

# *Charitable Systems*

www.CharitableSystems.com

## **Endowment Fund - Investment Fund**

### **Overview:**

The overwhelming driving force behind Charitable Systems is to provide an efficient environment where privately founded and managed charities can flourish and effectively address the many issues of accomplishing their charitable missions. To this end, a menu of products and services is offered to assist and accommodate clients interested in starting and managing their own charities.

The funding philosophy of the private charities will follow the same model as the major successful charities which use endowment investing to provide funding for their charitable missions over an indefinite period of time. One of the more important responsibilities for Charitable Systems will be managing the endowment funds for the individual private charities.

Beyond the easily identifiable responsibility for managing the charity funds, another very interesting capability is the association with the actual founders of the charities. By properly managing the founders' charities and endowment funds, Charitable Systems has an opportunity to win the trust of these wealthy individuals. Appreciating that this particular group of people are always looking for wise investments, there would be many opportunities to introduce investment possibilities.

These two sources of potential investment capital present Charitable Systems with a most curious opportunity. There is a significant push in the investment universe to structure investment clubs or associations. Traditional venture capital firms are failing, being replaced by groups of investors with common interests and capabilities. Obviously a group of very wealthy investors who have each founded their own charity would be a most impressive investment association.

Charitable Systems provides wealthy individuals with the opportunity to accomplish their charitable aspirations through their own private charity, and enjoy the peace of mind of secure safe harbor protection for their assets while accomplishing aggressive estate planning. The private charity is an excellent common denominator to clearly identify wealthy individuals who are part of this well defined group. With on-going management contracts, Charitable Systems is positioned to develop close relationships with the founders of the private charities.

With discretionary control over the various private charity's endowment fund investment dollars, Charitable Systems's range of influence could easily be in the millions of dollars. Individual charity founders would naturally continue to be responsible for their personal investment decisions; however, Charitable Systems would be a gatekeeper providing access to these individuals. The ultimate value of having access to both the endowment funds and the possibility of various individual private investment funds is impossible to calculate.

Charitable Systems fully intends to leverage this ability to structure a substantial network of truly qualified and completely verified wealthy investors into various investment opportunities. It is entirely possible that Charitable Systems could easily develop one of the largest associations of quality investors, representing a combined net worth in the tens of billions of dollars, possibly even hundreds of billions of dollars.

As an incentive for people to join in the launch of Charitable Systems, either as key people, early consultants or investors, limited access to the endowment and investment associations will be made available to those people who provide value added contribution in the early stages. This alone would make becoming a member of the Charitable Systems team a most attractive opportunity, as it could easily translate into extremely valuable resources when considering other future projects and investment proposals. Charitable Systems will always be the ultimate gatekeeper with the true access to these unusual investment capabilities.

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## **Assumptions:**

Within any discussion attempting to quantify the magnitude of the endowment and investment funds, so many variables come into play that it is wise to first understand some of the basic concepts. These larger concepts become the vocabulary allowing for an efficient discussion about the private international charitable corporations and the underlying endowment and investment funds.

**Primary Market Target:** For a host of carefully thought out reasons, Charitable Systems has identified individuals with a net worth of between \$10 million and \$100 million as the primary market target. (Yet, the international charitable corporation is quite suitable for a number of individuals not in this very narrow market segment.) Charitable Systems will focus marketing and production emphases to attract this unique and powerful group of very capable individuals. *Our first basic assumption is that the average net worth of the founders of the private charities will only be \$10 million.*

**Charitable Contribution:** The powerful asset protection capabilities of the international charitable corporation, as well as the flexible and unique elements of the charity, will be an attractive inducement for the founder to place a significant amount of his personal wealth in his private charity. *The second*

*basic assumption is that the average charitable contribution will be 10% of the founder's actual net worth, in our table of assumptions: \$1 million.*

**Host Charity:** In most cases a fully qualified United States public charity will be used as a host charity to provide the founder with a charitable contribution tax deduction. (Contributions made directly to a foreign charity are not tax deductible.) Typically the host charity will retain 5% to 10% of the charitable contribution and pass through 90% to 95% of the contribution to the founder's private charity. Considering that the charitable contribution will normally provide a tax deduction advantage of 30% to 45% of the charitable contribution, sharing 5% to 10% of the contribution with the host charity is very reasonable. *The third basic assumption is that the host charity will only retain 5% of the charitable contribution, or \$50,000 per \$1 million charitable contribution.*

**International Charitable Corporation:** Appreciating that assumptions are really goals, and the only value for this discussion is to provide numbers that reflect possibilities, the assumptions indicate that *the average international charitable corporation will have \$1 million in assets.*

**Founder's Net Worth:** Likewise, the same assumptions suggest that *the average remaining net worth of each of the founders is \$9 million.* These assumptions are only for the purpose of understanding concepts and in no way reflect any current or future reality.

