

Client Focus

Big Data and Social Media Driving Big Changes in Philanthropy

Major shifts are underway in how Americans fund charities

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Retiring William Blair icon Dick Kiphart looks back at his 50 years with the firm





Tis the Season for Giving

Fall is a season of reflection, when we look back on the past but also look forward to the new year as we gather with family and friends. It is the season of giving thanks and also the season of giving—the central theme of this issue of *Client Focus*, which spotlights the latest trends in philanthropy.

Total giving to charitable organizations has never been bigger, totaling a record \$358 billion last year. Most contributions, nearly three-quarters, were again made by individuals; 2015 looks likely to follow the same trends. Donors are looking around their world and their communities and into their hearts to feed the hungry, provide shelter, fund research to solve the most challenging diseases, educate youth from struggling communities, aid refugees, or adapt to climate change, to name just a few of today's most pressing social issues.

This issue of *Client Focus* covers some of the trends transforming the world of donors and aid agencies, from an explosion in the use of social media to greater flexibility in using funding tools. Charities and other aid agencies working to address social problems are more valuable than ever in today's world of political gridlock and shrinking budgets for state and local communities.

We looked at some of the ways social media and “big data” are being used, drawing in a larger world of younger donors and better measuring how charities perform. Such topics were highlighted at William Blair's client events this fall—the Family Wealth Summit and an evening event on “disruptive philanthropy” with the CEO of (RED), a social media funding pioneer.

This issue also features a profile of one of William Blair's most respected and cherished employees, Dick Kiphart, who is retiring in December after 50 years of service. It is difficult to summarize all the contributions Dick has made. He has worked in and left his mark on just about every department at the firm— from Institutional Sales and Trading to Investment Banking to Private Client Advisors.

Few of our advisors have had deeper and more lasting relationships with our clients. His enthusiasm, wisdom, and experience have been a model for hundreds of colleagues over the years. Dick also remains a model of commitment to his community, serving as board chairman for several Chicago civic organizations. As generous and active philanthropists, he and his wife, Susie, also continue their active work in building health and social welfare programs, particularly in Africa.

In keeping with the season, all of us at William Blair sincerely thank Dick for his landmark efforts over the last five decades, for us and for our clients. We will miss Dick as he moves into a busy retirement.

As we wrap up another year, on behalf of everyone at William Blair, let me also extend warm best wishes to you and your loved ones for the coming year.

Sincerely,

John Ettelson
President and CEO

From Buffett to Bono, Dick Kiphart Reflects on 50 Years with William Blair

Dick Kiphart still wants to change the world

After 50 years of a fabled career with William Blair as one of its most respected and successful employees—a path that led to working with many legends from Warren Buffett to Bono—Dick Kiphart will retire from the firm at the end of the year.

But, as his many clients and colleagues know, Kiphart is not the retiring type. He plans to stay active, as both an investor and donor in enterprises of great promise.

His straight talk and abiding faith in new technologies that change how people perform everyday tasks have paid off well for Kiphart and his clients over the years. When it comes to investing, he says, it's all about study, having faith in an idea, and then having faith in your commitment.

“You’ve got to take a chance,” Kiphart said during an interview in November in his office looking out on the Chicago skyline. “We sell investing here. Most people don’t want to take the risk. But you have to make a calculated bet. That’s the hard thing for many people.”

One of his favorite examples is the story of Concord Computing Corp., a creative tech pioneer that specialized in electronic payment processing used to make credit card transactions. Kiphart and William

