DECEPTION & MISDIRECTION

DARK OCEANS: DREDGING THE WELLSPRING PHILANTHROPIC FUND

By Hayden Ludwig

Summary: *Some schemes are darker than others. The Wellspring Philanthropic Fund is a near-bottomless pit of "dark money"—anonymous spending to achieve political ends—fed by a handful of mysterious hedge fund billionaires. Using a sophisticated network of for-profits, shell corporations, and consultancies, Wellspring has poured out an incredible $1.1 billion into nonprofits, most of which is hidden from prying eyes in donor-advised funds.*

From the Fountainhead

The origins of Wellspring Philanthropic Fund are shrouded. It isn't so much a foundation as the biggest cog in a well-funded, multi-armed machine whose grants are hidden in "pass-through" groups, and whose donors rarely bubble to the surface.

The story begins in an unlikely place: Princeton-Newport Partners, an early investment management firm in New Jersey that pioneered the first quantitative, computer-driven hedge fund in the world.

Hedge funds are private investment partnerships. In contrast to the high-risk-high-reward choices presented by other investment options, hedge funds are typically meant to generate a consistent return on investment regardless of what the market does—hence their name ("hedging" refers to reducing risk).

Princeton-Newport Partners was founded in 1969 by mathematics genius Edward "Ed" Thorp, best known for developing sophisticated card-counting gambling techniques using probability theory—a skill he put to use in the stock market. (Thorp even wrote a book on counting cards, *Beat the Dealer*, which mathematically proved that his techniques could overcome a casino's house advantage in blackjack.)

It was probably while teaching at the University of California, Irvine, in the early 1970s that Thorp met the first of Wellspring's three future founders, David Gelbaum, then a recent graduate with his Bachelor's degree in mathematics.

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After graduating, Gelbaum joined Thorp's new hedge fund along with two more future Wellspring founders: Andrew Shechtel and C. Frederick Taylor (often called simply "Frederick"). Little is known about Taylor's early years; Shechtel, however, graduated from Johns Hopkins University with a degree in math and political economy at just 19 before attending Harvard Business School. He later worked on Wall Street and joined Thorp's hedge fund in Princeton in the 1980s—not long before the company found itself under federal investigation.

Hedge funds are lightly regulated by the U.S. Securities and Exchange Commission (SEC) compared with traditional investment options. Fund managers aren't even required to register or file public investment records with the SEC, depending on the size of the assets involved. But they're still closely monitored for fraud.

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In 1989, Princeton-Newport Partners collapsed under a Racketeering Influenced and Corrupt Organizations Act (RICO) investigation that saw five of its officers heavily fined or imprisoned for more than 60 counts of tax fraud, mail fraud, and racketeering (extorting or coercing someone to pay for a service).

As the *Los Angeles Times* reported at the time, Princeton-Newport concocted "an illegal arrangement" with three other Wall Street firms "to engage in sham trades of stocks and bonds so that Princeton-Newport could claim illegal tax writeoffs" for phony losses. A later report adds that the charges were ultimately dropped.

It's worth noting that Thorp was not among those indicted; he continues to run a hedge fund company in Newport Beach, California. None of Wellspring's future founders—Taylor, Gelbaum, and Schechtel—were indicted under the RICO investigation, either.

Shortly after Princeton-Newport Partners was liquidated, however, the three founded a "secretive successor" in New Jersey in 1989: TGS Management, apparently an acronym pulled from their names. Little is known about TGS. Its website doesn't even mention its founders' names. But a handful of news reports note that the "quantitative finance" firm operates in "small, nondescript office buildings" in California and New Jersey—by some accounts, the very same office space that once housed Princeton-Newport Partners.

It's also lucrative. TGS reportedly launched with some outside investment, but was so successful in its early years that it returned funds to most of its outside investors and became entirely private.

But in 2014, *Bloomberg Businessweek* traced hundreds of millions of dollars in donations to medical research to a pool of $9.7 billion held in two trusts—both established on the *same day* in 2002 by TGS founders Taylor, Gelbaum, and Shechtel.

