Philanthropy has become a core aspect of our value system: Americans now contribute more than half a trillion dollars annually to charitable causes. And giving is not just the domain of high-net-worth households. The vast majority of working millennials are now making charitable donations.

For advisors, philanthropy provides a unique opportunity to build deeper, more personal relationships with clients across multiple generations. And research shows that investors whose advisors provide philanthropic planning are significantly more satisfied and more likely to remain with their advisors over the longer run.

Against that backdrop, State Street Global Advisors has produced a two-part roundtable series to help advisors assess the current state of philanthropy and incorporate it into their practices. Here, in Part One, we explore how philanthropy is evolving and transforming advisor-client relationships. To gain insight into this issue, we turned to 12 industry experts for their perspectives. The following remarks are edited excerpts of those discussions.
Why should philanthropy matter to advisors?

**SHEA** Philanthropy is one area in particular that is emblematic of a broader shift in the wealth advisor value proposition. It is moving away from an investor benchmark centered on investment output and toward a client-centric, family-legacy-oriented value proposition. Client needs are changing from the accumulation to the distribution phase in life, and they are now looking for guidance on different topics, including philanthropy.

So advisors are looking for opportunities to shift the perception away from being what they were — people who provide access to capital markets and investment vehicles — to a trusted family wealth steward. This shift is happening across the industry, in both Wall Street firms and among the RIA community. As evidence, the top 14 advisors on Morgan Stanley’s top 100 list all ranked philanthropy as a 10 out of 10 in terms of importance.

**HULSE** When I got into the business more than 30 years ago, any education I got on philanthropy I had to get on my own. But today, Morgan Stanley offers new advisors a course on family wealth management, and two of the nine modules are about philanthropic planning. Helping families do this type of planning can be tremendously satisfying. And if you help a client solve a problem in a way that allows them to be far more generous than they ever imagined, I think you’ve built a moat around that client that no other advisor is ever going to breach.

**CUNNINGHAM** Generosity planning can be an opportunity to build stronger relationships with clients. It also gives clients a different perspective on wealth. It’s no longer just about what they accumulate. When generosity planning is carried out, it can be transformational for the client, and we get credit for having engaged in that conversation.

**DAVIS TAYLOR** The more financial advisors demonstrate our commitment to making the world a better place, the more our profession and industry will be respected. Increasing the level of trust between financial advisors and their larger communities should be a goal in itself.

Is philanthropy a service that clients are willing to pay for?

**SCHNOLL–BEGUN** Offering advice to clients on strategic and impactful philanthropy is advice that our clients are willing to pay for. When a client makes a large donation, it is a “philanthropic” investment in our health care, education, arts and culture, and improvement in our environment and society. We are ensuring that the decision is a powerful one for their personal financial situation and their philanthropic goals for the future. Financial advisors should also realize that if they’re not talking to their clients about this topic, someone else will.

We used the same analysis that is used to make a traditional investment in the financial markets with the additional goal of measuring the positive societal impact.

**PRINCI** Providing services and strategies around philanthropic planning has been a differentiator for my team. The added value that we provide in this area of planning enhances the client’s experience with us and solidifies our relationships. Therefore, the client’s metric for evaluating us is no longer just about performance relative to a benchmark but rather how we can help them achieve their family mission of creating a lasting legacy. This model embodies the essence of an advisory relationship.

**ERDMANN** The advisory world is changing. Information is seen as a commodity. People don’t need an advisor for that — they simply need Internet access. Advisors are now in the business of giving wisdom, and this means helping families establish a legacy, giving back and being strategic with their wealth. Advisors who are able to provide this wisdom add value to their services, but it’s rare in the industry.

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**Investors Whose Advisors Guide Philanthropic Planning Are Significantly More Satisfied with Their Advisors**

Percentage of investors “very satisfied” with advisor

- 59% Adviser guides
- 42% Adviser does not guide


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**As an industry, we charge for things that add very little value and give away the services that clients really value.”**  
**JOHN ROBERTS** partner,  
**Denver Investments and Portfolio Manager, Workplace Equality Index®**
What are some of the key trends within philanthropy today?

SCHNOLL–BEGUN Philanthropy today is more inclusive – people don’t have to consider investing and philanthropy separately. There are more opportunities to combine the two through impact investing, which allows people to not only buy a product, but support a cause at the same time. We are advising clients on the opportunity of achieving 100 percent impact with the foundation and donor–advised funds. Why should a client’s 5 percent mandatory distributions be the only way they can express the change they want to see in the world?

