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Hedge Fund Charities Pinched as Donors Ask Results Firms Miss

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By Stephanie Baker and Tom Cahill



Jan. 12 (Bloomberg) -- Martin Ward, a teacher at a London experimental school called the Evelyn Grace Academy, is pitching **Arpad Busson** on a new idea for getting poor kids interested in science. The charity that Busson leads, Absolute Return for Kids, or **ARK**, is a sponsor of Evelyn Grace to the tune of 2 million pounds.

Ward wants to buy a used ice-cream truck and turn it into a mobile science lab so that kids at cash-strapped schools around London can do hands-on experiments. Busson, who runs fund-of-hedge-funds firm **EIM SA**, asks a few questions and confers with a colleague. "It's done," he says. "You've got it. We've found the money."

Busson and other hedge fund moguls are a force in global philanthropy. In the past decade, hedge funds and private equity firms have emerged as some of the biggest and most-visible donors to charities in Europe, the U.S. and around the world. The money they spend on U.K. and New York schools and to fight AIDS in Africa and India almost always comes with strings attached.

"We've got a new generation of philanthropists who are very driven by results," says Julian Lob-Levyt, executive secretary of the Geneva-based **GAVI Alliance**, a coalition of nonprofits that in 2006 raised \$1 billion in a bond sale to finance immunizations for 160 million children in developing nations. "One question they ask is, 'How can we get these hard-fought dollars to work harder?'"

No one keeps statistics on overall hedge fund charitable giving, yet the amount raised just by the biggest hedge and private equity firms adds up to hundreds of millions of dollars each year.

ARK's Big Give

London-based ARK has raised and given away more than 100 million pounds (\$150 million) since 2002. **George Soros** of New York-based Soros Fund Management LLC donated more than \$500 million to nonprofits around the world in 2008 alone, according to his office.

The New York-based **Robin Hood Foundation**, founded by **Paul Tudor Jones** of Tudor Investment Corp., raised \$56 million at its celebrity-packed dinner and auction in 2008. And in 2007, Blackstone Group LP co-founder **Peter G. Peterson** endowed a new foundation with \$1 billion after his private equity firm sold shares to the public.

In the U.K., the most generous donor to charity, according to a 2008 Sunday Times ranking, is **Chris Cooper-Hohn** (formerly Hohn), the son of a Jamaican car mechanic. Cooper-Hohn runs The Children's Investment Fund LLP, or TCI, a hedge fund that in 2007 alone donated 320 million pounds plus investment gains of 125 million pounds to the Children's Investment Fund Foundation, or **CIFF**, run by his Harvard-educated wife, **Jamie Cooper-Hohn**.

Less Money in 2009

TCI is one of many hedge funds that will likely have less money to give in 2009. Some funds are facing billions in redemptions from unhappy investors as returns sink. That will mean millions less for charity. CIFF's endowment is mostly invested in TCI and took a hit after TCI's returns fell 43 percent in 2008.

ARK may also suffer from the market turmoil. **Philip Falcone**, head of New York-based Harbinger Capital Partners, who joined ARK's U.S. board in 2008, saw his flagship fund fall 23 percent through November, erasing a 43 percent gain as of June.

ARK donor **Carlo Grosso**'s \$3.5 billion Kingate funds were entirely invested with **Bernard Madoff**, the alleged perpetrator of a massive fraud, and were wiped out.

Even so, Busson can call on hedge fund managers that have done well and donated in the past, including **Michael Platt** of London-based **BlueCrest Capital Management**, **John Paulson** of New York-based Paulson & Co. and **Alan Howard** of London-based Brevan Howard Asset Management. Bloomberg LP, parent of Bloomberg News, is an ARK donor.

Robin Hood Model

Busson, 45, traces his interest in charity to his work in the 1980s when he was searching out hedge fund clients for Tudor Jones, who launched the Robin Hood Foundation, and the gala that helps fund it, in 1988. Since then, the charity has raised more than \$700 million to tackle poverty in New York.

Busson says he found Tudor Jones's generosity infectious. "It was the first time I saw someone I knew who became very successful and felt a need to give it back in a positive way," he says.

