

Financial statements

for the year ended December 31, 2018

of

Stichting Van Leer Group Foundation, The Hague

Statutory seat:
Address:

The Hague
Lange Houtstraat 2
2511 CW The Hague

Message from the Chair

Foreword by the Chair of the Governing Council

The Van Leer Group Foundation funds the Bernard van Leer Foundation and the Van Leer Jerusalem Institute, and is a major donor of the Jerusalem Film Center. The endowment is managed centrally and includes Crecor, an Israeli venture capital company.

Each part of the Van Leer Group has a remarkable history, spanning more than sixty years. The founders Bernard and Oscar van Leer were deeply committed to maximising the realisation of human potential, through early childhood development, the protection of democracy and nurturing the humanities and arts.

The Governing Council has the responsibility to fulfil the purpose of the founders Bernard and Oscar van Leer. The founders' commitment to impact, rooted in the practices of running a major international company, provides a constant impulse for improving relevance and effectiveness.

As we live in unusual times regarding monetary policy and in a turbulent political environment both in Europe and globally, the importance of wise stewardship of the endowment is paramount. We initiated a fundamental review of our Investment and Spending Policy in 2018 and expect to see the results of this review implemented in 2019. In our 2019 Annual Report we will be able to provide more detail.

The importance of a child's early years for his or her future development is increasingly understood by both policy makers and the scientific community. The Bernard van Leer Foundation seeks to leverage its experience of working with partners to improve the day-to-day reality of the lives of children and parents. This involves enhancing its role as a knowledge broker to public policy makers, funders and partners in the field. Two exciting examples of the work of the BvLF are the Criança Feliz home visiting project in Brazil that is successfully scaled up to a national level and the integration in citywide policies of the Urban95 concept in the city of Tel Aviv in Israel,

The year 2018 was, and the current year will be, focused on the execution of the strategy defined in 2015. But as a forward-looking Foundation, the contours of the strategy for the coming years are in the process of being defined and will be highlighted in our next report.

Strategy execution is also the theme for Crecor, as it has been since the strategic review in 2014. Crecor has clear targets to capture the value of existing investments. Given the early stage of many investments, and hence their illiquidity, this remains a challenging task.

For the Van Leer Jerusalem Institute, 2018 was the second full year of execution of the new strategy under the leadership of Professor Shai Lavi. The institute focuses on selected themes to contribute research and ideas to further the development of the humanities and foster debate around key issues in Israel. An exciting new initiative is the Young Intellectual Leaders programme, which together with Yan Hanadiv and the Polonsky Foundation, annually offers 15 students the opportunity to work closely with VLJI professionals to access multidisciplinary teaching in the humanities.

In 2018 there were two changes in the composition of the Governing Council. Members Steven Kaempfer and Jonathan Kestenbaum stepped down and were replaced by new members Eloy Lindeijer and Nanno Kleiterp. I want to express my gratitude to Steven Kaempfer and Jonathan

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Kestenbaum for their valuable contributions to our work, in particular in relation to the management of the Endowment.

In his Credo, our founder Oscar van Leer emphasised the importance of creativity. This spirit of innovation, the faith in the value of ideas, and the application of these ideas to improve society together provide guiding principles for all our activities.

In this spirit, the Governing Council in 2018 embarked on a course toward closer cooperation and synergies between the Van Leer Group Foundation and the Bernard van Leer Foundation. Although final decisions will be taken in 2019, it is clear that this closer cooperation will include an operational merger of staff and management of both organizations.

I wish to take this opportunity to thank my colleagues on the Governing Council, the Executive Directors of each organisation and their staff for their dedication to our goals and their creative responses to a changing environment.

I also want to acknowledge the contributions of former Trustees of the Van Leer Group Foundation who joined us in November to reflect on how the Van Leer Group Foundation is evolving and the main challenges for the future. It was a very valuable example of how we benefit from past learnings to adapt most effectively to the future.

Jacqueline Tammenoms Bakker, Chair

Executive Director's report

Background

The Van Leer Group Foundation's origins lie with Bernard van Leer, a Dutch industrialist and philanthropist. In 1919, he started a packaging company in the Netherlands that developed into a global leader in the packaging industry. Royal Packaging Industries provided him with the resources to pursue his philanthropic ideals: to use his wealth for the benefit of others. When he passed away in 1958, he had arranged that his business interests would continue to fuel his philanthropic activities. His wife Polly and their sons Wim and Oscar had already relinquished their inheritance rights, and a humanitarian foundation had been established in 1949 in Lucerne, Switzerland. From these beginnings emerged the Bernard van Leer Foundation and the Van Leer Group Foundation in later years.

