

SHAPING A LIVING TRUST

A vibrant living Trust requires strong and clear direction by its trustees in shaping its fundamental business operations: making the money, recording the money, and giving away the money. A vital decision of trustees is to set the balance between achieving real capital growth and appropriate income yield.

The Trust prides itself on having been since inception an independent organisation, making all its own investment, financial, and grantmaking decisions. Three executives have day-to-day responsibility to the trustees for the three divisions: investments, finance, and grants.

As to capital growth, the trustees have sought to ensure strong and careful increase of Helen's benefaction of £275,000 since its inception in 1951. Over the years, an investment strategy with a focus on publicly listed equities has been the main approach for investing for the long-term. The overall growth from the initial corpus sum of \$550,000 was assisted by Helen's will which gave the trustees wide discretionary investment powers.

The Trust's first fifty years to 2001 saw the corpus grow to \$58 million. By June 2007 the capital of the Helen Macpherson Smith Trust had grown dramatically to over \$108 million, partly because of the attractive buy-back offers from major corporations from 2001. Naturally, future figures are always subject to international financial fluctuations, as we saw by 30 June 2008 when the downturn in the global economy resulted in the capital of the Trust being valued at \$97 million. As the global credit squeeze further limited the momentum of the Australian economy during the year to 30 June 2009, the capital had by then reduced to \$76.6 million. Appendix C summarises the net assets and the financial performance of the Trust 1964–2009.

A variation to the investment strategy was made in the 1970s and 1980s when the Trust also had substantial interests in two office buildings at 271 William Street and 20 Queen Street, Melbourne. These were later sold in preference for higher, and less onerous, returns from equity investments. The Trust's equities showed better growth potential, but later were impaired by the impact of the global financial crisis. Overall growth of the Trust has been assisted by an exemption from capital gains tax, coupled with higher-than-average income yields accelerated by exemption from income tax.

Off-market buy-backs of shares by listed companies were extremely beneficial to the Trust from financial year 2001, involving as they did the virtual sales of shares with significant dividend components, thus attracting high levels of imputed franking credits. In turn, the annual refunds of those enhanced franking credits by the Australian Taxation Office enabled the

Helen Macpherson Smith

trustees to lift the Trust's grants. However, when cash flows of corporates became crucial from late 2007 to meet the challenges of the global financial crisis, the activity in off-market buy-backs virtually came to a halt.

Under the terms of the will, capital cannot be distributed to the charitable beneficiaries. In recent years the annual accounts of the Trust have been prepared on the basis that its investments are marked to market. Therefore, capital appreciation reflects not only the reinvestment of significant surpluses realised from corporate take-overs and capital returns, but also the unrealised gains in the current investment portfolio, a more appropriate accounting method as adopted by professional fund managers.

In the life of a perpetual trust, it is inevitable that changing legislation or other circumstances unforeseen by a benefactor may affect the capacity of trustees to observe the original intention of the benefactor. The trustees faced this challenge when, gradually, the provisions of Helen's will concerning eligible grant recipients narrowed the range of organisations able to apply for grants. Under the will grants could only be made to institutions which qualified under the Administration and Probate Act 1928. By the late 1980s, the Trust had become limited in its grant-giving, and when legislation was enacted abolishing probate duty in Victoria, the test of eligibility was left void. The Trust was therefore required to seek a 'cy-pres' order by the Supreme Court, which was granted on 26 November 1992.

This was a significant event in the life of the Trust, as it enabled the identification of a wider range of charitable classifications to determine an organisation's qualification for grants, and the Trust then received applications from many newly eligible organisations. Although widening the range, under the terms of Helen's will, the Trust can still only support eligible Victorian charitable institutions. The trustees prefer that larger service charities also have deductible gift recipient status because it enables them to seek tax-deductible donations from individuals and corporates and, therefore, support from the wider public.

The priorities of a modern, professional philanthropic organisation change over time according to differing social, economic and environmental circumstances. As well as taking these into account, the trustees also recognise the pioneer pastoral wealth generated by Helen's forebears and give careful consideration to applications from eligible organisations in rural and regional Victoria. Other priority considerations include support for innovative projects, those which involve partnerships with government or community groups and a range of pilot projects.