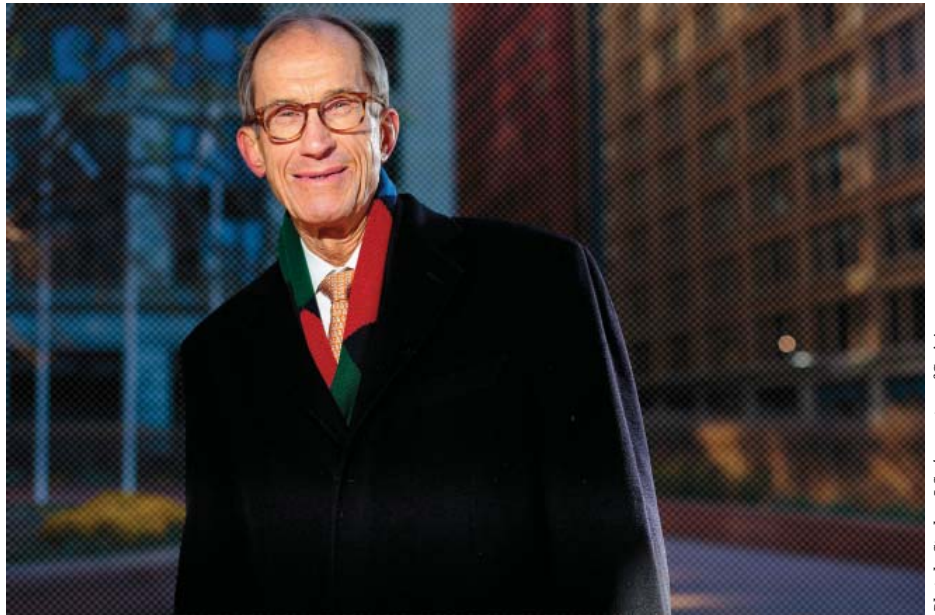


Photo by Stephen J. Serio; courtesy of Crain's

Summarizing his career at William Blair, Dick Kiphart says, *“I truly love the culture and the firm. Every day was a good day.”*

Blair were early champions of the company, which fought off near bankruptcy in the early 1980s. But Kiphart stuck with the company through the rough times, convinced of its product and business model.

Good call: Concord turned out to be Wall Street’s top 10-year stock performer between 1986 and 1996, providing a total return to investors of 60.6% a year—outperforming software companies Oracle and Microsoft, according to the *Wall Street Journal*. Kiphart and William Blair handled the company’s public offering in 1984 and in 2003 advised the sale of Concord to First Data Corp. for \$7.2 billion.

Other career highlights include selling Dairy Queen to Buffett and

taking Osh Kosh B’Gosh public. What he learned most along the way: “You better get out there and sell, sell, sell and sell some more.”

From Buffett to Bono

Reminiscing about those days, Kiphart shared the story of touting Dairy Queen in 1997. He cold-called Warren Buffett’s secretary at Berkshire Hathaway, asking who handled acquisitions. Buffett’s secretary scolded Kiphart for not doing his homework. But moments later Buffett himself was on the phone with Kiphart, saying he had been interested in Dairy Queen for a while. A day later, Buffett sent in his bid.

In the case of Osh Kosh, Kiphart called on the company more than 30 times trying to convince the CEO to take the

privately held company public. When Osh Kosh finally decided to do the IPO in 1985, the CEO went with William Blair, citing Kiphart as the one guy who wouldn't give up.

“You’ve got to take a chance.”

Kiphart was hired in 1965 by Ned Jannotta, who later led the firm from 1977 to 1995. Over his long career Kiphart has, among other posts, headed Institutional Sales and Trading, Investment Banking, and Private Client Advisors. He has also served on William Blair's executive committee for more than 20 years.

“I truly love the culture and the firm,” Kiphart said. “Every day was a good day. In all that time, I'm not sure I could think of three days when I wasn't glad to get up at 5:07 and come to work.”

It might have been fate. Kiphart, who was raised in Milwaukee, interviewed at William Blair shortly after he completed his M.B.A. at Harvard in 1965. But Kiphart had already accepted a position with a prestigious New York investment firm, Kuhn, Loeb & Co. He declined the job offer from Jannotta. But as Kiphart was driving back to New York that summer, past the endless vistas of Midwest corn fields, he had “an epiphany,” he says. He stopped the car, called Jannotta, and accepted his offer.

“I turned the car around and came back,” said Kiphart. “I liked New York. I liked the Midwest more.”

The rest, as they say, is history. Kiphart has made his mark on almost everyone and everything at the company. As William Blair CEO John Ettelson said in a note to staff announcing Kiphart's retirement: “It is impossible to summarize the contribution that Dick has made to the firm. Dick has been a mentor to hundreds of William

Blair employees, including me, and has shown us by his example the importance of giving back to the community.”

Indeed, charitable giving and community service seem part of Kiphart's DNA.

In Chicago, he still serves as chairman of the board at Lyric Opera, Columbia College, and The Poetry Foundation. He's also on the board of Lurie Children's Hospital. As a philanthropist, Kiphart recently donated \$2 million to the University of Chicago global health center.