**Consultants:** *The core of the Charitable Systems marketing organization is a network of highly trained consultants.* Each consultant will have the responsibility of working with prospective clients and their attorneys. The consultants will need to focus on both prospective clients and their attorneys. Consultants will also have the opportunity to introduce other consultants to Charitable Systems.

**Attorneys:** The base of credibility is the relationship between Charitable Systems and the client's attorney, not the client. Consultants will advance to higher levels of the compensation by recruiting productive attorneys. The marketing plan offers an expectation that consultants will recruit at least ten productive attorneys. Part of the consultant's training will be how to recruit and service attorneys. The next assumption is that *the average number of attorneys each consultant will have is only five, not the expected ten.*

**Clients:** One of the reasons that it is important to recruit attorneys is the number of clients in their firm and the trust that clients have for their attorneys. If an attorney is introduced to the concepts of the international charitable corporation and embraces them to the degree of allowing just one of his clients to take advantage of the unique opportunity, it would follow that the same attorney would also introduce still other of his clients to Charitable Systems. The broad base of attorneys is important to the fabric of the endowment and investment

funds. Of course the attorneys would be welcome to have as many clients as possible to found their own charities. *Yet, the assumption is that each attorney would only produce an average of two clients for Charitable Systems.*

**Marketing Plan Objective:** *The marketing plan is designed to get clients, attorneys and consultants involved with Charitable Systems.* The underpinnings of the liberal compensation package for the consultants is the web site (and future speciality web sites) and a lot of face-to-face training. Reaching a market target of clients with a net worth of \$10 to \$100 million with a unique and powerful product is not the easiest thing in the world. It requires focus, and knowing the product and client extremely well.

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## **Endowment Fund:**

When a charity makes any investment with the intent of using the earnings from the investment to accomplish the mission or ministry of the charity, the investment is called an endowment.

**Two Philosophies:** Poorly managed charities tend to deplete resources as the mission objectives are accomplished, which in time causes them to either require an infusion of cash or the mission will suffer. The larger, much more successful charities look to endowments to provide a continuous flow of funding to sustain the mission objectives over an extended period of time. The key to a successful charity is the ability to properly manage the endowment fund so that it consistently generates a flow of funds to power the mission.

**The Host Charity:** The fully qualified United States public charity also has the responsibility of wise management of limited resources. In most cases, the attitude of endowment investing is adopted in an effort to preserve the ministry or mission of the public charity. This can only be viewed as prudent management of the charity.

**International Charitable Corporation:** As the manager of the individual private charities, Charitable Systems will be instrumental in structuring various endowment funds. At \$1 million per private charity, these endowment funds are quite sizable.

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## Investment Fund:

Without question, the vast majority of wealth will continue to be in the hands of the founders of the private charities as their personal estates. The connection to Charitable Systems is actually a simple one of trust and respect as the day-to-day managers of their private charities. Clearly, Charitable Systems would be well received with any investment proposals or opportunities. What is known about this very unique group of very wealthy people is that they have a powerful common denominator, having each founded their own private charity. This common bond is much more powerful than any membership in an investment club or their names appearing on a mailing list circulated around hundreds of venture capital firms, each claiming that the individual investor is part of their stable of investors. In this case we definitely have a true association of very wealthy and powerful investors.

**Founder's Net Worth:** Our market target is wealthy people with a net worth of between \$10 and \$100 million. This net worth simply defines the magnitude of the reservoir of financial capability that could possibly be available for investment opportunities. The exact net worth of any particular founder will probably never be known, let alone the collective net worth of all of the founders. Generally speaking, wealthy individuals tend to understate their actual net worth; either they just don't know or it is a private issue.

**Founder's Experience and Expertise:** In the vast majority of instances, the founder will bring valuable experience and expertise to the association of private charity founders. Whenever possible, these extensive resources will be incorporated into future projects and opportunities. The collectiveness of wisdom is clearly one of the most powerful aspects that will be realized by the group of charity founders.