From 1999 to 2005, the three men reportedly used the law firm Lowenstein Sandler to establish over a dozen "anonymous private foundations funded and controlled by limited liability companies"—all of which have links to Shechtel, Taylor, Gelbaum, or all three. This unique web enabled them to "disguise" their donations and "avoid almost all public scrutiny of their activities," the website Philanthropy News Digest later wrote.

For reference, assets of $13 billion made the TGS-linked pool the 4th-largest charity in America, bigger than the Ford, Gates, and Getty Foundations. *Bloomberg* labeled them the "$13 Billion Mystery Angels" for using this unusual arrangement to anonymously funnel huge grants to philanthropic causes nationwide.

The story was picked up by the *Algemeiner*, a Jewish newspaper, which noted that some of these vehicles have "Hebrew or Israel-related names," such as the LLC Shekel Funding. It then traced over $100 million in grants from the funding web to Jewish groups. According to the *Algemeiner,* Gelbaum and Shechtel are Jewish (Taylor's religion is unclear).

Nevertheless, much remains unknown about the three men. Federal Election Commission records indicate that Taylor is a reliable donor to Democratic Party candidates, giving $55,000 to President Obama's reelection campaign in 2012. Shechtel, on the other hand, is a frequent donor to Republicans, giving $2,500 to the campaign of Texas Sen. Ted Cruz (R) in the 2018 midterm.

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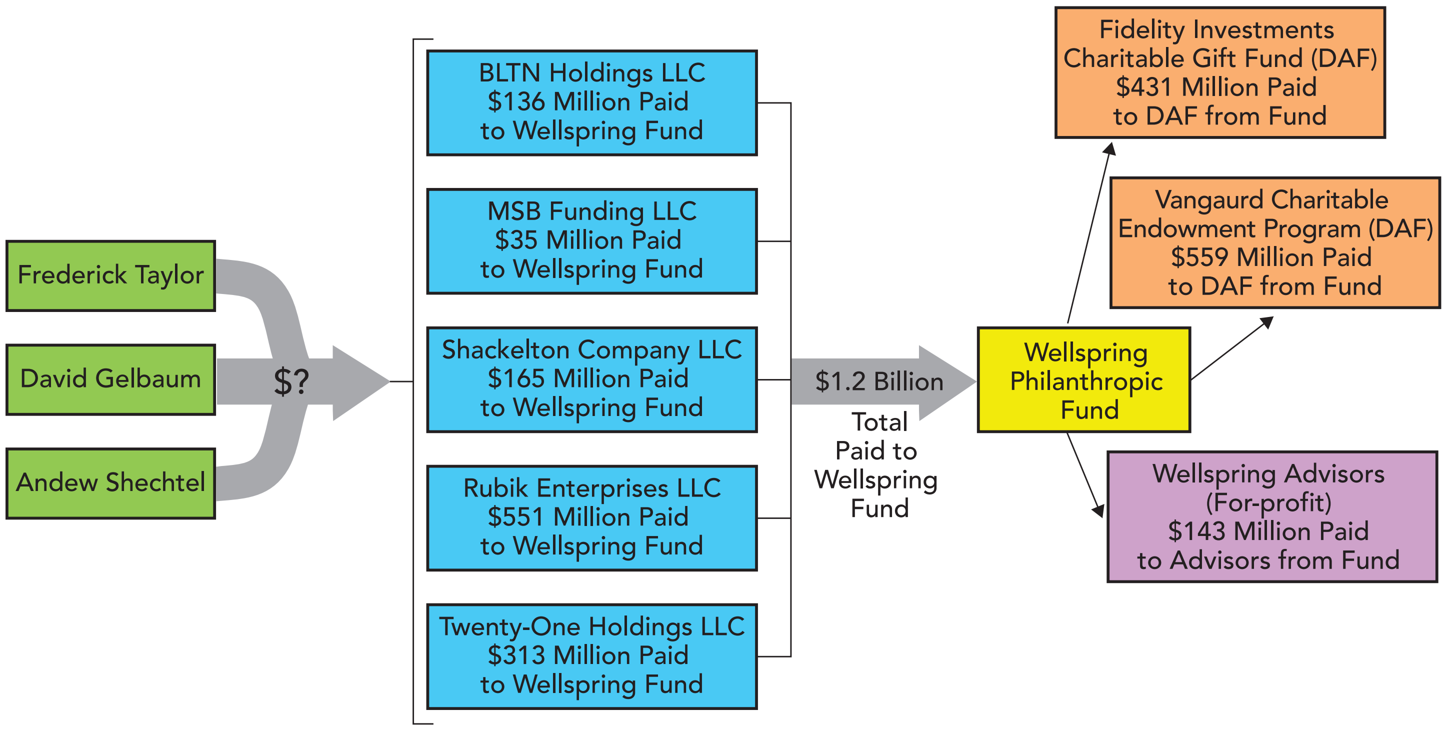
It was probably while teaching at the University of California, Irvine in the early 1970s that Thorp met the first of Wellspring's three future founders, David Gelbaum. After graduating, Gelbaum joined Thorp's new hedge fund along with two more future Wellspring founders: Andrew Shechtel and C. Frederick Taylor (not shown).