Shaping a Living Trust

The Trust's grant-giving procedures have varied over the years, and continue to be reviewed regularly. For much of the early life of the Trust, grants were given in the main to eligible Victorian charitable organisations seeking support for their immediate needs. Towards the end of 2002, in recognition of the increasing maturity of the philanthropic sector, the Trust reviewed its grant-giving, taking into account the changing trends in international and Australian philanthropy. The trustees decided that, while continuing to support applications that were essentially of immediate need, they would also seek to more actively engage in strategic philanthropy.

When Liz Gillies was appointed to the newly created position of grants executive early in 2003, the Trust gave her the opportunity to foster, develop and extend networks across the not-for-profit, philanthropic and government sectors, heightening the Trust's public profile, especially with some innovative collaborative partnerships.

The Trust's grant-giving philosophy was reviewed significantly in 2009, and a detailed Grants Policy Statement was adopted. The trustees resolved that the grants coverage should be channelled into three defined streams, namely small grants, strands, and partnerships. The streams concept is more definitive in providing the Trust's continued support for small immediate needs, also for projects in specific strands of community needs, and finally for working collaboratively with other stakeholders to deliver improved outcomes from major community projects and programs. Today, several hundred grant applications are received annually, and the amounts requested have increased substantially, resulting in a greater number of applications having to be declined. It is hoped that the streams concept will better focus the Trust's goals, and help to reduce the number of unsuccessful applications.

The Trust recognises that those who seek its support are an important part of its intelligence-gathering. The insights and the often innovative solutions in many of the grant applications allow the Trust to increase its understanding of the issues which it engages with and, in many cases, supports.

The Trust sees itself as a philanthropic partner and over recent years has actively brokered partnerships with the not-for-profit sector, governments, corporate entities and the research community. It believes that no one voice can provide the solution to the challenging issues faced by many in the community. Its partnerships with community organisations, all levels of government and corporate entities have greatly enhanced the Trust's insight and understanding of these sectors.

Helen Macpherson Smith

An important element for mature philanthropic trusts is a comprehensive approach to evaluating the outcomes of their grants. A significant challenge, already in the Trust's thinking, is to frame evaluation techniques in a way that assesses the medium to long-term benefits and social impacts derived from its grants, and particularly from strategic collaborations. To advance that aim across the philanthropic sector, the Trust made a grant in 2009 to publish *Time Will Tell*, a publication showcasing a variety of stories of good philanthropy, some involving the Trust, and others involving peer foundations. The collection of stories provided another technique for consideration in the evaluation of what good philanthropy can ultimately achieve, particularly through partnerships.

The Trust's approach to grant-making in partnership is demonstrated by the launch in May 2004 of the Macpherson Smith Community Alliance. Because much of Helen's legacy comes from the pastoral and business pursuits of her family in rural and regional centres, the trustees, over many years, have approved grants to support community initiatives in country Victoria. The Macpherson Smith Community Alliance was a two-year partnership between the Trust and the Regional Development ministry of the Victorian government. With a \$500,000 contribution each, the partnership created a pool of funds to assist community and economic infrastructure in fifty-five Victorian rural and regional towns identified by an earlier government-funded Community Capacity-Building Initiative.

At the launch of this partnership the Minister for State and Regional Development (later Premier), John Brumby, said: 'The Macpherson Smith Community Alliance is a great example of Government working in partnership with private organisations to deliver real outcomes for Victorians. The Victorian Government is proud to be working with the Helen Macpherson Smith Trust in delivering such an innovative partnership that will help rural and regional Victoria. Chairman Darvell Hutchinson spoke of the strong support of the Trust for this unique joint initiative:

The Helen Macpherson Smith Trust places a high priority on working with people, communities and organisations to realise their community's aspirations by funding innovative projects and initiatives which demonstrate sustainable long-term benefits for those communities... The Macpherson Smith Community Alliance recognises the vital place Victoria's small rural communities occupy in our diverse and vibrant society. We also recognise the tenacity and determination they show in their endeavours to sustain and grow their towns and local industries.

Shaping a Living Trust

An unusual feature of the Community Alliance was that the Victorian government invited the Trust to be the financial administrators of the project, resulting in the government passing its half-share of funding to a joint account operated by the Trust.