**Founder's Circle of Influence:** One of the most successful marketing approaches will be to look to friends of the charity founders as potential founders of their own charities. The flip side of this same principle is equally important and powerful. The founders of the charities do, indeed, have a strong circle of influence that represents yet another significant resource. An individual with a net worth of just \$10 million has the power to bring several other individuals each with a similar net worth, their own body of experience and their circle of influence.

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## **Types of Endowments/Investments:**

Managing the endowment and investment funds is an awesome responsibility. As with any investment consideration, there is always the balance between protecting the principal and generating the most return on investment as possible. The international charitable corporation is not restricted or limited to a particular kind of investment as is the case with a United States private foundation. However it is extremely important to specifically avoid the fraudulent investment scams offering exceptional high rates of return that seem to flourish outside of the United States. Wise and prudent investment strategies are extremely important.

**Conservative Money-market Accounts:** The most conservative type of investment option would be in a fully guaranteed money-market account or certificate of deposit. This would only be a temporary holding place for funds. At investment levels into the millions of dollars, banks and financial institutions really are not suitable investment possibilities. The responsibility of the charity managers is to wisely invest the endowment fund to achieve the greatest return on investment possible.

**Professionally Managed Portfolios:** The most common investment option would be professionally managed portfolios in the capable hands of recognized investment managers. Within these ranks would be speciality companies which specifically manage funds for the larger public charities as well as the traditional licensed stock broker accounts. The goal would be to provide an acceptable level of return on investment and at the same time have a reasonable degree of safety for the principal. This could be as simple as investing in a mutual fund. There are countless firms available who would gladly welcome the opportunity to invest the charities funds. The charity manager will need to be astute in determining which professionals are capable and will provide the desired results.

**Pooled Income Fund:** As fund managers for a number of individual private charity endowment funds, Charitable Systems will have the opportunity from time to time to form pooled income funds where several charities join together in an investment opportunity. This is very much like a private mutual fund. The fund manager has the responsibility of managing this pooled income fund. There are several advantages to this structure as a precise investment objective can be focused and shared by several endowment funds at the same time.

**Syndicated Investments:** One of the important collateral benefits to forming and managing private charities is the access to sizable investment funds. Charitable Systems will be aggressively pursuing investment opportunities that could be syndicated and offered to both the endowment funds and to the underlying founders of the charities as an additional opportunity for their personal investments. These syndicated investments will be designed to enhance the missions of Charitable Systems and our partner groups. At the same time these investment opportunities will be designed to handsomely

reward the endowment funds and the private investors for their capital contribution to the project. In some respects this possibility is as vast as the imagination. Having intimate knowledge of this type of financial capability is extremely powerful and can easily be leveraged into countless investment opportunities where Charitable Systems, or a partner, can participate in the investment along with the actual investors.

**Investment Joint Ventures:** Both the endowment funds and the private founders will be invited to participate in various investment joint ventures, in a similar manner as the syndicated investments. In this particular type of investment opportunity, a business owned by one of the private charity founders would be invited to participate in a joint venture relationship with either Charitable Systems or one of the partner firms. This joint venture structure would be able to tap into resources that are greater than just the financial capability of the founder. Some very interesting and powerful opportunities could easily be accomplished.

**Speculative Start-ups:** On the far extreme of the spectrums of risk and return on investment, would be speculative start-up investment opportunities. In this scenario the probability of ultimate success can be greatly enhanced by bringing into the equation the extensive capabilities and support infrastructure from the founders of the charities and our own capabilities. In this incubator environment carefully chosen projects have a remarkably good chance of success, especially if there is adequate capital readily available that is not depleted by the usual exhaustive development costs.

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## **Potential:**

Whenever any projections are even attempted, the potential numbers become so amazingly high that it becomes almost unreal. Especially considering how difficult it is to assemble an association of investors. Many, many different firms and companies are searching for ways to bring quality investors into a collective body where investments and opportunities can be presented. These efforts are largely foiled because true investors are especially savvy to the potential and are not necessarily loyal to any structure. It is also a problem in that phoney investors, or even rogue investors, are always attempting to infiltrate the ranks in an effort to discover key information such as who the members of the investment group are and how to access them. By contrast, the fact that an individual has founded his own private charity and has funded that charity with his own resources is an extremely accurate indication of his credibility and capability. The resulting association of quality private investors is not plagued with the typical mass of non-investors padding the numbers. This is truly an amazing opportunity for Charitable Systems and those who are allowed even limited access to the fund.