The Van Leer Group Foundation is a privately endowed charitable organisation established in 1979 by Oscar van Leer. It performs the holding function for all the Van Leer charitable activities and as such supervises its investment portfolio and the governance of its charitable activities. The Van Leer charitable activities are currently embodied in the Van Leer Group Foundation in The Hague, the Bernard van Leer Foundation in The Hague, the Van Leer Jerusalem Institute and the Jerusalem Film Center. Apart from an investment portfolio managed by three international asset managers, the Van Leer Group Foundation fully owns Crecor B.V., which is active as an Israeli venture capital company through its Dutch subsidiary Docor International B.V. as well as its Israeli subsidiary Docor International Management Ltd. in Tel Aviv.

In its articles of association, the Van Leer Group Foundation defines three statutory objectives. These are:

- To promote the optimum development of socially and economically disadvantaged children up to the age of 8, with the objective of developing their innate potential to the greatest extent possible.
- To contribute to the development and strengthening of a Jewish democratic national home in Israel committed to a free, equitable and just society for all its citizens; to contribute to the pursuit of regional peace, for the benefit and betterment of social, cultural, and individual lives in Israel.
- To promote and advance the continuity and the preservation of the identity of the Van Leer entity.

The first objective is implemented by the Bernard van Leer Foundation in The Hague. This foundation is funded by the Van Leer Group Foundation.

The second objective is served by all organisations, but in particular by the Van Leer Jerusalem Institute and the Jerusalem Film Center. The Van Leer Group Foundation provides a substantial part of the funding for these organisations.

The third objective implies that the Van Leer Group Foundation is particularly responsible for ensuring that all organisations work together to further all objectives and for the way in which the legacy of the Van Leer family is translated into existing and new humanitarian ventures as well as income-generating activities. There is a personal union between the Van Leer Group Foundation Governing Council, the Bernard van Leer Foundation Board of Trustees and the Supervisory Board of Crecor B.V. The Board of Trustees of the Van Leer Jerusalem Institute currently has two

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representatives from the Van Leer Group Foundation Governing Council. Personal unions and frequent interaction between the Boards mentioned further facilitate the third objective.

The Van Leer Group Foundation does not donate any money to organisations other than the three organisations mentioned. It therefore has no donation policy and does not invite organisations to apply for grants or donations.

Financial information

The financial strategy of the Foundation is formulated as follows:

'To maintain or add to the purchasing power of the investment assets, measured in euros, and to provide a relatively predictable, stable and, in real terms, constant stream of income for annual charitable expenses by the Foundation.'

The Foundation is always looking for new, unmet needs within its objectives, where the relatively limited means of the Foundation can make a material difference. This implies that program projects and grant recipients change over time, but the future unmet needs are as important as today's needs. The Foundation thus regards future generations of grant recipients equally important as the present generation. Since its aim, as indicated in the Articles of Association, is therefore to exist in perpetuity, the real value of the invested assets should, over the years, not be eroded by excessive pay-outs. In order to realise the above-mentioned strategy of at least maintaining the purchasing power of investments, the long-term investment total returns (net of investment management fees and other related costs) must at least equal the sum of the Foundation's annual expenditures (expected to average 4% of asset value over a long period of time) plus the rate of inflation. Therefore, the primary investment goal is to earn an average annual real total return of 4%, within acceptable limits of risk. The Foundation expects that this goal will not be realised every year but could be achieved in most five-year periods. On 31 December 2018 the value of the investment portfolio of the Van Leer Group Foundation amounted to EUR 682 million (2017: EUR 727 million).

