Practice Management

October 2020

Investing with Impact, Donating with Direction

Giving is a growing priority. More than ever before, we are driven by a desire to do well by doing good.

Individuals are inspired by a range of motivations — values and beliefs, personal satisfaction, sense of duty, family legacy, tax benefits. Even as priorities and opportunities evolve over time, one thing is clear: The main barrier to having a greater impact is lack of planning. In fact, only 11% of individuals report that they have developed a strategy for strategic giving — yet many value the direction an advisor can provide, nearly double would like more guidance to help define and meet philanthropic goals, and 59% want assistance to start or invest more with impact and/or ESG investing.[1]

By focusing intentionally on companies and organizations aligned with their core values, individuals who invest with impact or donate with direction are fostering the kind of change they wish to see in the world. And whether they are putting to work $5,000 or $5 million, there a multitude of options to use financial capital for greater good.

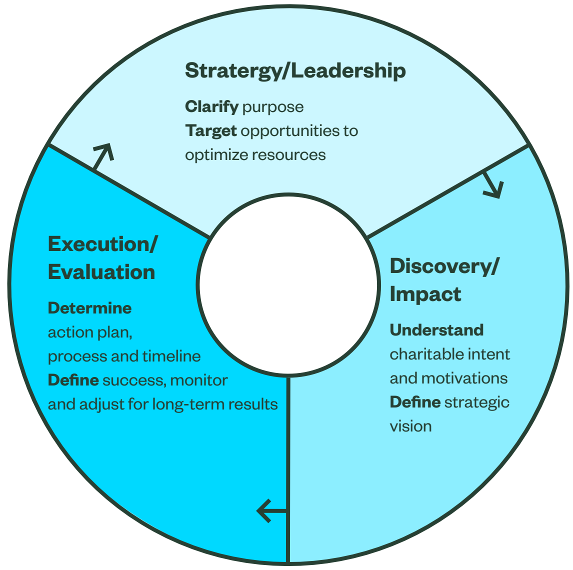
A High-Impact Plan for Results

Advisors can help investors find their path to deeper purpose, collaborating to help define their goals and develop a high-impact, integrated plan for efficient giving and effective investing. Strategic philanthropy empowers investors to take a more proactive and thoughtful approach to giving and investing for impact. It leverages their resources creatively to maximize results.

This does not mean adopting a rigid set of rules or financial formulas. A high-impact, integrated plan channels efforts to reveal possibilities. The key is in developing a personalized, results-oriented approach that focuses on what matters to the individual.

It starts with a process of understanding motivation and intentions, sets the bar for expectations in the short run and long term, delves into benefits of available options for allocating resources, and continuously looks for ways to magnify impact.

Figure 1
Helping Clients Move from Ambition to Action



Source: State Street Global Advisors, The Transformative Power of Philanthropy: An Exploration of How the Desire to Make an Impact is Evolving Advisor-Client Relationships, 2016.

The age of checkbook charity is fading fast. New vehicles for giving and investing bring more ways for individuals to target their financial capital and achieve greater impact. A results oriented strategic plan for philanthropy should start with the individual's motivations and their strategic vision. And although motivations to give and invest responsibly tend to be more intrinsic than rational, most investors are driven by a combination of feelings and experiences:

> **I teach my children that, by giving, you receive.**
>
> —Investor

> **I feel good when I can help others. It's like a high.**
>
> —Heir

> **I didn't grow up wealthy. But I've been blessed, so I feel that I have an obligation to help others.**
>
> —Investor

> **The tax component is an important benefit. It's not the sole reason, but it is an added incentive.**
>
> —Investor

> **I don't invest in something I don't believe in. I do believe in climate change, and I look at that as a long-term investment.**
>
> —Investor

Source: Investor and heir interviews, State Street Global Advisors, The Transformative Power of Philanthropy: An Exploration of How the Desire to Make an Impact is Evolving Advisor-Client Relationships, 2016.

A multitude of factors can inspire generosity and a sense of responsibility. Some are intrinsic, such as the desire to protect the environment. Investors motivated by intrinsic factors are driven to make a difference. Take Samantha, for example, a Millennial and budding artist. Even as a recent college graduate, working hard to establish a career, she donates 5% of her profits to the World Wildlife Fund. She is inspired by the examples set by her parents and a college professor to support those causes that are really important to her. Her commitment is clear, and she sees a world of possibilities when it comes to doing good.