**Conservative Projections:** The table of assumptions suggests that an average consultant will produce just ten clients. This is accomplished by the consultant recruiting only five attorneys who have an average of two clients purchasing an international charitable corporation. As always when working with a table of assumptions and averages, the actual output never exactly replicates the projections. However, the possibility of each consultant representing ten clients is such an easy concept to grasp that one simply must look at the resulting projections.

First off, the revenue to Charitable Systems from the sale of the ten private charities would be \$250,000 of which up to \$130,000 would be paid back to the group of consultants in the form of commissions and bonuses. The ten new private charities would provide Charitable Systems with an ongoing income stream of at least \$10,000 per month for managing the charities. This alone is an exceptional financial model for Charitable Systems.

The assumption is that the average net worth of each of the private charity founders is \$10 million. Our group of ten founders would represent a combined net worth of \$100 million. If the average charitable contribution to set up each private charity was the assumed \$1 million, then the cumulative total of endowment investment funds would be \$10 million, reducing the founders' net worth to \$90 million.

The host charity, according to the table of assumptions, will receive 5% of the amount forwarded through the qualified public charity, or \$50,000 for each of the ten average charities; thus, a total of \$500,000 would be retained by the host charity.

In the most simplistic terms, funds potentially available for additional investment opportunities would include the \$10 million in endowment funding (the host charity also requires endowment funding management), as well as ten private charity founders worth \$90 million.

This is a simple snap shot of just one consultant who has successfully accomplished the average marks set as goals for his performance. Remember, this projection is only suggesting that the consultant will be able to recruit five attorneys and that each of the five attorneys will have only two clients.

**Target Goal Projections:** Charitable Systems has set a goal of selling 1,000 charities within a 12-month period within the next five to seven years. To accomplish this goal, considering the table of assumptions, Charitable Systems would need to recruit 100 consultants and have each of them successfully hit the average goals set for each of the consultants. The liberal compensation

package of the marketing plan, extensive training and the foundational web site are all the basic tools that will be used to reach this goal.

Using the same table of assumptions, and having successfully hit the target goal of 1,000 private charities within in 12 months, the following could be anticipated:

Charitable Systems would be managing the endowment funds for the 1,000 charities, valued at \$1 billion. The earnings alone going for charitable purposes would be between \$50 and \$100 million per year. To put this number in some odd perspective, the Bill and Melinda Gates Foundation has a net worth of over \$20 billion.

The underlying founders of the private charities would have a combined net worth of something on the order of \$9 billion. Yes, Charitable Systems would have direct access to a proven association of 1,000 wealthy individuals with a combined net worth of \$9 billion. Something that is simply unheard of by any measure of investment club or association today.

Built into the marketing structure is a powerful opportunity for consultants to sponsor other consultants and receive a marketing override bonus on their production. This proven structure has been effectively used in both the insurance and financial communities for decades now. With proper training Charitable Systems will be able to build a network of consultants that will easily number well over 100 within the next four or five years.

**Extremely Optimistic Projections:** There is no reason that Charitable Systems could not continue well past 100 consultants. Once the training program and the training tools are in place it is simply an ongoing management responsibility. It would be entirely possible to recruit and train 500 consultants over the next five to ten years. If it took all of ten years to get 5,000 clients it would be a stunning accomplishment.

The endowment fund that would be managed by Charitable Systems would be \$5 billion, if each charity averaged \$1 million.

The founders of the private charities would represent a potential investment fund of some \$45 billion.

## **Fund Management:**

Obviously even at the lower numbers the fund, management responsibility is monumental. It would be foolish to vest this magnitude of power with just one person or even a small group of people. At the same time, a concentrated focus is needed to make sure that the endowment and investment funds are properly managed. Clearly the goal of the fund management responsibility must be to preserve the corpus of the fund.

**Charitable Systems Fund Management Committee:** The primary responsible party for the management of the endowment fund will be the Charitable Systems Fund Management Committee. As needs and requirements dictate, the composition of the committee will change to provide the level of management service required. As the endowment funds become larger, the staffing of the committee will also be increased.