Impact Has Grown Rapidly in Recent Years


<table>
<thead>
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<th>Year</th>
<th>Billions ($)</th>
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<tr>
<td>1995</td>
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<tr>
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SHEA The advent of impact investing is prompting an evolution in the advisory industry, which had already been looking to broaden its focus. The socially driven investment vehicle will be a huge opportunity looking forward, and the proliferation of options and choices is going to continue to grow. Some of the things we see developing in the impact investing space are going to provide democratized access to philanthropy for people at all levels of wealth. You have some generations coming along now for whom what they do with their money and how they deploy capital is going to be extremely important in regard to their own value sets. And it’s a major trend that advisors can take a more participatory role in directing because it’s an investment–oriented decision.

PRINCI Impact and sustainable investing are becoming more mainstream. The dialogue with clients regarding portfolio allocation has shifted to not only include performance, diversification and risk but also the social and environmental implications of that allocation. Investors don’t necessarily structure a whole portfolio around impact investing, but many are carving out a portion of their investments for that purpose. We have strengthened our team’s level of sophistication in this area so as to better communicate to clients what options and investment vehicles we can offer to help align their investments with their values. We then demonstrate that when socially responsible investing is implanted appropriately within their portfolio, the client does not have to sacrifice returns.

MCKNETT There is a lot of demand in the aggregate for impact investing, and there are plenty of retail clients who feel completely natural expressing their financial values through their investment decisions. This is something that’s gone on for years — such as the client who shuns investments related to tobacco stocks or gun manufacturing — but the tendency has started to surface more in recent years. It is a natural extension for investors who want to try to amplify their legacy and their impact.

HULSE I have noticed an increase in the number of clients who are using donor–advised funds to make their gifts. They are easy to set up and use, gifting can be anonymous if the client wishes, and from an investment standpoint, cash that would have been gifted can be used to repurchase gifted securities and establish a higher cost basis.

What are the generational differences when it comes to impact investing?

ROBERTS The next generation doesn’t want to invest the way that their parents did. For example, in one recent survey, two–thirds of millennials said that investment decisions are a way to express their social, political or environmental values. That is almost double the percentage of baby boomers who said the same. Nearly three–quarters of millennials also said it’s possible to achieve attractive returns based on investing that also has social returns. And 90 percent say that a business’ success should be measured not only by profits but by social good.

These trends underscore the importance of advisors starting to focus on impact investing when working with the next generation of wealth inheritors and looking at investment options beyond what the patriarch or matriarch of the family desires.

Significantly More Millennials Have Impact Investments Than Other Generations

<table>
<thead>
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<th>Percentage Selecting “Yes”</th>
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<td>Do you currently have impact investments?</td>
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<td>Millennials</td>
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<td>63%</td>
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<td>72%</td>
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State Street Global Advisors

The Philanthropy Opportunity for Advisors: A Roundtable Discussion

MCKNETT For the average millennial coming into the workplace, retirement is 40 or 50 years away. The impact of things like climate change is going to be felt inside that time frame. So for this group, there is an immediacy here – it’s not a case of “We'll worry about that after we build wealth.” The millennials want to take these causes on in a serious way, so it’s likely that the popularity of impact investing will continue to grow in coming years.

SHEA In the past, a family might have identified a cause or commitment and provided it with a one-time gift. But the younger generation of investors wants to be able to continue giving to a cause they care about over a longer period of time, whether it’s a charitable mission or global warming. They are more interested than their parents in making an ongoing investment in a cause that’s in line with their values. This is an opportunity for advisors to help younger generations within their client families learn more about impact investing.

DAVIS TAYLOR Millennials are putting their own stamp on philanthropy. According to the 2014 Millennial Impact Report by the consultant Achieve, 87 percent of those between the ages of 20 and 35 gave a financial gift to charity in 2013. And, as the most connected generation in history, multitasking millennials want to engage in business and philanthropy at the same time. Over half of those interviewed say they would take a pay cut for a job that changes the world for the better. According to Trevor Neilson’s 2012 study “Philanthropy and Millennials: Get on Board or Get Left Behind,” 93 percent would buy a product because of its association with a cause. By 2020, this age group will make up over half of the workforce. There’s power in numbers.

How is technology affecting how people choose to give?

CHANDA New tools are allowing investors the ability to easily search for charities that fulfill their personal causes — pinpointing, for example, that certain charity with $10 million or more in assets that is fighting for gender diversity in the pharmaceutical workplace. We’re going to see a much broader span of control of the fund—raising dollars so that not just the largest charities benefit. And the next generation of investors will have greater access to charities than generations past.