But one cause Kiphart holds particularly dear to his heart is building wells and schools in Ghana, projects he and his wife, Susie, have supported for years. That interest began in 2002 when U2 singer Bono's charity DATA group approached him to serve on the board to raise funds for its projects in Africa. His friendship and partnership with Bono has grown steadily over the years.

“You have to share. I've been blessed and sharing is just the right thing to do,” Kiphart said. “I have one religion, which is that everybody in the world deserves a break. Everyone is created equal.”

Not the retiring type

Kiphart might be forgiven if, after 50 years as an advisor and investor, he wanted to rest on his laurels for a while. But he says he is going to be busy.

His next act is investing in tech companies—continuing the fascination dating from his earliest investing years.

Kiphart said he is especially looking forward to working with young entrepreneurs who, as he does, want to change the world through technology.



Photo courtesy of the Lyric Opera taken by Dan Rest.

U2 lead singer Bono and Dick Kiphart began working together on social programs for Africa in 2002.

“I love these kids. The world is going to be a better place with them. They work hard. They are smart. Young kids today are more likely to be philanthropic,” he said.

Kiphart admits that with the digital world he is a long way from the early days of credit card processing at Concord. But he likes being a student, saying that he often has just a little inkling—here he pinches his thumb and index finger together—of what the young tech lions are creating.

On the other hand, he still can bring his own special kind of energy to the equation.

“One of the problems today is you have these very bright kids and they all believe: Build it and they will come, like it's that baseball field out in the corn field,” Kiphart said, referring to the 1989 box office hit *Field of Dreams*, in which a young Iowa farmer follows his vision against all odds.

“I tell them you've got to get out there and sell,” he said. “In the investing arena, you can measure the risk. Think about it and make your bet. You've got to take the chance.”

Greater Innovation and Choice, Aided by Tech, Drive Changes in Charitable Giving

Major shifts are underway in how Americans fund charities

U.S. charities are facing major shifts in how donors are funding organizations and what they are expecting to see as results.

Rich young tech entrepreneurs, some of today's biggest donors, are using social media and other tools they have created to shape and measure effective social change. An increasing use of "big data" is influencing which groups receive "big dollars" too.

Tax factors and convenience are also fueling explosive growth in the use of a once little-known investment vehicle: donor-advised funds.

What has not changed is American generosity. In 2014, it added up to a record \$358 billion in charitable contributions, up 7% from 2013, according to Giving USA, an annual survey compiled by researchers at Indiana University. Of that, 72% came from individuals.

"People really do care about giving back. They want to participate," said Keith Curtis, chair of the Giving USA Foundation, who notes that half of individual giving in the United States came from about 4.5% of the population.

"For a high-net-worth individual, many of them don't want to think of it as I'm making a charitable gift. They are really thinking of it is how am I investing in this organization to make a difference," Curtis said. "People want to know the data, the metrics, and outcomes of nonprofits."

Big data

Greater application of technology to measure and expand philanthropy has

come hand in hand with the rise of the Internet and social media.

"One area is the big growth of Silicon Valley tech philanthropy," said Lisa Rangelhi of the National Committee for Responsive Philanthropy. "There is a sense that they can apply the skill sets from the tech industry to solve problems, focus on technocratic solutions, innovations, funding breakthroughs in education, science, medicine."

Charities traditionally have reported basis statistics: how many programs they funded, which locations, number of people they trained. But the data crunchers say those measures often overlook impact.

"It's shifting from accountability to outcomes," said Chris Cyr, who specializes in social data at the Impact Genome Project and was a panelist at William Blair's Family Wealth Summit this fall. "That's a different mindset. Not, what did we do but what did we accomplish?"

Cyr says data mining can produce meaningful measures at shorter intervals, checking after a year whether a program is on track versus waiting, three, five or even 10 years. Big data, combined with statistical techniques, is also being used to better predict outcomes before grants are made. Analyzing dozens of hunger programs, he says, can reveal which activities work best and then use the data to project how effective a new program will be in feeding people.

"Pulling measurement all the way to the front is really a new idea," Cyr said. "Folks

"People really do care about giving back. They want to participate."

are excited to use data to make their decisions. Data is a flashlight to see what's working."