Busson borrowed Tudor Jones's idea of an annual charity ball and auction. His ARK dinner in June raised 25.8 million pounds, including the 900,000 pounds that an anonymous bidder paid for a **Damien Hirst** painting. Hirst, Britain's best-known artist, made news in 2007 by spending 10 million pounds to make a diamond-encrusted human skull.

Busson, Cooper-Hohn and other hedge fund philanthropists demand that recipients of their grants produce measurable results. In the U.K., they look for guidance to London-based **New Philanthropy Capital Inc.** NPC, formed in 2002 by a group of **Goldman Sachs Group Inc.** bankers, rates charities in the same way that analysts rate companies.

Metrics and Risk

So far it has issued assessments of 500 charities, and the buzzwords in its reports -- metrics, risk assessment, return on investment -- are familiar to anyone in finance.

"If a hedge fund manager is going to give money, we want them to give based on the effectiveness of the charity," says **Martin Brookes**, chief executive officer of NPC and a former international economist at Goldman. "There is much more focus on what the money achieves."

Busson's search for charities with impact led him in 2002 to NPC, which steered ARK to **Hope and Homes for Children (HHC)**, a nonprofit that was emptying orphanages in Romania. The institutions held thousands of orphaned and abandoned children during the communist era and are notorious for neglect and abuse. ARK gave HHC 1.5 million pounds, with a pledge of more if the Romanian project showed results.

Rescuing Orphans

ARK's partnership with HHC has helped close 13 institutions and transfer more than 1,700 children in Romania, Belarus, Bosnia and Bulgaria to their own families or to foster homes or group residences that house 8-10 children.

"When I saw kids walking around like zombies and so skinny, it reminded me of a concentration camp," Busson says. "I come back a year later and see these kids transformed -- in a house, properly dressed, properly fed -- and they're starting to interact and not banging their heads against a wall. That's what it's about."

In 2003, the ARK board, in consultation with NPC, took on a more ambitious project: helping to curb the AIDS epidemic that's decimating sub-Saharan Africa. In May 2003, ARK board members -- **Kevin Gundle**, co-founder of investment firm Aurum Funds Ltd.; **Jennifer Moses**, a former Goldman managing director; **Ian Wace**, co-founder of London-based hedge fund firm Marshall Wace -- along with ARK patron Giancarlo Garuti, traveled to South Africa, where ARK says more than 1.2 million children have been orphaned by AIDS.

AIDS in Africa

They met with **Ashraf Grimwood**, then the director of the South Africa HIVAC Medical Research Council and now head of ARK South Africa. "He convinced us that the best thing we could do for children was to keep their mothers alive," Moses says.

ARK sent teams of doctors and nurses into black townships to set up clinics and get HIV-positive mothers on antiretroviral drugs. The charity now supports about 550 medical workers in South Africa who in March had more than 50,000 mothers, children and other patients under treatment for AIDS. It has committed 30 million pounds to combat AIDS, including 17 million pounds in South Africa. "We've become, in five years, the largest AIDS treatment provider in South Africa," Busson says.

It was **Ron Beller**, Moses's husband and a former hedge fund manager, who persuaded Busson and the ARK board to focus on U.K. education. At some inner-city London schools, 30 percent or fewer of the students achieve passing grades on exams they're required to take at age 16. ARK's goal is to raise the pass rate to 80 percent.

U.K. 'Academies'

The U.K. government has attacked the problem by allowing private groups such as ARK to take over struggling schools. ARK patrons have sponsored six schools, which the U.K. government calls "academies," with grants of 1.5 million-2 million pounds each.

"It's like a school filing for bankruptcy and going into receivership," Busson says. "When it's reached that state, that's when we're asked to take it over."

If ARK's ideas are going to work anywhere, it will be at Evelyn Grace Academy. The school was built from scratch by ARK, with a student body that's 70 percent African or Afro-Caribbean. The school day is extended, and students are offered weekend tutoring and expanded sports and music programs.

A grant from ARK board member **David Gorton**, co-founder of hedge fund firm London Diversified Fund Management LLP, will help finance construction of a permanent building for Evelyn Grace, designed by award-winning Iraqi-born architect **Zaha Hadid**.

Conduit for Giving

ARK was established by hedge fund managers eager to give away money they had already earned. TCI was designed as a permanent conduit for giving. When Cooper-Hohn founded the hedge fund firm in 2003, he had already made a multimillion-dollar fortune working as head of New York-based hedge fund firm Perry Capital Ltd.'s European fund.