SCHNOLL-BEGUN Technology today allows people who want to give the ability to garner huge support networks of like-minded people with the aid of the Internet. Technology also gives them access to research and data that shows how they can make a difference.

JAMES The ability to fund organizations that are developing specific projects for specific people or linking to a special kind of support has always been attractive, but it’s more possible today because communication is easier. Opportunities range from Kickstarter campaigns to online versions of micro funding. This kind of specialization among donor types is now easier for nonprofits to offer, thanks to the emergence of technologies that allow for better connectivity and greater transparency to show investors their impact.

Which products in particular are helping drive the expansion in charitable giving?

CHANDA Donor—advised funds have become a huge growth industry. These funds allow investors to establish a fund for charitable donations and then pay the money out slowly over a long period of time. But while the money doesn’t have to be paid right away, the investor can get the full tax deduction for the donation immediately. Advisors can manage money that sits in donor—advised funds, so from their perspective, they are now able to access client assets that in the past would have gone to a private foundation.

BOLAND The donor—advised fund is seeing tremendous growth; in fact, National Philanthropic Trust calculated that contributions to public charities with donor–advised funds grew by 11.4 percent and grants by 16.9 percent in 2015. The reason the use of the donor—advised fund has grown so much is that it’s a very simple, but very efficient program. While historically donor—advised funds didn’t have a lot of bells and whistles, today they can accomplish almost everything a private foundation can. And they’re open to donors at almost all levels. Our donor–advised funds program at Fidelity Charitable starts with a charitable contribution of $5,000, and yet we also have nearly 400 accounts of more than $5 million. It’s very strange in the financial world to have a single program that makes a ton of sense for both of those groups, but the donor–advised fund does.

Donor–Advised Funds Are the Fastest–Growing Area of Philanthropy (Donor–Advised Fund Growth)

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The Philanthropy Opportunity for Advisors: A Roundtable Discussion

ERDMANN A large percentage of our clients have been moving away from private foundations and into donor-advised funds. Private foundations may still be a good choice for certain wealthy families who want to engage multiple generations, but for most of our clients, the flexibility and the cost of donor-advised funds have made them more compelling. Why spend money on a foundation with all the related costs and restrictions?

Beyond their simplicity, what other factors are driving the growth in donor-advised funds?

CHANDA The amount of noncash gifts going to charity is increasing at a huge clip, and through a donor-advised fund, an advisor can take in those assets. The majority of wealth in America is not in cash but in appreciated public securities, real estate, private equity funds, hedge funds and the stock of private corporations. Those are all types of assets that people can donate to charity through a donor-advised fund and get a tax deduction for the fair market value.

BOLAND Many of the people I end up intersecting with are business founders who have accumulated wealth through private, non-publicly traded assets. If someone donates private C Corporation stock to a private foundation, their tax donation is stuck at their cost basis. For a lot of these people, that’s zero (or negligible), because they’re the founders of the business. So they will likely be unable to take any tax deduction if they donate that stock into a private foundation. But if they donate the stock to a public charity with a donor-advised fund program, they can generally deduct the full fair market value for the charitable contribution. So that’s a big driver for many people.

JAMES In the past, financial advisors sometimes looked at philanthropy as a competition. Donated funds were no longer assets under management anymore. But with a donor-advised fund, advisors can still manage the funds before they are paid out. That gives advisors a reason to have these financial conversations, and ultimately, the funds are good for charities.

HULSE Savvy donors who are reluctant to give a low-basis security because they believe it has room to grow can gift the security and use cash to buy it back, establishing a higher cost basis to minimize future gains or, harvesting tax losses if they are wrong, neither of which is an option available if they continue to hold low-basis securities.

Donor-advised funds have come under criticism from some corners though, haven’t they?

JAMES There are some nonprofits that actually feel threatened by the rise of donor-advised funds because there is now an intermediary involved and the donated funds may be delayed for an undetermined amount of time. But in the long term, donor-advised funds will likely be a benefit to charitable organizations. Not only does it get people easily into the concept of a private family foundation substitute but now you have a whole class of people who wouldn’t necessarily even have had a conversation about charitable giving who are more likely to do that.

CHANDA There indeed has been some recent criticism of donor-advised funds that these vehicles are holding on to these charitable assets. The truth is that, nationally, donor-advised funds annually grant out 25 percent to 30 percent of their assets to the end charities. Moreover, there is a proliferation of giving that comes with donor-advised funds. The ease of giving via the granting technology allows the donor access to a wider spectrum of charities previously not as accessible.