Other factors are extrinsic, such as a portfolio liquidity event that provides unexpected cash flows to donate or invest. Consider Mike, a 66-year old investor who recently sold his family business for $144 million. Philanthropy wasn't initially on his mind. But after planning for an estate that would ensure the welfare of his children and grandchildren, he ultimately chose a donor-advised fund for a significant donation. The primary goal for this gift was to help establish a family legacy; secondarily, he also received the added benefit of tax savings, applied against such a massive one-time increase in income.

Maximizing Resources for Greater Good

Just as consumers cast a dollar vote with each purchase, donors and impact investors use their financial capital to make a difference. A strategic approach can help investors maximize their resources for the greater good. Good stewardship starts with good intentions, but it requires the right plan that will foster investing for impact and donating with direction.

A Glossary for Giving

To help you decode the jargon of stewardship here are some of the most commonly used terms for giving and impact investing. This list includes charitable and investment vehicles; as with any other product area, the relative benefits of each one will vary and depend on the individual's particular situation.

Charitable Gift Annuity (CGA) Donation of assets to a charitable or other non-profit organization in exchange for a series of fixed payments (the annuity) to the donor and/or beneficiary (maximum of two) during the donor's lifetime. The donor has no say over investment decisions. The donor receives an immediate tax deduction; the organization receives the remaining value of the gift when the annuity is terminated. Minimum amounts are typically much lower than for a charitable remainder trust (CRT), which has higher administrative costs.

Charitable Lead Trust Donation of assets to an irrevocable trust. The trust makes payments (fixed amount or fixed payout rate) to a charitable or other non-profit organization (for life or for a specified term of years). When the annual investment return is higher than the payment, the donor/beneficiary receives a payment. Tax benefits depend on the structure of the trust.

Charitable Remainder Trust (CRT) Donation of assets to a charitable or other non-profit organization to an irrevocable trust. The trust makes payments to the donor (and/or beneficiary) during their lifetime or for a specified term of not more than 20 years (the payout rate). The donor names the trustee and has influence over the investment decisions. The donor receives an immediate tax deduction; the organization receives the remaining value of the assets at end of the payment term. Minimum amounts are typically higher than for a charitable gift annuity (CGA), which has lower administrative costs.

Charitable Remainder Annuity Trust (CRAT) Type of charitable remainder trust. Unlike the CRUT, the CRAT pays a fixed dollar amount. Unlike the CGA, the CRAT requires a trustee (the organization itself or a third party).

Charitable Remainder Unitrust (CRUT) Type of charitable remainder trust. Unlike the CRAT, the CRUT payment can vary; when the annual investment return is higher than the payout rate, the principal value of the trust increases (along with the payment). Unlike the CGA, the CRUT requires a trustee (the organization itself or a third party).

Charity Tax-deductible donation to a non-profit organization that benefits society in some way. Closely related to philanthropy, charity tends to be directed toward meeting immediate human needs (e.g., food, water, shelter and healthcare). In the US, charitable organizations are exempt from paying federal income tax, according to Section 501(c)(3) of the Internal Revenue code. Often referred to casually as a 501(c)(3) organization.

Donor Advised Fund A fund in which donors invest assets they give to charitable organizations. Donors advise the fund on how they want their donations to be used; funds generally comply with donors' requests, but they are not obligated to do so. These funds are the fastest-growing philanthropic vehicle, in part because of the immediate tax benefit, convenience, and flexibility (donors can contribute at any time but there are no regulations over when assets are to be distributed).

Endowment Donation of assets to a charitable or other non-profit entity (e.g., educational, cultural service-based or religious institution) to fund charitable activities. Assets are typically invested, with only the investment income paid out for specific programs that are aligned with the endowment's objectives. Donors often request certain use of their donation.

Environmental, Social And Governance (ESG) Investing ESG investing is a broad term for an investment process that includes an assessment of environmental, social or governance credentials in addition to traditional financial metrics. The objective may be to mitigate risk, seek long-term sustainable returns, and/or express values or preferences through one's investments, achieve positive impact, avoid doing harm, manage risk or outperform. Environmental issues include energy consumption, water management, and pollution; social issues include human capital, supply chain management and human and labor rights; governance issues include executive compensation, board composition, and transparency and shareholder rights. Incorporating ESG criteria into investment analysis generally addresses issues that are perceived as material to performance, potentially increasing investment returns. ESG investing can be applied across asset classes, including stocks, bonds and alternatives. Often used interchangeably with sustainable investing.