The initial Macpherson Smith Community Alliance proved to be a highly successful joint venture. In April 2007, the trustees signed a new memorandum of understanding with the state government – this time with the Department of Victorian Communities – in which both parties agreed to contribute \$1 million to a second stage of the Macpherson Smith Community Alliance. The new four-year \$2 million partnership aimed to energise and strengthen regional communities in 150 small townships through active participation in community events, as well as assist with building community capacity and leadership. In addition to this rural-oriented alliance, the trustees had also considered the possibility of helping to form a separate independent service charity dedicated to the needs of country Victoria. Consequently, in 2005 and 2006, in acknowledgement of the contributions of the Macphersons and the Smiths to the growing legacy of the Helen Macpherson Smith Trust, and its continuing commitment to assist country Victoria, the trustees reserved grant monies totalling \$5 million for an ultimate corpus endowment to establish the Macpherson Smith Rural Foundation. The foundation was incorporated on 3 July 2008 and in the 2008–2009 financial year the Trust paid the endowment grant of \$5 million. The Macpherson Smith Rural Foundation aims to assist rural and regional communities throughout Victoria to meet the challenges of the twenty-first century. The foundation has established an initial focus on rural education and will partner local communities to address disadvantage and promote greater educational opportunities and community leadership.

The Trust gave a further grant of \$750,000 to the Rural Foundation in June 2009 as the inaugural donation to the Future Rural Leaders Scholarship Fund to benefit Year 12 students in country Victoria seeking transition to tertiary education, being the first charitable program undertaken by the board of the foundation.

In 2008 the Helen Macpherson Smith Trust made a historic grant to the Melbourne Business School of the University of Melbourne for its Asia-Pacific Centre for Leadership for Social Impact. The centre, formally launched in August 2008 by the Prime Minister of Timor Leste, Xanana Gusmao, is a first in the Asia-Pacific and one of only a few in the world. It will become a focal point for research and leadership teaching across the community in the areas of welfare and community, environment, health, arts, and education. Its

Helen Macpherson Smith

focus on social impact gives an opportunity for unprecedented alignment between governments, philanthropists, corporations, business schools and third-sector organisations. The vision of the centre is to provide 'leadership for a better future', developing outstanding leaders who design sustainable, balanced organisations and contribute to fair, just and humane communities. Chairman Darvell Hutchinson said the trustees 'saw this project as ground-breaking for philanthropy, with our largest grant ever an important social investment to the very sector the Trust serves and supports. We feel that Helen, our benefactor would be proud'.



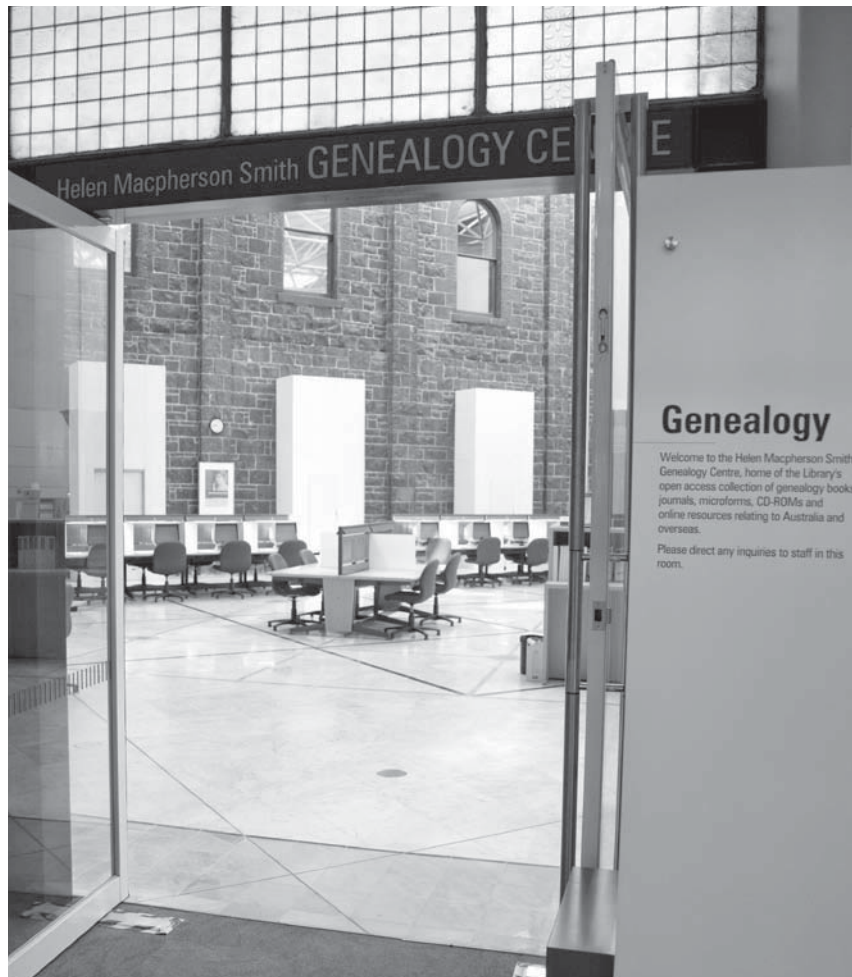
The Prime Minister of Timor Leste, Xanana Gusmao, and Trust Chairman Darvell Hutchinson at the launch of the Helen Macpherson Smith Chair of Leadership for Social Impact at the Melbourne Business School.