Beyond impact investing, how do millennials approach philanthropy differently than other generations?

CUNNINGHAM Younger clients want to have a hands-on approach and see the impact of their giving. They are more interested in start-up charitable organizations than older clients, who tend to stick with the tried-and-true larger nonprofits. Younger generations are also prone to have a more global perspective and look at social causes — for example, combating such issues as human trafficking — that their parents weren’t even aware of. Their giving is very much more relational rather than out of loyalty to an organization.

Millennials Want to Know Their Charitable Investment Is Making an Impact


SCHNOLL-BEGUN Technology today brings new issues to millennials that yesterday’s philanthropists really weren’t able to see and experience. They have an opportunity to understand what is going on globally without actually ever leaving their homes. The research that they can do, the direct contact that they have with organizations, the opportunity to see work on the ground in countries is so incredibly rich. They don’t have to stay in their community when it comes to charitable giving.

State Street Global Advisors
The Philanthropy Opportunity for Advisors: A Roundtable Discussion

Research has shown that about half of all heirs would be more likely to stay with an advisor who offers philanthropy guidance. What is your experience on that front?

SHEA One top advisor had a wealthy family that was trying to engage with one of the grandkids, a 19-year-old surfer who lived in Southern California. They ultimately decided to bring the grandson in to have a discussion about philanthropy. The surfer child was passionate about surfing and became interested in efforts involving environmental protection around the ocean. All of a sudden, he started showing up at meetings to discuss how the family foundation could contribute and started putting effort into researching different organizations. It was transformative for that relationship.

SCHNOLL–BEGUN For financial advisors, philanthropy provides new opportunities to help build a relationship with the next generation that can preserve their financial advisor-client bond into the future and keep the money from leaving the firm down the road. Philanthropy can be a beautiful way to get to know these kids and establish a trusted relationship, while giving the financial advisor insight into how the heir thinks about wealth, investing and taking risk.

ERDMANN Philanthropy is a means of opening up a dialogue with the next generation about money, and it is an important part of financial planning for many of the multigenerational families we work with. Once the next generation becomes engaged in the philanthropic discussion, they feel they can make a difference and have an impact on other people’s lives. It can also create discipline around family meetings and in pulling families together.

As women continue to gain more financial muscle (by 2030, women will control two-thirds of US wealth), will this change how advisors use philanthropy to connect with this growing client segment?

SHEA Estimates show that women of the baby boom generation are expected to outlive their husbands by 10 years or more, on average. That alone might have huge ramifications for the way wealth advisors work with those families and how philanthropy is going to play a role in that. The shift that occurs when a matriarch takes over for the patriarch of the family’s wealth management is real. They have a different value set and a different perspective, and they’ll be in control of how the family wealth will be meted out. It’s up to advisors to understand this change.

DAVIS TAYLOR We know that women are giving more often and that they tend to give more, in proportion to their wealth level. Since women are the “connectors” in family groups and are more charitably inclined, it is crucial for advisors to adopt a goals-based approach in working with women. It’s just as important to discuss what we women want to accomplish with our wealth as how it is invested.

SCHNOLL–BEGUN There are differences between genders when it comes to giving, often related to the causes they choose, such as charities that advance women. For example, a client who graduated from NYU with a degree in game design became head of her family’s donor-advised fund and shifted the focus to advancing women. She and the fund really became innovative in the space, providing grants for women in the area of science, technology, engineering, art, math and, specifically, coding. Being in the field herself, she saw how few women had chosen the same path. She hoped to make a difference with her philanthropy.

How sensitive is philanthropy to the movements of the market?

CHANDA Giving typically follows certain predictable patterns. Over the past 40 years, there’s been a correlation between the performance of the S&P 500® Index and charitable donations. Giving has been growing by an average of 5 percent to 6 percent a year as the market has continued to climb. But drops in charitable giving don’t always mirror declines in the market. For example, when the S&P 500 fell by 39 percent in 2008, charitable donations dropped by only 5 percent for the year. Regardless of how the market does, people will continue to give because they are philanthropic and they do believe in supporting a mission.

SCHNOLL–BEGUN In my opinion, the bonds of causes typically prove stronger than the ups and downs of the market.

To learn more about our experts’ perspectives and best practices, please see Part Two, Adding Value with Philanthropic Planning: Best Practices from the Field.

Significantly More Women Than Men Make Charitable or Philanthropic Donations

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