Wellspring Philanthropic Fund: Revenues and Grants (2001–2017)



Source: Return of Organization Exempt from Income Tax (Form 990). Wellspring Philanthropic Fund. 2001–2017. Schedule B. Schedule I.

Gelbaum was a major donor to the Sierra Club in the 1990s and early 2000s, gifting more than $100 million to the environmental activist group, according to a 2004 article in the *Los Angeles Times.* Altogether he reportedly donated $250 million to environmentalist causes, particularly to purchase huge tracts of land in the West which were then given over to the federal government (Gelbaum lives in California). For a time, he and his brother Daniel were also board members for the liberal group Wildlands Conservancy, alongside Sierra Club executive director Carl Pope.

Interestingly, Gelbaum may have played a role in the Sierra Club's shift toward mass immigration and open border policies in the late 1990s: "I did tell Carl Pope in 1994 or 1995 that if they ever came out anti-immigration," he told the *Times*, "they would never get a dollar from me."

Gelbaum reportedly ceased philanthropic giving in 2013 and retired from TGS Management around 2014. His lawyer told reporters that Gelbaum had suffered financially in the 2008 financial crisis and "lost more than he thought he could possibly lose."

> *Notably, the word "wellspring" occurs three times in the Hebrew Bible and means "a source of continual supply."*

Heart of "Dark Money"

The TGS-linked funding pool is concentrated in one tributary in particular: the Wellspring Philanthropic Fund, which paid out an impressive $1.1 billion in grants between 2001 and 2017 (the latest available filing). But if you need more evidence that this multi-billion-dollar arrangement is byzantine by design, consider Wellspring's *original* name: Matan B'Seter, Hebrew for "anonymous gift." (It acquired its current name in 2016; notably, the word "wellspring" occurs three times in the Hebrew Bible and means "a source of continual supply.")

The foundation was formed in 1999 in Roseland, New Jersey, making it one of the older TGS-spawned groups. Its articles of incorporation detail three trustees registered at a single address: senior attorneys from Lowenstein Sandler, and the law firm's Roseland headquarters.

Unlike 501(c)(3) public charities and 501(c)(4) advocacy nonprofits, the IRS requires private foundations disclose their contributors. But you won't find Shechtel, Taylor, or Gelbaum listed in its annual filings. Since 2001, all of the

$1.2 billion in contributions to Wellspring Philanthropic Fund have come from five privately held limited liability companies with obscure names like BLTN Holdings and MBS Funding.

Between 2001 and 2017, Wellspring's contributions grew from nearly $2.1 million to $254 million—an annual increase of 12,000 percent in 16 years.

Almost no information about these LLCs is publicly available. From 2001 to 2017, they consistently gave Wellspring large cashugh in 2011 BLTN Holdings donated a whopping $32 million in New York Stock Exchange-listed equity securities and in 2017 gave it another $9.4 million in Facebook and Netflix shares.

It's a reasonable assumption that these five companies are shell corporations created to mask the identities of Wellspring's *true* contributors—Shechtel, Taylor, and Gelbaum—since the companies were formed in Roseland around the same time as Wellspring itself. None appear to have any websites or employees. This also means it's impossible to determine how much each of the men gave to Wellspring.