Foundation Donation of assets to a non-profit organization. Private foundations are generally created and supported by individuals, families or corporations, and are charitable organizations; public foundations are generally created and supported by educational, cultural, service-based or religious institutions, and include charitable and non-charitable (but still non-profit) organizations. Assets are typically invested, with only the investment income paid out for specific programs that are aligned with the foundation's objectives. Donors often request certain use of their donation.

Grant Award (in cash or in kind) given by an individual or organization, often to sponsor a specific educational, research or other type of initiative. The recipient is often chosen on the basis of an application or proposal process.

Impact Investing A growing investment approach that falls under the broader category of ESG investing. Impact investing seeks to achieve positive ESG outcomes alongside positive financial returns, covering areas such as housing, healthcare, education, resource conservation and gender equality, among others. It differs from other forms of ESG investing, such as socially responsible investing, which primarily aim to avoid doing harm because of the intent to generate and then quantify environmental and social impact.

Low-Profit Limited Liability Company (L3C) A business entity that falls between a non-profit and a for-profit organization. An L3C seeks to achieve certain ESG goals, not to maximize revenue. A hybrid legal and tax structure makes this feasible.

Mission-Related Investing (MRI) Investments made by foundations and other philanthropic entities that are intended to contribute to or at least not conflict with the organization's mission. MRI generally consists of impact or program-related investments, but may include ESG investing or socially responsible investing.

Philanthropy Donations made to benefit a cause. The word "philanthropy" is a Greek term meaning "love of mankind." Closely related to charity, philanthropy tends to be directed toward developing solutions that improve quality of life or benefit society in some way. Not all organizations that are considered to be philanthropic qualify for 501(c)(3) status.

Pooled Income Funds A mutual fund that commingles donations for separate donors in a single fund for investment purposes. Each donor receives a proportionate share of the new income earned by the fund each year. The non-profit organization keeps the remaining assets from each donor's share of the fund upon each donor's death. Donors receive an immediate tax benefit and income stream; they avoid capital gains taxes and reduce estate taxes.

Program-Related Investments (PRI) Investments made by foundations and other philanthropic entities with the primary goal of achieving specific program objectives. PRIs can extend to market-rate financial returns so long as financial return maximization is not the primary objective.

Socially Responsible Investing (SRI) An investment process that seeks to avoid doing harm by excluding investments that among other reasons, create negative impacts, are controversial, or otherwise conflict with values or mission. Related to ESG investing and mission-related investing.

Research Methodology

State Street Global Advisors Individual Investors 2019 Study. A global survey on consumer sentiment, purpose and behavior in wealth management.

In 2019, 5,034 individual investors participated in an online quantitative study in the United States, United Kingdom, Australia and Japan on the topics of investing attitudes and behaviors, perceptions of industry and advisors including price of advice and client satisfaction, and wealth structure and purpose. Select questions on the survey were specific the topic of sustainable and/or ESG investing. Participants were required to share or have sole investment decision-making responsibility with investable assets of USD $250,000. Quotas were set to ensure the sample reflects demographic representation on age, gender, region and household income. State Street Global Advisors contracted with A2Bplanning to field the research.

The Transformative Power of Philanthropy: An Exploration of How the Desire to Make an Impact is Evolving Advisor-Client Relationships.

In 2015, 400 financial advisors and 560 individual female individual investors participated in an online quantitative study in the United States on the topic of multi generational wealth management. A subsection of the survey was dedicated to the topic of strategic philanthropy. State Street Global Advisors contracted with Core Data to field the research.

In 2016, two additional online quantitative studies were conducted. The first was an omnibus survey in June with 1,101 individual investors in the United States. The second was a custom survey in October with 1,086 individual investors. Participants were required to share or have sole investment decision-making responsibility with investable assets of USD $200,000, work with a financial advisor and donate to philanthropic/charitable organizations or causes; demographic representation on age, employment and household income. State Street Global Advisors contracted with A2Bplanning to filed the research.

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Endnote

1 State Street Global Advisors Individual Investors 2019 Study. A global survey on consumer sentiment, purpose and behavior in wealth management.

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* This figure is presented as of June 30, 2020 and includes approximately $69.52 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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