



Controlling Interest

Donor Managed Investment Accounts enable nonprofits to offer donors greater power over their philanthropic portfolios.

By Melissa Phipps

IF A RESPECTED ALUMNUS SUGGESTS a new way of gifting to Choate Rosemary Hall, Dan Courcsey, executive director of development, listens. Choate is the prestigious Wallingford, Conn., boarding school that boasts a list of alumni including John F. Kennedy, Paul Mellon and Jamie Lee Curtis. Its \$198 million endowment is substantial for a prep school, requiring administrators to stay fiscally nimble and open-minded. So when a hedge fund manager who was a Choate alumnus suggested that Courcsey consider a Donor Managed Investment (DMI) Account program, he took note.

DMI Accounts enable donors to actively manage contributions for up to 10 years after they have been gifted to a charitable organization. Donors receive an upfront federal income and gift tax deduction for up to 50 percent of their adjusted gross income, as well as the ability to continue to invest the assets (independently or through a financial manager) in an array of vehicles including hedge funds, private equity and real estate. The charity “owns” the accounts, so they can be managed tax-free and potentially result in a much larger gift. A DMI Account also offers a nonprofit a tactic for maintaining a direct relationship with a favorite donor. “We are not a billion-dollar research university; we have somewhat limited resources,” Courcsey says. “Many of our alumni are people who take risks with money in everyday life, who have had tremendous results with their investments, and they think they can do a lot better investing this money than we can.”

Indeed, the nonprofits considering DMI Account programs are hoping they will encourage gifts among philanthropists in search of investment accountability. “Many donors feel that a university’s endowment may not be managing funds with the same objectives that they would have,” says Jack Murphy, senior trust officer and director of planned giving at Cornell University in Ithaca, N.Y. “We could perhaps gain a large account through this plan that we might not gain otherwise.” Cornell received approval

from its development steering committee early this year to begin offering the DMI Account program to interested donors. The school has not yet begun to market the account, but has trained its staff to understand it.

To date, only six nonprofits offer DMI Accounts to donors, including Cornell, Skidmore College in Sarasota Springs, N.Y., and Woodside Priory School, an independent prep school in Portola Valley, Calif. Another half-dozen, including Choate, are in the process of seeking approval from boards of directors. The most widely publicized donation through a DMI Account was made to Woodside Priory. As reported in the *San Francisco Business Times*, David and Susan Hafleigh created a memorial scholarship at the school in honor of their daughter, Amanda, a former student. Susan, a former assistant treasurer at Oracle, will be actively involved in managing the gifted assets.

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The strategy was born out of donor frustration, according to Paul Schervish, director of Boston College’s Center on Wealth and Philanthropy and codeveloper of the DMI Account concept. “Mismanagement is one of the biggest issues you hear from regular donors—in terms of investment returns, use of funds and the effectiveness of a project and how it is run,” Schervish says. With the top 1 percent of philanthropists contributing 20 percent of all lifetime donations, Schervish contends that charities should leverage the entrepreneurial and investment instincts of these donors by allowing them to take part in the progress and management of their gifts. “The DMI Account meets these greater donor needs while directly bypassing some of the flaws in other, similar vehicles,” he says. “You have two strong partners entering into a binding agreement: a donor with insights about wealth management and long-term success, and a charity that has needs and is able to protect its interest.”

For the Hafleighs, a DMI Account provided the opportunity to stay directly connected to the school after their donation was made. “I think a lot of people would like to

get more involved with philanthropy, but just writing a check and handing off the money feels sort of empty,” Susan Hafleigh says. “I didn’t want to be divorced from the process.” With her background managing portfolios for Oracle, she researched gifting options before bringing the DMI Account concept to Woodside Priory. Last spring, the

TOP VIEW | Donor Managed Investment Accounts, or DMI Accounts, represent a new tool for nonprofits to attract more financially savvy donors. DMI Accounts enable donors to actively manage gifted assets for up to 10 years after they have been given to a charity. Donors must adhere to a set of investment and performance guidelines set by the nonprofit, at the risk of having their investment privileges revoked.



