

A LETTER FROM THE PRESIDENT

At the F.B. Heron Foundation, our mission-related investing continues apace. As of 12/31/2007, the Foundation had 26% of its endowment invested for mission (30% including grants). In grantmaking, core support comprises 65% of grants approved.

This year, I would like to take this opportunity to tell the readers about a set of significant program changes approved by the F.B. Heron Foundation's Board of Directors in March 2008, including what is changing and what is not; and why and how we are making these shifts. While these changes have already been communicated to organizations directly affected, we thought it might be helpful to provide an explanation to a wider audience. *For more detail on our program review process, content and findings, please see www.heronfdn.org*

WHY NOW?

Since its creation in 1992, the F.B. Heron Foundation has maintained its mission of **helping people and communities to help themselves**. Over the past 16 years, our programs have evolved to focus on wealth-creation opportunities as a means of helping families take control over their lives and make decisions for themselves.

Much has changed in the world since we got started. A partial list of issues barely on the radar screen in 1992 includes: globalization; dynamic patterns of immigration; access to health care; new technology and telecommunications; gentrification with attendant displacement; climate change; escalating energy costs; churning in the financial

services sector; predatory lending; and recent record foreclosure rates.

We felt it was time to take a step back to ensure that our grantmaking and investment strategies capture current realities and are forward thinking. During the past year, with guidance from the Board, the Foundation conducted a program review, resulting in the changes outlined below. The decision to consolidate some program areas and expand others was vetted thoroughly by the Foundation's Board. It continues our efforts to focus with prior programmatic and geographic consolidations in 2000 and 2004.

WHAT IS CHANGING AND WHY?

In brief, the Foundation will be:

Consolidating geographic areas from 12 to six. For a mid-size foundation working nationally without field staff, we concluded that working in 12 areas meant we were simply spread too thin. We examined a number of external data and internal lessons learned. *[More detail on "lessons learned" is available on our website.]* The key question we asked as we assessed the regions was: Are there opportunities where Heron's core support grantmaking and mission-related investing might help to accelerate efforts underway to create and preserve wealth for low-income families?

To be clear, we do not intend to design and impose initiatives on the geographic areas in which we will be working. Nor will we limit our mission-related investment activity to these areas. We do hope that by working in fewer areas we might: deepen our understanding of communities; develop closer

relationships within the private, nonprofit and public sectors; mine opportunities to advance market-rate investments that support mission; support research and policy opportunities that advance our wealth-creation programs; and accelerate efforts to improve, demonstrate and communicate impact. We do not think that six is a "magic number," but a number that makes sense for this Foundation at this time.

Emphasizing wealth preservation in addition to wealth creation. While we have for a number of years supported wealth-preservation strategies—including anti-predatory lending efforts—the foreclosure crisis and turmoil in the credit markets have intensified the need to focus on preservation to protect the wealth gains of low-income families.

Supporting research and policy efforts that advance our core program areas. We have also supported research and policy along the way, including organizations that engage in policy development and receive core support from Heron. Going forward, we aim to identify and support research and policy efforts that support our core wealth-creation efforts in a more strategic, deliberate manner. We are mindful of the challenges of successful policy grantmaking, including its long-term nature.

Integrating sustainable development practices within wealth-creation strategies. In order for people to create and preserve wealth, their activities need to be supportive of the long-term health of the community. The Foundation will support practices and policies that integrate environmental and

energy sustainability with opportunities for individual wealth creation and preservation.

Increasing our activities to encourage best practices in philanthropy, including mission-related investing and core support grantmaking. As previously mentioned, the Foundation had 26% of its endowment invested for mission—30% including grants (as of 12/31/2007). Core grantmaking support comprises 65% of our total grantmaking budget. We have also developed customer service metrics and systems, and tools for assessing impact. We think we have learned some valuable lessons and hope to work with colleague funders to expand these practices.

Phasing out support for accredited child care programs. We continue to recognize the importance of nationally accredited, quality child care as a means of helping people to participate in the economy. We have been privileged to work with some high quality organizations in this space. And yet, as our approach of blending grants and investments to support our mission and programs evolved, we found limited opportunities to support accredited child care programs focusing on children from low-income families and working at scale.

A new set of Program Guidelines reflecting these changes is included within this annual report and is available on our website.

WHAT IS NOT CHANGING?

What is not changing is our mission: **Helping people and communities to help themselves.** We are also maintaining our wealth-creation and preservation program areas as a means to help people take control over their lives, and make decisions for themselves and their families through **home ownership, enterprise development, and access to capital.**

What is not changing is our resolve to deploy the Foundation's resources as effectively as possible to advance positive impacts on the lives of people in the communities we care about. The Heron Foundation's Board adopted an explicit set of core values—principles to continue to guide Heron's work. The hallmarks of these values are: providing **core support** to organizations that can **demonstrate impact; making invest-**

ments to advance the Foundation's mission; and emphasizing **customer service** by being responsive through courteous, timely, respectful, and clear communications.

We will also continue to fund community-based organizations, and the regional and national organizations that expand effective practices and promote practice-based policies.

As we move forward, what has not and will not change is our deep gratitude to the Foundation's customers—the grantees and investees who do the actual work to build wealth and assets for low-income people and communities. We are privileged to have the opportunity to work with so many talented and committed leaders.

HOW DID WE DECIDE ON THESE CHANGES?

To inform our thinking, the Foundation invited all of our current grantee and investee customers, in addition to outside experts, to provide feedback and recommendations. We are very grateful to the Heron customer experts—grantees and investees—and to the outside experts for taking the time to share your insights on how we can improve our work. *More detailed feedback and several papers we commissioned are available on our website.*

Using all of the above input and our own experience, Heron Board and staff engaged in detailed analyses of each program area, key funding priorities, and the geographic areas in which the Foundation is working. Based on these analyses, the Board approved some exciting new directions for the Foundation but also made the difficult choices to phase out funding in child care and to consolidate the geographic areas in which we work.

Unfortunately, this means that some of the organizations currently funded by Heron no longer correspond to the Foundation's core program or geographic areas going forward. This shift in no way reflects a judgment on the value and impact of those organizations. Rather, it reflects the recognition that additional focus might help the Heron Foundation to deploy its resources more effectively. The decision followed months of deliberations with the Board and staff,

although I suspect this is likely of little comfort to the many organizations that will no longer be eligible for support.

In all cases, the Foundation has attempted to provide clear and timely notice of the changes directly to the affected organizations. We deeply appreciate the work of the many outstanding organizations, some of whom have been our partners for many years. As we communicated to these organizations, it is our plan to support transition grants to each of the organizations that are no longer a match with our guidelines.

EXPRESSIONS OF GRATITUDE


I thank the Foundation's Board of Directors, especially our immediate past chairman, Bill Dietel, and our current chairman, Buzz Schmidt, for their guidance and support. During this period of change, they have consistently challenged the staff to make sure that the interests of the ultimate beneficiaries of the Foundation's work were foremost in our minds. The Board cautioned us to be respectful when exiting relationships with existing organizations that are no longer a fit with the Foundation's program areas.

I also want to thank and acknowledge the outstanding leadership of Mary Jo Mullan and John Weiler on Heron's staff. They designed and led us through the inclusive process I've described.

Our deepest gratitude goes to the Foundation's partners—our grantees and investees—who do the real work, building wealth-creation and preservation opportunities for working families and communities. They work with extraordinary creativity and nimbleness to advance their mission in an increasingly fragile, dynamic environment.

I welcome any comments you may have.

Sincerely,


Sharon B. King