Donor-advised funds have been criticized—particularly by those on the Left—as the "black boxes of philanthropy." If that's true, the Wellspring Philanthropic Fund is the ultimate "dark money" machine in America.

Complicating things further, prior to 2017 Wellspring *only* made grants through donor-advised fund (DAF) providers—specifically two associated with major investment firms, Fidelity Investments Charitable Gift Fund and Vanguard Charitable Endowment Program. (Fidelity is the largest DAF provider in the country.)

A DAF is a kind of charitable savings account run by a 501(c)(3) nonprofit. Donors—individuals, for-profits, or other nonprofits—gift money to the provider, which manages the funds until directed by the donor to grant it to another 501(c)(3) nonprofit. It's a useful tool for many modest philanthropists to maximize their charity, with the added benefit of withholding their identity from public disclosure, since the money passes through a third party (the provider). Donor-advised funds have been criticized—particularly by those on the Left—as the "black boxes of philanthropy."

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In the first 18 years of its existence, Wellspring *exclusively* used DAFs to funnel almost $1.1 billion into the nonprofit sphere—money which, because it was channeled via donor-advised funds, can never be traced from Wellspring to its ultimate destination.

But in 2017, the foundation began making grants to individual, non-DAF organizations—giving over $28 million to explicitly political nonprofits, all of them left-wing.

Notables include the New Venture Fund, flagship of the "pop-up" group empire run by the for-profit firm Arabella Advisors; the "dark money" pass-through group NEO Philanthropy; Planned Parenthood; the Tides Foundation and Tides Center, famous for incubating new radical activist groups; the Population Council, which pushes for global population control policies; Citizens for Responsibility and Ethics in Washington (CREW), an anti-Republican attack group; and MomsRising, a major gun control lobby.

Wellspring is also listed as a member of the Funders Committee for Civic Participation, an affinity group for some 90 wealthy and influential groups on the professional Left. The Committee—which is run by NEO Philanthropy, a Wellspring grant recipient—coordinates funding of voter registration and get-out-the-vote drives by other left-wing groups in the leadup to the 2020 Census. It also played a role in the Supreme Court lawsuit which nixed the Trump administration's planned citizenship question on the 2020 Census. The Committee's unique role as a *coordinator*, not a *funder*, makes it all but impossible to know how much Wellspring itself spent on such operations.

It's also impossible to say which groups benefited from Wellspring's wealth prior to 2017. Much of it could have gone to the kind of genuine charity—say, medical research—that Shechtel himself supports. Considering the overtly political groups it supported in 2017, though, a skeptic might not be convinced.

Curiously, Wellspring is identified as a "conduit foundation" in its IRS nonprofit filings for 2008, 2013, and 2014. That's an unusual designation given by the IRS to fiscal intermediaries—pass-through groups—and is only applied to foundations which pay out 100 percent of what they earn in contributions.

WELLSPRING PHILANTHROPIC FUND-REVENUE GROWTH

	Revenues	Prior Year Change
2017	$253,505,642	17.0%
2016	$216,332,067	12.1%
2015	$193,040,139	95.9%
2014	$98,524,149	10.8%
2013	$88,945,627	22.0%
2012	$72,786,294	-19.0%
2011	$90,003,223	20.1%
2010	$74,963,792	46929.0%
2009	$159,398	-99.6%
2008	$36,280,391	1392.0%
2007	$2,430,169	-8.4%
2006	$2,651,950	-92.7%
2005	$36,312,706	614.0%
2004	$5,082,303	457.0%
2003	$912,377	-37.6%
2002	$1,461,700	-29.6%
2001	$2,077,964	
Total:	**$1,175,469,891**	

Wellspring Advisors

But Wellspring Philanthropic Fund isn't even the final destination of much of the TGS-linked funds. Between 2001 and 2017, the foundation paid almost $143 million in consulting fees to Wellspring Advisors, a limited liability corporation created to manage Wellspring Philanthropic Fund.