**Professional Fund Managers:** The most common fund manager will be independent professional investment managers. This could be a licensed stock broker, mutual fund manager, or investment broker. The committee will define specific parameters for the professional fund managers to follow. The investment portfolio will be treated exactly the same as the institution portfolios of the larger public charities.

**Financial Institutions:** Bankers and investment consortiums will provide yet another level and quality of fund management. Again the committee will define the investment criteria for the bankers.

**Syndication Managers:** When investment syndicates are formed the syndicate managers will be responsible for the investment funds. The accountability of the syndicate is extremely important.

**Joint Venture General Partners:** the general partner in a joint venture structure will be responsible for the investment funds. Joint ventures will be expected to follow the generally accepted structure and accountability standards that are normally followed.

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## **Access to Funds:**

Without question, any level of access to these funds would be a stunning opportunity for anyone. There is a tremendous power in having access to a truly significant pool of money. Those who understand this axiom of business will appreciate the amazing benefits to being positioned so close to both the endowment funds and the private

investment funds. Any level of access to the funds or investors will be carefully managed and protected, as an extremely important aspect of Charitable Systems.

**Charitable Systems Fund Management Committee:** The only access to either the endowment funds or the individual private charity founder investors is through the Charitable Systems Fund Management Committee. As the primary responsible party for the investment programs, the committee must determine the suitability of any proposal being considered. It will also be the committee who makes the actual presentation to prospective investors.

**Key People:** Charitable Systems executives and other key people will have limited access to the various funds. This access will be in the form of summary information about the funds. Key people will be asked to search out suitable investment opportunities that can be submitted to the committee for consideration.

**Bridge Finance Investors:** Limited access to both the endowment and private investment funds is being offered as an additional incentive for bridge financing investors. The bridge investors will be provided summary information with indicators as to what types of investments that would be considered by the committee for submission to the actual investors.

**Early Consultants:** The first twenty consultants will have limited access to the endowment and private investment funds. Basically the early consultants will be invited to present investment proposals to the committee. Consultants are prohibited from making any presentation directly to any of the funds or individual investors.

**Level 5 Consultants:** All Level 5 consultants will also have limited access to the various funds. Basically the early consultants will be invited to present investment proposals to the committee. Consultants are prohibited from making any presentation directly to any of the funds or individual investors.

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## **Opportunity:**

Finding suitable investment opportunities for larger investment funds is a daunting responsibility. One of the most difficult problems for the truly wealthy is to ferret out sound investment possibilities. Normally there would be a prohibition against any staff member or associate ever presenting any investment program to any of the investors. It would be impossible for the Charitable Systems Fund Management Committee alone to be able to discover truly significant investment opportunities sufficient to provide investment possibilities for the endowment funds. By relying on the extended abilities of a group of people who have limited access to the funds, innovative and promising investment proposals are made available to the committee. It is important to recognize

that the committee will have the final determination on what programs and opportunities are to be presented to the endowment funds and to the individual investors.

**Personal Investment Projects:** In a stunning departure from the normal stance, Charitable Systems will invite bridge financing investors, qualified consultants and even key people within the Charitable Systems organization to submit personal investment projects to the committee for consideration. Of course this is an exceptional reward for value added service to Charitable Systems, providing access to sizable funds available for investment in personal projects. More important, these individuals become an important source of unique investment opportunities that could generate revenue for both the endowment funds and the individual private investors.

**Gatekeeper:** Bridge financing investors and qualified consultants will also be allowed to structure investment opportunities for other projects that will then be submitted to the committee for consideration. This gatekeeper opportunity serves as a filter to eliminate poorly structured or ill conceived proposals.

**Investment Participation:** Bridge financing investors and qualified consultants will be invited to participate in various investment programs and opportunities designed and structured by the committee for the benefit of endowment funds and founders of the various private charities.

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The ability to assemble an association of verified truly wealthy investors, with the common denominator that each formed their own private charity, is a tremendously powerful opportunity. The international charitable corporation is a very desirable tool expressly designed to serve the needs and desires of the truly wealthy client base. Management of the private charities positions Charitable Systems not only in a fiduciary capacity for the charity endowment funds, but gives Charitable Systems explicit access to the truly wealthy founders of the charities.

<p>This article can be accessed on the Charitable Systems web site at: <a href="http://www.CharitableSystems.com/fund">www.CharitableSystems.com/fund</a></p>
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