Hafleighs' account was funded with \$150,000—a relatively modest amount, she admits, for a funding vehicle designed for gifts upward of \$250,000. “It provides a template for this school and others, and may help to make other donors more comfortable with the concept,” Hafleigh says. “I think a lot of generous donors would be interested.”

The DMI Account model was formalized late last year by Winklevoss Consultants of Greenwich, Conn. The firm created a market for the vehicle by soliciting and receiving the blessing of the IRS. Through a private-letter ruling, the IRS confirmed that gifts made through a DMI Account would be deductible for federal income and gift tax purposes. Winklevoss designed the program according to the terms outlined in the ruling, although theoretically any charity can spell out this type of relationship with a donor.

The charity extends an investment management privilege to the donor that can be revoked at any time and for any reason. Although there are no known cases of a charity revoking a donor's privileges in the short history of DMI Accounts, the option remains the charities' strongest safeguard against donor mismanagement.

Winklevoss suggests carefully spelling out terms of conditions prior to the donation and closely monitoring the relationship. The donor and charity enter into an agreement that sets up investment guidelines to reflect the charity's particular risk profile and establishes benchmarks. The charity can withdraw the investment privilege if funds in the account fall below the average return of the S&P 500, for example, or if the account principal erodes below a certain point. Such agreements can also determine when funds will be used. If the donor and charity agree, the principal can be left to accumulate for the maximum 10-year term. Woodside Priory uses a portion of the Hafleighs' donation each year to fund a scholarship. “One client has structured it like an endowment, where 5 percent each year is spun off to help meet the charity's operating expenses,” says Mark Rakov, senior managing director at Winklevoss.

After the gift is made, Winklevoss will act as monitor, aggregating account and performance information and reporting it to the charity, along with any breaches of the agreement, such as an investment in a forbidden asset class. Winklevoss also serves as a go-between, acting on the charity's behalf should conflicts arise. Choate's Courcsey says that outsourcing conflict management to Winklevoss is a pri-

mary benefit. “If the account is bleeding money, Winklevoss handles that. The school does not have to have an uncomfortable conversation—Winklevoss does,” he says. “This is important, because we have to manage donor relationships.”

Winklevoss charges a fee based on a sliding scale according to the amount under management, up to 75 basis points. Because of this cost, charitable institutions have suggested that the program is best suited to donors giving upward of \$250,000; accounts, however, can be established for much less. In fact, in an effort to widen the scope of appeal to charities with larger bases of donors giving smaller gifts, Winklevoss is working on an altered version of the program that could attract donors giving as little as \$10,000.

The company has moved to patent and trademark the DMI Account to prevent other firms from offering the same administrative services, but Rakov admits, “We do not intend to limit or prohibit any charity from offering this program.” Winklevoss will license it to eligible nonprofits on a no-fee basis, while requesting that charities outsource administrative services to the firm.

The DMI Account strategy seems tailor-made for a hot-hand fund manager or investment professional confident in his or her own financial prowess. Even hedge fund managers are authorized to keep donated assets in their own funds, according to Rakov, as long as they comply with the IRS rules on self-dealing—generally meaning the donor cannot own

more than 5 percent of total assets in the fund and is not collecting fees for managing the donated funds.

Whether the DMI Accounts will be widely accepted remains unclear. At charitable institutions such as Cornell, however, the gift is far more important than the means of giving. “Administratively, [DMI Accounts] are more difficult than putting the money into your own fund, but the question is: Would we get the gift otherwise?” Cornell's Murphy posits. “Giving is becoming more complex these days, and the more vehicles we have to meet a donor's objectives, the better off we are.”

Just a few months into managing her account, Hafleigh is thrilled with the results. Working with the school has given her a sense of purpose in the wake of her daughter's death. “I think this is the most positive thing way we could have dealt with this situation,” she says. **W**

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