The New York-based company was created in 2001 and has been described as a "private philanthropic advisory firm" and a "consulting firm for anonymous donors." Its relationship with the foundation is described in one of Wellspring's IRS filings:

> Wellspring Advisors provides operational, programmatic, administrative and grantmaking support to the foundation [Wellspring Philanthropic Fund]. Wellspring [Advisors] administers the foundation's grantmaking program and interfaces with the foundation's donor-advised fund grantees . . .
>
> Wellspring staff members develop the foundation's grantmaking strategy and programs, research potential recipients of advised grants from the foundation's donor-advised fund accounts [and] monitor the usage of grants advised by the foundation through its donor-advised fund accounts and performance of such grantees.

In other words, Wellspring Philanthropic Fund is wholly run by Wellspring Advisors, the network's brain trust. The foundation's operations and huge grants to donor-advised funds—as well as the grants that the DAFs themselves ultimately make—are in the care of yet another private LLC.

The foundation itself muddies the waters, however, by noting that, "as of January 1, 2018, Wellspring Advisors has shifted to become Wellspring Philanthropic Fund." LinkedIn profiles of Wellspring Advisors' 70-odd employees strongly suggest that, at least externally, the two groups are treated synonymously—many titles overlap and the for-profit and foundation arms are often conflated. Wellspring Philanthropic Fund doesn't report paying staffers, either.

Wellspring's website lists John Taylor as president of the foundation and managing partner of Wellspring Advisors. Myles Taylor is the foundation's vice president. The two men are brothers, according to online reports, and Wellspring's website claims they founded the group. For whatever reason, Frederick Taylor—presumably a third sibling—isn't mentioned by Wellspring.

Not much is known about John Taylor, a professional litigator from 1986 to 2000. He was a board member for a number of left-wing nonprofits, including the Planned Parenthood Foundation, Human Rights Watch, and the Center for Lesbian and Gay Civil Rights (now Equality PA, a Pennsylvania-based gay advocacy group). Even less is known about Myles Taylor, who worked for two decades in commercial real estate in Washington, D.C. Myles Taylor runs Wellspring's D.C. office and is a former board member for the Audubon Society of the Mid-Atlantic and the Lincoln Group of D.C.

Dredging the Wellspring

Wellspring Philanthropic Fund is in a category entirely itself among the Left's major "dark money" funders. Most such groups are 501(c)(3) or 501(c)(4) nonprofits funded by *other* nonprofits and go to great lengths to cloak their funding and spending using "pass-through" vehicles, donor-advised funds, and fiscal sponsorship. They typically want viewers

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to see that they're effective with their money—just not the details of *how* it's spent.

Wellspring, on the other hand, is a private foundation funded entirely by for-profit shell companies, themselves funded by a handful of wealthy elites keen on preserving anonymity. Wellspring then grants hundreds of millions of dollars to two major donor-advised fund providers—Fidelity and Vanguard—forever masking which nonprofits it ultimately benefits. And maintaining this flow of left-wing cash is Wellspring Advisors, the mysterious consultancy which staffs and manages the whole operation in exchange for millions of dollars in annual contractor fees.

Considering how "dark" the scheme is, one wonders why Shechtel, Gelbaum, and Taylor bothered with a private foundation at all. If the goal is perfect anonymity, it's the weakest link: unlike its bevy of for-profit siblings, Wellspring has to publicly disclose its donors, spending, and other important financial data with the IRS every year. Why not use the shell companies to fund donor-advised funds directly?

Credit: Influence Watch. License: https://bit.ly/2rwghEp.

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Almost certainly, the Wellspring network benefits from the advantage of tax-deductibility for donating vast sums to a private foundation. Having a conduit like Wellspring in place also ensures that Wellspring Advisors—the system's true "black box"—has a steady stream of contracting and management fees from the foundation. Instead of managing hundreds of millions of dollars in donor-advised funds themselves, Shechtel *et al* have access to a team of managers who can ensure Wellspring's money is fed into DAFs and on to the groups of their choice—all but guaranteeing their anonymity.

Of course, that's speculation. All an observer can really know is that Wellspring has a virtually limitless fountain of "dark money" to draw upon and no shortage of activists to fund. ■

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