The investment policy of the Foundation is implemented (with the exception of Crecor B.V.) by external fiduciary investment managers. Our model has some characteristics that are not common to most fiduciary management models. First of all, the Van Leer Group Foundation uses three fiduciary managers. Their mandates are the same. Furthermore, the quality of the managers is measured against a specific risk-return profile, and not benchmarked against a specific asset allocation. This allows the managers to adopt their own optimal asset allocation, both strategic and tactical. The transition towards this model started in 2013, was mostly executed in 2014, but transition continued into 2015 because of the illiquid nature of some of the assets to be transferred to the three managers. The private equity portfolio that existed in 2013 will not be transferred to the managers but will be run down over the coming years. The total headcount at the Foundation amounts to 3.5 FTE, which has been stable since 2014. Reporting was improved in 2018, as was the transparency of the portfolio. A five-year review of the current policy is underway. Results are expected in 2019.

The total return on investments (net of all investment-related fees) in 2018 was -2.5%. This was above relevant market references, but compared unfavourably to our absolute return target of 6.0% (Dutch CPI plus 4%). This must be qualified as disappointing. However, to assess the adequacy of an investment policy for the agreed upon pay-out for charitable activities (i.e. the sum of the Foundation's annual expenditures), it is important not to concentrate on the total return figure of one single year. Instead, it is important to look at total return figures over a longer period of time. For the Van Leer Group Foundation, this means looking at total return figures since 1996, the year that Royal Packaging Industries Van Leer went public and an objective value for our assets could be established. The average total return on the investment portfolio of the Van Leer

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Group Foundation since inception, i.e. 1996, has been 5.9% (at the end of 2017: 6.3%). After deduction of an average annual inflation figure over this period of 1.9% (Netherlands CPI) the annual real total return has been 4.1%. This annual real total return meets the long-term investment objectives.

The breakdown of the Foundation's expenditures over 2018 was:

	2018	2017
	EUR000	EUR000
Bernard van Leer Foundation	18,740	18,554
Van Leer Jerusalem Institute	4,424	5,794
VLJI/Polonsky Academy Building	137	0
Jerusalem Film Center	770	814
Incidental contributions	74	74
<i>Total</i>	<i>24,145</i>	<i>25,236</i>

The charitable spending pay-out in 2018 was 3.53% of the average assets over that year (2017: 3.57%). If the annual expenditures of the Van Leer Group Foundation itself are added, the overall total is EUR 25.309 million (2017: EUR 26.475 million). The actual total pay-out in 2018 was 3.70% of the average assets over that year (2017: 3.75%).

The Van Leer Group Foundation does not use derivatives or other complex financial instruments. Its investment managers may use them to a limited extent, as defined in the Investment and Spending Policy.

Developments 2018

The year 2018 should be characterised as a year of consolidation and execution. Whereas crucial strategic decisions were taken with regard to the Bernard van Leer Foundation, the Van Leer Jerusalem Institute and Crecor in 2014-2016, 2018 saw a focus on the execution and implementation of the new strategic directions.

Regarding the Van Leer Jerusalem Institute, a clear direction towards the future has been defined for the Institute. In essence, the Institute is now more focused on a limited number of themes that are relevant to Israeli society. Within those themes, the Institute, based on its existing academic strengths, will develop new ideas and will translate those ideas into a discourse in Israeli society. The "social impact of deep ideas" is the driving force behind the activities of the Institute. Professor Shai Lavi, Executive Director of the Institute, leads the implementation of the new strategy. In 2017 he has restructured the organisation and created three new themes that will be further developed going forward. In 2018 a fourth theme was added and platforms for outreach to relevant audiences were developed. The Van Leer Group Foundation decided in November 2017 to provide an additional grant of ILS 5 million to the Van Leer Jerusalem Institute. This grant will cover the costs of the transition process towards the new strategy. The grant is expected to be disbursed between 2018 and 2021, and disbursements are linked to milestones in the transition process.

In 2014 Crecor B.V. was evaluated. The focus is on realisation of exits and improvements in the rate of return by reduction in expenses and costs. The year 2018 did not produce substantial exits or positive portfolio valuations, and saw Crecor negatively impacting the overall Van Leer portfolio.

At the Jerusalem Film Center a turnaround plan, financed by the Van Leer Group Foundation, was successfully implemented during 2014 and 2015. The Jerusalem Film Center, under its Director Noa Regev, has succeeded in ending 2018 with a balanced budget and a rise in visitor numbers in a difficult political environment. The International Jerusalem Film Festival was

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successful, and the crucial digitisation project of the unique, but ageing and vulnerable, Israeli Film Archive that is housed at the JFC is now well underway.