The social network

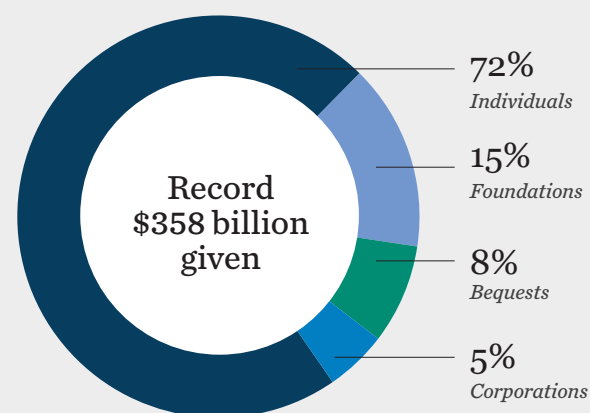
Another side of technology—social media—has opened another big new world of philanthropy, especially for the millennial generation. These Web-savvy youths are passionate about solving the world's toughest problems—feeding the hungry, fighting climate change, finding cures to the most challenging health problems. They love coming together as a group to find and fund answers.

Social media brings them together. One memorable example: the ALS Ice Bucket Challenge, an online message that went viral on Facebook and Twitter in the summer of 2014 and raised well over \$100 million. More than 17 million people uploaded their challenge videos showing each dumping a bucket of ice water over their heads to raise fund pledges for amyotrophic lateral sclerosis, or Lou Gehrig's disease.

"This generation likes to be entertained—something where they can participate and feel good," (RED) CEO Deb Dugan told investors at William Blair's fall event on "disruptive philanthropy" in Chicago.

(RED), a pioneer in using social media for social good, has raised \$325 million to fight AIDS in Africa. It was started in 2006 by U2 lead singer Bono and John F. Kennedy's nephew Bobby Shriver. It partners with iconic companies to develop (RED)-branded products and services. Any time a consumer buys an Apple iPod, coffee from Starbucks, or any other (RED)-branded items from almost

U.S. contributions by source in 2014



Source: Giving USA

two dozen company partners, a portion of the profits goes to the United Nations Global Fund to fight AIDS.

"This is a different generation. They not only want to donate and volunteer, they want to be on the board of a company, they want their job to change the world," said Dugan.

The intention to make—and see—real change is evident in the many mega-gifts given by young entrepreneurs, according to Giving USA.

Facebook founder Mark Zuckerberg and his wife, Priscilla, have a long list of charitable donations and plan to give away 99% of their Facebook shares, now valued

Welcome to donor-advised funds, the fastest-growing charitable tool

One of the hottest trends in charitable gift giving is the growth of donor-advised funds (DAFs), a kind of do-it-yourself charitable giving tool that has seen double-digit growth in donor contributions, total assets, and grant-making in recent years.

Instead of giving directly to a charity or setting up a private foundation, a donor can set up a DAF with a charitable

fund administered by a money manager. The donor takes the full charitable tax deduction in the year of the donation but can advise the manager later on the charities to donate to. Meanwhile, the donated funds can grow and be distributed tax-free.

While DAFs have been around since the 1930s, they have been growing in popularity in recent years for their tax advantages, simplicity, and convenience. Donations and distributions can be done by the donor online, like digital banking, while the recordkeeping

is handled by the fund manager. So, instead of sending out various checks to charities at the end of the year, donors make one transfer to the DAF and have one receipt for tax returns.

DAFs are free of the start-up costs associated with setting up a private foundation. And, they have become a durable vehicle for donating complex assets to charities, from special types of stock to real estate and private businesses to oil or gas leases.

"Donating assets to a charity through a donor-advised fund can be a more streamlined

and tax-efficient way to support charities that may not be equipped to receive complex assets directly," said Julie Alcala, a wealth planner at William Blair. "They also allow donors to give publicly traded stocks which have appreciated over time to charities at their fair market value."

For example, let's say a couple bought stock 10 years ago for \$60,000 and it is now valued at \$200,000. If the couple sells the stock and donates the proceeds to a charity, assume they pay about \$33,000 in tax on the \$140,000 capital gain.

at \$45 billion, over the course of their lives—a pledge revealed while announcing the birth of their daughter. Twitter CEO Jack Dorsey pledged to donate 20% of the IPO for his mobile payment company Square this year to the Start Small Foundation to serve struggling communities, starting with Ferguson, Missouri.

Donor-advised funds

Not everyone has millions to donate, of course. But high-net-worth donors are showing the same demands for more choice and a lasting say in where their donated funds should go. This has fed huge growth in an old investment vehicle: donor-advised funds.

