

2008: Need I say more?

2008 was marked by two historic events. The first was the election of Barack Obama, an African American, to the presidency of the United States, and the second was the global economic crisis.

Much has been written about these events, so I do not plan to go into detail except to make a few comments.

After Barack Obama was elected, one of my good friends in Europe, John Richardson — who was the founding president of the European Foundation Centre — said to me, “Just when we had all given up on you, you Yanks have once again reinvented yourselves and, in the process, democracy.”

As I write this, President Obama has been in office for less than a year. Clearly, his presidency will have as great an impact on our grantmaking programs — regardless of where they occur — as will anything else in the foreseeable future. The President and his staff have been reaching out to the foundation community to learn more about projects that have demonstrated success that could be more broadly replicated. The Mott Foundation is not alone in saying, “While it is still the early days in Barack Obama’s presidency, we wish him well.”

The second major event of 2008 was the global economic meltdown. This economic catastrophe, from which no nation has fully recovered, is having a dramatic effect upon our Foundation, as well as almost every organization, business and individual I have run across. It seems that no one has been spared from its impact.

I believe, as most people do, that the recovery from this collapse will take several years. In my mind, the genesis of this collapse took place in the late 1990s and continued through 2002. During that time, there was too much false optimism

or hubris — or greed, if you wish — governing and leveraging up the markets. Fundamentals were ignored, and too many investments were obscure. Derivatives, hedges and “bets” became popular. Bad policies contributed to the decline, as did two wars that were waged without the fiscal discipline and monetary restraints that are necessary in times of war.

I am not going to go into great detail about how we are responding to the economic decline, which has, in our case, resulted in a decrease in our assets. (See chart titled “Total assets at market value & total assets in 2008 dollars” on page 5.) But, I would like to share a few thoughts on our approach.

As assets dropped, we have been forced to reduce our grantmaking, but we have done so in a way that has allowed us to remain focused on our core programs and protect long-standing grantees. Through all this, we have honored our existing commitments, but frankly have had less capacity and flexibility to respond to unusual opportunities that present themselves regularly.

Throughout the downturn, we have tried to examine our activities and continued our long-standing practice of investing in our grantees for the long term. We also have tried to make sure grantees have been able to maintain their basic capacity. Likewise, we have invested our resources in nonprofit leaders and infrastructure.

Over the past eight years, the processes of natural attrition — including retirements and employees moving on to other opportunities — have

reduced our staff ranks by more than 20 percent. That has allowed us to avoid layoffs.

I believe both events — President Obama’s election and the economic downturn — will result in many wonderful opportunities to reinvigorate programs, reinvent ourselves and develop new ways of doing business. for us and others.

In 2008, we also witnessed what was, for us, a bittersweet event. Our hometown of Flint, Michigan — “The Birthplace of General Motors” — celebrated the 100th anniversary of GM. But this community has been experiencing the loss of automotive employment for more than 30 years, and the Flint area and our entire state ended up at the epicenter of the collapse of domestic automotive manufacturing, which culminated in GM (and Chrysler) filing for bankruptcy this spring.

We have lived day-to-day in the midst of the tremendous economic loss, community strain and personal suffering this collapse has ignited, and we have increased our Michigan grants for economic development and diversification projects, workforce retraining and education, and basic social services.

Flint: a major part of our history

I would like to talk a little bit about the Flint area and some of the lessons we have learned from our decades of grantmaking here. At the same time, I want to emphasize strongly our continuing, deep commitment to our other three programs — our work in environment, education and poverty alleviation, as well as to our Civil Society program, both here in the U.S. and abroad in South Africa, Central/Eastern Europe and particularly Russia (the former Soviet Union).

Simply put, Flint has a special place in the history of the Mott Foundation. The lives and fortunes of William C. (Billy) Durant, the founder of GM, and Charles Stewart Mott, our founder, were closely intertwined.

In the late 1890s and early 1900s, C.S. Mott’s family owned the Weston-Mott Company, originally a manufacturer of bicycle hubs and wire wheels and later a producer of wire wheel assemblies for light carriages and the new “horseless carriages.” The company received its first big order for 500 of these wire wheels and forged axles from Ransom Olds in 1900. According to C.S. Mott’s autobiography, *Foundation for Living*, “There were Weston-Mott axles on

the 16 Buicks made in 1903 and on the 37 that followed in 1904.”