As well as these far-reaching and visionary projects which are living examples of strategic philanthropy in the form of highly focused social investments for the long-term benefit of Victoria, the Helen Macpherson Smith Trust aims to improve the immediate quality of life across many other areas of endeavour by Victorians. While the scope and depth of the Rural Foundation will encourage young leaders into the future, many other grants have had more immediate effect. One area touching many people is that of family history, where research by people into their own backgrounds is one of the fastest-growing pastimes in Australia. A grant to the State Library of Victoria in 2003 enabled the reconstruction of a courtyard as the Helen Macpherson Smith Genealogy Centre. The centre, a dedicated space which brings together a collection of key Australian and international resources, is the starting point for genealogical research in the library. Tens of thousands of visitors use the centre each year. An open-access collection where genealogists can browse and undertake research, it is also a valuable tool for professionals researching areas such as the history of buildings and early Victorian businesses.

In another context, the Trust recognises that Australians will face times of trauma and tragedy, and to meet these eventualities in the most efficient way, medical facilities need to be world-class. To help achieve this aim at

Shaping a Living Trust

Melbourne's Alfred Hospital, in 1992 the Trust provided \$500,000 towards the relocation and refurbishment of the Helen Macpherson Smith Burns Unit. The unit's infrastructure can cope with multiple patients with major burns and is designed to prevent the spread of infection. It was the first in Australia to develop and use skin-culture techniques, which have saved many lives in desperate situations. While the unit is fully committed on a daily basis, it is called to capacity when natural or man-made tragedies occur. It performed highly specialised emergency work following the Bali bombings in October 2002 and the devastating Victorian bushfires in February 2009.



The Helen Macpherson Smith Genealogy Centre at the State Library of Victoria.

Helen Macpherson Smith

In a further example of a recognition of the diversity of interests of Victorians, in 2005, the Australian Centre for Contemporary Art (ACCA) and the Helen Macpherson Smith Trust began a partnership to support the production of a major new art work each year by a Victorian creative artist. This is then donated to a Victorian regional gallery after its initial exhibition at ACCA. Known as the Helen Macpherson Smith Commission, it met ACCA's charter to exhibit the best in contemporary art and to commission significant new works to become part of the national cultural asset. For the Trust, this collaborative partnership has provided favourable outcomes of a greater public awareness across Victoria of cutting-edge contemporary art.

As to the past, Appendices D, E and F show the total annual grants distributed, the twenty-five largest individual grants approved to date, and the twenty-five charitable organisations which have benefited most in aggregate.

The shaping of a vibrant living trust is not confined to reviews of its grant-giving policies. Its administrative and governance policies also need re-examination to ensure they are appropriate to current best practice.

As earlier mentioned, the trustees sought and were granted a cy-pres order in 1992 varying the terms of Helen's will. In 2005, the Trust initiated further consultation with its legal advisers seeking an Administrative Scheme application to the Supreme Court to incorporate governance and administrative provisions more appropriate for a philanthropic Trust in the twenty-first century. One reason for the application arose from the sizeable growth of the Trust, which required a larger board of trustees, whereas Helen's will limited its membership to three. The Administrative Scheme does not change the clauses of Helen's will but becomes a supplementary authority. After extensive consultations over several years, the Order, approved by the Supreme Court of Victoria on 24 November 2009, directs that the trustees are 'authorized and directed to carry into effect the terms of the said Administrative Scheme as if they were terms forming part of the will of the said Helen Macpherson Schutt'. The Order now allows for a larger board of trustees to be appointed, with an appropriate blend of expertise.

The trustees believe that the Court's approval of the Administrative Scheme in its entirety, presents significant new signposts for them in their shaping of Helen's living Trust, far into the future.