With a donor-advised fund, a donation is made to an investment pool and administered by a money manager. A tax deduction can be made in the current year even if the donor does not decide until a future year where the money should be donated. For many, it's tax efficient, simple, convenient, and easy.

In 2014, contributions of donor-advised funds rose to \$19.66 billion, up from \$17.23 billion a year earlier, and made up 7.6% of all individual giving, according to an annual report from the National Philanthropic Trust issued on November 10.

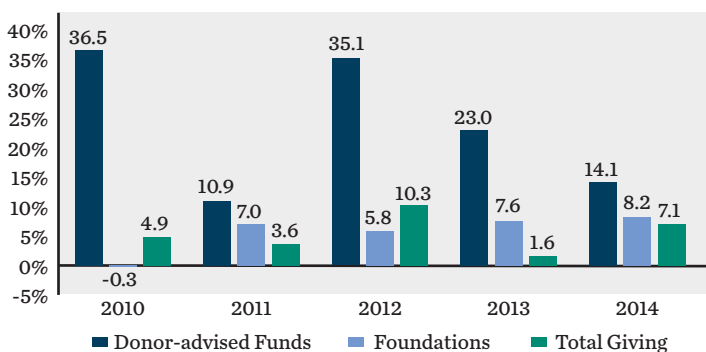
Curtis of Giving USA said that donor-advised funds underscore the more activist role that technology is allowing philanthropists both young and old to play with causes they feel passionate about.

“What nonprofits have to realize is that they have to emotionally engage that donor. There are a million nonprofits plus in this country. But if you don't engage me emotionally in wanting me to be involved in your organization, the metrics don't mean anything,” Curtis said. “You have to combine the data and the passion. That's what drives the big giving in philanthropy.”

They give \$167,000 to the charity, which is also the size of their charitable deduction. However, if the \$200,000 in stock is donated directly to the charity through a

DAF, the donor's tax deduction is that full \$200,000—and the charity benefits from the extra \$33,000. Charities pay no capital-gains tax.

Growth rate of DAFs versus foundations and total contributions since 2010, year-over-year



Source: National Philanthropic Trust, Giving USA

Natural Food Companies Ripe for Growth

“Better-for-you” food and beverage companies are ripe for growth, which will be driven largely by the purchasing habits of millennials, the largest-ever U.S. generation, who tend to take a holistic view of health and wellness, said William Blair equity research analyst Jon Andersen.

Andersen, who specializes in consumer products, said in a recent research report that William Blair had begun covering WhiteWave Foods, The Hain Celestial Group, and SunOpta, leading natural food companies, and all three “should enjoy strong revenue growth” based on their roles in the health and wellness chain.

WhiteWave is known for its innovative plant-based foods like Silk soy milk. Hain Celestial offers many health food brands, including Celestial Seasonings, Health Valley cereals, and, Greek Gods yogurt. SunOpta provides natural and organic foods from the field to the table.

In projecting buying trends, it all comes down to tracking the tastes of young consumers. Millennials, with 91 million births between 1980 and 2000, “could drive 80% of industry consumption growth over the next decade” as they grow their families, he said.

Companies in the natural and organic business are growing about 10 times faster than older brands like Kellogg, Hormel, or Kraft. Those traditional food companies either find themselves reinventing their core products to be more healthy or will acquire innovative companies focused on healthy foods. Andersen also said consumers were paying a price premium for food viewed as healthier and grown sustainably.

To receive Andersen's report, contact your William Blair representative. Visit williamblair.com/ResearchCoverage for disclosure information.

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CLIENT SERVICE

My William Blair: Transforming the Client Experience



Our two-year initiative to transform your client experience is well on its way. We have nearly completed the first phase of this project—the transition of our clients to our new investor portal, My William Blair. This will improve your online experience, advance our investment reporting, and ensure you have secure access to your accounts at any time on any device.

In the second quarter of 2016, we will complete the second phase of this initiative. For those clients whose assets are held in custody by William Blair, we are changing our custody and clearing platform to National Financial Services LLC (NFS). NFS is one of the premier clearing providers in the industry, offering access to an industry leading brokerage platform. This operational change will enable us to provide you with enhanced services, technology, and support for your investment accounts. William Blair and your dedicated team will continue to provide the trusted investment services that you have come to rely on. As always, we remain dedicated to protecting the safety and security of your account(s). We will provide more information about this exciting initiative in the coming months.

If you have any questions about My William Blair or the upcoming transition, please contact your financial advisor.

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