As he left Perry, he debated whether to start a new hedge fund or do charity work full time. **Jamie Cooper-Hohn** says she persuaded him to marry the two concepts. TCI, an activist hedge fund that manages \$15 billion, earmarks a third of its 1.5 percent asset management fee for CIFF, plus another 0.5 percent of assets when the fund generates returns greater than 11 percent.

That unique arrangement was a boon for the charity -- so long as TCI was generating profits, which it did at an average annual rate of 42 percent from 2003 to '07. In August 2005, CIFF's endowment was 63 million pounds. By August 2007, it topped 800 million pounds. Then came the market crash.

TCI's 43 percent loss in 2008 will curtail the growth of CIFF's endowment, though it will still collect a third of TCI's management fees. "Market conditions will have no impact on our growth strategy for grant making," CIFF trustee Gerry Elias says.

Harvard Romance

Chris Cooper-Hohn, 42, grew up poor in Surrey, outside London, after his parents emigrated from Jamaica. He met Jamie at Harvard University, where she was earning a master's degree in public administration at the **John F. Kennedy School of Government**, while he attended Harvard Business School.

When the couple lived in the U.S., she worked at CBS News and later for former President **Jimmy Carter's** Atlanta Project, a program to improve the quality of life in the Georgia capital's neighborhoods. The Cooper-Hohns moved to London in 1998. They have four children, including triplets.

CIFF started as a modest institution with limited resources. With the flood of money from TCI, it got big fast. **Jamie Cooper-Hohn's** staff has grown from four people in 2006 to 20 today.

Cooper-Hohn, 43, says she takes a "private equity" approach to CIFF projects. Each grant has a "portfolio manager" who tracks the progress and impact of the money being spent. CIFF collects its own data rather than relying on self-reporting by the grantee. "I'm amazed how many foundations don't feel it's their right to interfere once they've made a grant," Cooper-Hohn says.

Getting a Return

CIFF won't throw away money on grants that don't transform children's lives, Cooper-Hohn says. "I don't see it as a gift -- I'm trying to get a return," she says. Her challenge has been finding quality projects to fund. In 2007, the foundation gave away only 10 million pounds, or less than 1.3 percent of its assets.

Cooper-Hohn has forged alliances with other foundations, particularly the **William J. Clinton Foundation**, for which it is the largest single donor, and the **Bill & Melinda Gates Foundation**. One 2005 grant has had a big impact. CIFF, with the Clinton Foundation, invested 3.7 million pounds in a program to provide antiretroviral drugs to HIV-positive African children.

By agreeing to buy a year's worth of drugs for 10,000 children at once, the Clinton Foundation, funded by CIFF together with a coalition of government and nonprofit agencies, persuaded Indian generic-drug manufacturers **Cipla Ltd.** and **Ranbaxy Laboratories Ltd.** to reduce the price of a year's dosage to \$180 from \$1,500.

Cheap Antiretrovirals

The price has since dropped to \$40. There are now more than 150,000 kids on antiretrovirals in African countries, including Kenya, Malawi, Tanzania and Uganda, with local governments shouldering most of the earlier costs, Cooper-Hohn says.

At the end of 2008, CIFF raised the ante on the AIDS fight, giving the Clinton Foundation \$50 million for its Prevention of Mother-to-Child Transmission program, whose goal is to treat HIV- positive pregnant women so they don't transmit the virus to their newborns.

It also gave \$50 million to the Global Alliance for Improved Nutrition, a program co-sponsored by the Gates Foundation that provides food fortified with vitamins to mothers and children in 22 countries. The goal is to reduce maternal and child deaths caused by malnutrition.

Cooper-Hohn's staff is working hard to measure the effects of these initiatives -- and that's what distinguishes hedge fund philanthropy from much of what has gone before.

'It's a Business'

"It's a business," says Alec Reed, the 75-year-old founder of **The Big Give**, a London-based Web site that in 2008 registered 5,000 charities looking for financing. "Philanthropy has become a sexy subject now, thanks to hedge funds."

Firms like EIM and TCI swear they'll continue to do good -- even at a time when their investments are not doing well.

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