In 1905, Durant invited Mr. Mott to open a branch of his axle plant in Flint. Rather than establishing this branch operation, he moved the entire company from Utica, New York, to Flint in 1906. Two years later, GM acquired 49 percent of Weston-Mott and, in an exchange of stock in 1913, the remaining 51 percent.

At that time, Mr. Mott joined the Board of Directors of GM and remained there until his death in 1973. When he created the C.S. Mott Foundation in 1926, he did so with a gift of 2,000 shares of GM stock worth \$320,000. Before his death, he gave the bulk of his fortune to the Foundation, much of it in the form of GM stock.

Simply put, Flint has a special place in the history of the Mott Foundation.

When the first oil embargo occurred in the early 1970s, the Foundation began systematically diversifying our holdings as part of the work of our Investment Office, which was established about the same time. By May 2005, we had sold most of our GM stock, except those shares that might be part of an index fund or other funds we hold.

Nevertheless, GM — its history and its people, in good times and bad — has been an integral part of our history as an organization and as a member of the Flint community.

At one time there were more than 80,000 GM employees working in Genesee County. As of September 1, 2009, the new GM that emerged from bankruptcy had 219,000 employees in 140 countries, including 75,000 in the U.S. About 9 percent of the U.S. total — or 6,694 employees — were working in Genesee County.

We are optimistic that the Flint region will continue to be an important part of GM. While Genesee County’s remaining GM facilities are producing world-class engines and trucks, however, a number of the company’s large factory complexes have been leveled in recent years and are now empty brownfields awaiting redevelopment.

Place-based grantmaking

Thomas P. (Tip) O'Neill Jr., the late speaker of the U.S. House of Representatives, had a favorite maxim: "All politics is local." Another frequently expressed sentiment is the truism "Think globally, act locally."

If you substitute "philanthropy" for "politics," you will find an axiom that is at the heart of our grantmaking in Flint. While we fund projects in many parts of the world, we continue our tradition of active local engagement — or place-based grantmaking.

Granted, national and local grantmaking are similar in many ways. Each requires vision, creativity, strategy, discipline, responsible relationships and professionalism. However, there are some very real differences.

When you design a national program, you can hand-pick the communities and the grantees to test ideas and programs. As part of that process, Mott program staff members investigate the organizations we want to fund, assessing their capacities, the quality of their staffs, their track records and reputations. Once the grant is made, we employ extensive monitoring and due diligence activities.

Local grantmaking is often a tougher business, in large part because it takes place in a pre-designated locale with its existing structures and organizations, economic and human resources, and challenges.

Our experience has taught us that place-based grantmaking is more gritty. A local grantmaker quickly becomes aware of the complex relationships and interdependencies that can affect a project. The grantmaking is often about more than dispersing funds. There is greater direct engagement, technical assistance and collaboration. Even turning down a request for funding is more complex; you need to go beyond the denial letter and assist the organization seeking funds to figure out next steps.

As one of our program directors put it, the local grantmaking clock ticks at a different pace. The opportunities and needs are very real, and equally hard to ignore or dismiss. You confront the impact of your decisions — both the successes and failures — on a daily basis as you walk to lunch, attend a community meeting or see your neighbors at the grocery store.

Our program staff has specific areas of expertise in the national grantmaking arena — in environmental issues, poverty reduction and workforce development, and strengthening the nonprofit sectors, to name just a few. In recent years, we have been blurring the lines

between our national funding programs and our local grantmaking as our staff takes on responsibilities in both national and Flint area initiatives.

The learning and sharing that occur as a result of this collaboration benefit both our national and local grantmaking. We believe each is becoming stronger and more effective through the sharing of experiences, expertise and ideas.

Lessons learned

As noted earlier, out of his long-term concern and involvement in the community, Mr. Mott established this Foundation in 1926. Since then, we have been through many phases. With the benefit of hindsight, we have learned some valuable and sobering lessons about our work in Flint.

