here at all. So we're still having an impact.”

Experiences like Kessler's and Brink's are becoming a bigger part of conversations about giving as baby boomers across America prepare to hand over the reins of philanthropic leadership to their children, the Gen-Xers.

Judging from the early evidence, the kids are going to do all right.