For the Bernard van Leer Foundation (BvLF), an important change was the design and approval of a new strategy, following the leadership transition in 2014-2015. The Executive Director, Michael Feigelson, has since focused the activities of BvLF on providing solutions that have the potential for impact at scale, that address multiple problems, and that receive insufficient attention from other funders. The Governing Council decided to allocate an additional sum of EUR 5 million in 2015 to facilitate the transition to the new strategy.

In 2018 the Governing Council decided to explore the benefits of closer operational cooperation between staff and management of the Van Leer Group Foundation and the Bernard van Leer Foundation. As these Foundations already share their facilities and certain services, further cooperation was seen as a promising avenue. These explorations lead to the decision in principle that the Foundation will fully merge on an operational level in 2019. Details are being developed at the time of writing of this report. The legal infrastructure of both Foundations will remain intact.

I urge you to read the annual reports of the Bernard van Leer Foundation, the Van Leer Jerusalem Institute and the Jerusalem Film Center, and to visit their websites for more information. The existence of the Van Leer Group Foundation is only justified by the wonderful activities undertaken by these organisations. Through their activities, the spirit of our founders lives on.

Governing Council as of 31 December 2018:

Yarom Ariav (Israel)
 Wim Borgdorff (Netherlands)
 Nanno Kleiterp (Netherlands)
 Eloy Lindeijer (Netherlands)
 Julia Neuberger (United Kingdom)
 Robert Swaak (Netherlands)
 Jacqueline Tammenoms Bakker (Netherlands), Chair
 Sam Worthington (United States)

During 2018 there were two changes in the composition of the Governing Council of the Van Leer Group Foundation. Nanno Kleiterp and Eloy Lindeijer replaced Jonathan Kestenbaum and Steven Kaempfer. The Van Leer Group Foundation remunerates the members of the Governing Council. Members are reimbursed for travel and other related expenses. The Van Leer Group Foundation has no remuneration policy for its four staff members. Compensation is determined on a case by case basis, according to market conditions and job requirements.

Staff as of 31 December 2018:

Andre Betting, Executive Director
 Bob Galesloot, Investment Manager
 Tim Otto, Controller
 Rick Venster, Staff Accountant

Andre Betting, Executive Director

Balance sheet as at December 31, 2018

(after appropriation of result)

	Note	2018		2017	
		EUR000	EUR000	EUR000	EUR000
Investments					
Participating interests	1		33,173		36,561
Financial investments	2		648,598		690,638
			<u>681,771</u>		<u>727,199</u>
Other assets and liabilities					
Tangible fixed assets		29		31	
Receivables	3	107		101	
Cash and cash equivalents	4	95		20	
Current liabilities	5	(18,340)		(20,592)	
Net other assets/(liabilities)			<u>(18,109)</u>		<u>(20,440)</u>
Total assets less liabilities			<u>663,662</u>		<u>706,759</u>
Capital and reserves					
Capital	6		2,268		2,268
Reserve BvLF		18,740		18,740	
Reserve VLJI		4,399		4,417	
Reserve VLJI building		2,251		2,127	
Reserve JFC		783		786	
Reserve other contributions		40		40	
General reserve		635,181		678,381	
			<u>663,662</u>		<u>706,759</u>
			<u>663,662</u>		<u>706,759</u>

Statement of comprehensive income and expenditure for the year 2018

	Note	2018		2017	
		EUR000	EUR000	EUR000	EUR000
Income					
Result from participating interests	1	(5,038)		(8,278)	
Income from financial investments	11	20,301		20,511	
(Un)realised differences in valuation of financial investments and exchange rate differences	12	(30,529)		17,120	
Investment fees	13	(2,522)		(3,190)	
			(17,788)		26,163
Expenditure					
General and administrative expenses	14	(871)		(934)	
Remuneration and expenses Governing Council members	15	(293)		(305)	
			(1,164)		(1,239)
Net result			(18,952)		24,924
Direct capital movements					
Contributions BvLF	6	18,740		18,554	
Contributions VLJI	6	4,424		5,794	
Contribution VLJI/Polonsky building Contributions	6	137		0	
Jerusalem Film Center	6	770		814	
Other contributions	6	74		74	
			24,145		25,236
Total result of the Foundation			(43,097)		(312)