First, there are no guarantees the projects we fund will have the outcomes we expect. We know full well there are many factors outside our control that influence the quality of life, employment opportunities and the environment in which area residents live and work. Increasingly, those influences are not just local or domestic, but global in nature.

Second, many projects seem to have life cycles. Some are longer. Some are more sensitive to outside influences. And all have different capacities for adaptation.

Third, how one defines a successful project can change over time.

Fourth, long-established organizations, such as this Foundation, have to be prepared to respond to changing environments and opportunities in order to remain effective.

Fifth, Mr. Mott believed in people and invested in people. This philosophy remains at the heart of our grantmaking. At the core, we hope all of our investments will have a positive impact on people's lives. We support the work of effective leaders — people with good ideas who are committed to this community and who doggedly keep putting one foot in front of the other to pursue a goal or vision.

Leadership can take many forms. Leaders can be chief executive officers, executive directors of a small business or nonprofit organization, or neighborhood residents who have the respect and backing of their communities. Equally important are the individuals who get the nuts-and-bolts work accomplished in organizations.

Increasingly, partnerships are essential. Even with our considerable resources, this Foundation is a very small player in today's global economy. We value partnerships of all shapes and sizes. In today's complex and intertwining world, no organization has the knowledge, resources or agility to go it alone.

Our contributions to these partners or collaborations are not just grant dollars. Frequently, they take the form of our staff's time and expertise. At other times, we act as a convener to bring together different groups and people.

We realize we should be looking not only to fund good programs, but also to peek beneath the programs to see what policies are either in place, or are needed, to ensure programs' success.

Finally, we have learned patience and persistence.

A tale of two cities

For a variety of reasons, including our long commitment to this community and the historic events affecting GM, this report focuses on our recent work in Flint and Genesee County. This special section, titled "Trying times, trying harder," begins on page 7.

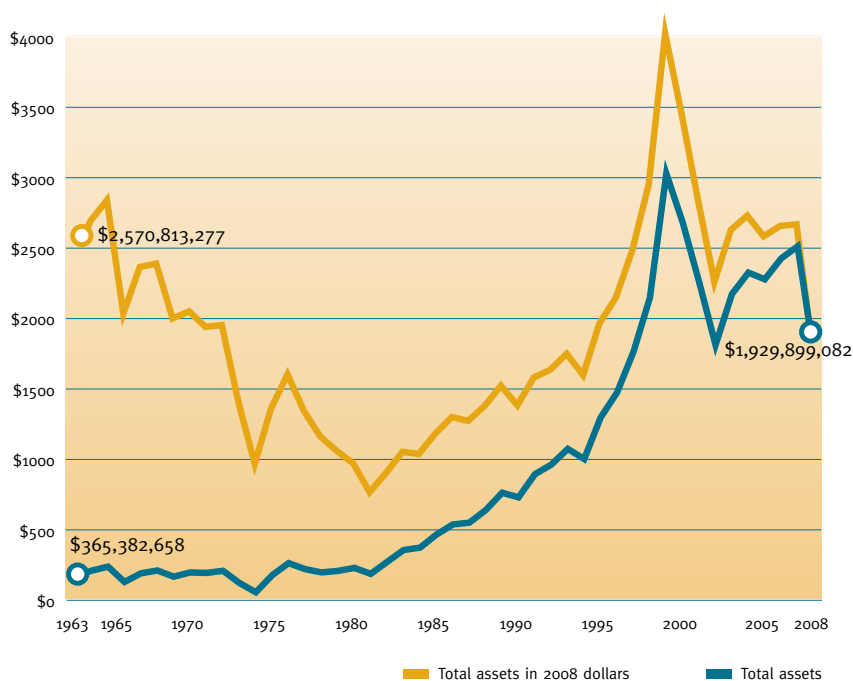
While the U.S. has been in a recession for the past year, the Flint area, Southeast Michigan and indeed the entire state have been in more dire straits for far longer.

We faced several challenges in presenting a snapshot of our work in Flint and Genesee County. We decided to focus on projects that were funded — or came online — in 2008 in order to create bookends for what is a complex and lengthy story with many intertwined elements.

Historically, we have provided nearly \$650 million — or 28.5 percent of our grant dollars — for projects that benefited organizations and residents of our home community. Our engagement here has spanned eight decades, and today's funded projects are often the result of earlier investments and experiences.

There also is a certain continuity and progression to the work. In other words, it is not unusual that the projects and programs you will read about in this report have evolved — directly or indirectly — from studies, projects and programs that we supported years, or sometimes decades, before.

Total assets at market value & 2008 dollars (in millions)



But most importantly, our grantmaking in Flint and Genesee County is about building connections and linkages — between and among grantees, local organizations, people, ideas and resources.

We also would like readers to understand that our efforts around economic development and job creation, and workforce development and training, go beyond Genesee County and include support of many regional and statewide initiatives.

While we do not go into the details in this narrative, our efforts in these arenas have intensified over the past 20 years as the state of Michigan and its residents have faced increasingly difficult economic times.

We have supported projects as diverse as providing venture capital for research and developments at the state's leading research institutions, participating in a collaboration of funders to stimulate entrepreneurship in Southeast Michigan and helping to preserve valuable natural resources such as land and water for future generations.

The second challenge has been how to best balance the community's positives and negatives. As many people know, Flint repeatedly has been held up as the poster child for everything that can possibly go wrong — from corporate governance and governmental dysfunction to poverty, social collapse, violence and personal suffering.

We do not have the resources to solve all of the world's problems, let alone Flint's. But what we can do is figure out where we can have impact to bring about some fundamental changes that will improve the lives of people.

In the material that follows, we have tried to paint a realistic picture of our hometown, acknowledging its challenges, but also highlighting the many good things that are taking place. It is almost our own version of Dickens' *Tale of Two Cities*.

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An argument for philanthropic perpetuity

In recent years, one of the great debates about the philanthropic world has been the question of whether a foundation should make all of its grants during the donor's lifetime or shortly thereafter (i.e., spend down), or whether it should manage its resources and grant-making to exist for a very long time (perpetuity).

When Mr. Mott established this Foundation, he chose perpetuity.

If our Foundation had been set up — or required by law — to spend down or go out of existence within a few years after Mr. Mott's death, it would have done so at a time when GM still was one of the largest, if not the largest, industrial corporations in the world and probably the most influential.

Because of its status as the center of GM operations, Flint was the epitome of the American dream. Generations of families had moved here from other states and then remained in the community to receive good wages and benefits and partake in a solidly middle-class lifestyle.

But because of this dependence on one industry and company, the community had far more resources at that time than it does today.

If the Foundation had embraced a spend-down philosophy or been required to do so, it clearly would have benefited Flint nonprofits and the community at that time. But this would have meant we would not

be present today to help Flint, its organizations and its people when they are going through very tough times and a wrenching transition from one type of economy to another.

Over the years, we have made our share of

mistakes and false moves, but we are still here trying to lend a hand to people. There is not a lot of new wealth currently being created in Flint or, for that matter, in Michigan.

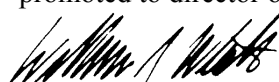
The Mott Foundation and other foundations like it are needed more than ever before. We can invest some money in important activities that do not have access to other resources or enough of them. We can help leverage other resources for greater impact. We can take the long view. We also can help some organizations not only to survive these trying times, but also to fight back.

In planning his Foundation, Mr. Mott also took the long view. He placed great faith in the Foundation's Board of Trustees not only during his lifetime, but also in future generations, to make thoughtful decisions and prudent use of our resources. Certainly, he hoped they would honor his wishes but, at the end of the day, he did not put constraints or limits on future Trustees. We believe that our Trustees continue to honor his intent, and that current and future Trustees will continue to make decisions beneficial to Flint and its residents.

Governance and administration

Our Board of Trustees held four regularly scheduled meetings for a total of six days in 2008; in addition, the Trustees met as a board one time via conference call. The Investment Committee met four times; a special independent subcommittee of that committee met five times. The Audit Committee met twice and the Executive Committee did not meet.

Earlier this year, we made some changes in our Johannesburg, South Africa, office. Vuyiswa Sidzumo, who joined Mott in 2005 as an associate program officer and served as a program officer since 2007, was promoted to director of that office in June 2009.



William S. White
President