The Art of Giving in Philanthropy

Disruptive Forces in Investing **November 28, 2023**

Anu Rajakumar: Giving back to causes, charities and institutions we care about has long been a practice celebrated and encouraged. But with a distressed world needing much repair, how can one choose where to donate to effectively and how to hone in on the art of philanthropy? And how can investors incorporate charitable contributions as a core allocation within their portfolios? My name is Anu Rajakumar, and today, I'm delighted to welcome Julia Chu, Head of Philanthropy and Family Governance Advisory at Neuberger Berman Private Wealth to discuss the art of philanthropy on this Giving Tuesday. Julia, thank you for coming on the show.

Julia Chu: Thank you for having me.

Anu: Now, Julia, as I mentioned in the opening, today is Giving Tuesday or the Tuesday after Thanksgiving in the US, and this day acts as a day of giving after the often massive amounts of retail purchasing that has occurred in the few days that have preceded today. So to kick off this episode, Julia, tell us more about the impact of Giving Tuesday as well as how you view charitable giving in today's society.

Julia: Thank you, and happy to, Anu. Giving Tuesday launched about 11 years ago to inspire giving, as you say, to balance the massive consumer spending of Black Friday and Cyber Monday, which we're all so familiar with. Since then it has led to monumental giving in a single day. So for instance, Giving Tuesday last year resulted in about $3 billion given to charities within just 24 hours. And this movement has spread around the world to spark not just donations but volunteering by hundreds of millions of individuals in every country in the world. So what began as a local campaign here in New York is now a global collective impact. Now, in addition, looking historically, charitable giving has grown tenfold over the last 40 years and actually peaking during the pandemic, which surprises a lot of folks. So it has certainly become part of our culture and even expectations of those with wealth. Now, the name of this podcast is *Disruptive Forces*, so when I think about disruptive forces in philanthropy, I see an evolution from reactive to proactive giving.

Often when we begin our philanthropy journey, we emotionally respond to current events as we naturally do, so including wars and natural disasters. And we also respond to incoming requests from our college, for instance, and friends and family. So a marathon here, a walk-a-thon there, and there will always be a place for that. But the true passion begins when you pivot to actual problem solving and proactively seeking out solutions on the issues you care about because the challenges of today can't be left to government or business to resolve by themselves. And this is why philanthropy can be one of the most important forms of deploying capital today.

And our clients become so excited when they can apply both their hearts and minds in allocating funds for good. And so this mindset of deliberate active giving defines what it means to be a philanthropist today.

Anu: That is a very powerful opening, Julia. I love what you said there, that deliberate active giving is so crucial to being a philanthropist. So let's just talk a little bit more about individual giving. As you've highlighted, there's just so many really big and difficult problems in our world today, and I think as individuals it can feel just so overwhelming to try to make a difference in all of that. So as an individual, as a donor, where does one even start?

Julia: So it's definitely natural to feel overwhelmed. You just-- You don't have to do much doomscrolling to-to feel that way.

Anu: [laughs].

Julia: But that's why having a focused approach is critical to achieve any traction. So one of the first things I ask clients is, “would you choose your investments the same way you select your charities?” And often the answer is, uh, "Of course not 'cause I'm looking to make money and not make random choices based on emotion." And if they could just hear themselves talk, they can see that that's an interesting dichotomy because philanthropy is also an investment of capital for an important return of positive impact. So why wouldn't you incorporate some thought and planning into your charitable giving as well? So to guide our clients, we help them develop their philanthropic portfolio, which provides a framework to actively focus their efforts. So we begin by asking, "What are your sectors of interest?" For instance, education and health, and, "How do you want to allocate your resources among these sectors? Equally, for instance, or more of a priority to certain sectors?" And then we can check that your actual allocation of giving reflects this intent because it's actually rare to monitor this actively.

And then the next question is, "What is your geographic footprint?" Because as with financial investing, you can choose to invest your funds abroad in emerging markets or just in the US or a combination, and that helps you to target your giving. And then we ask what your risk profile is in funding charities. "Do you want to fund large institutions with a long track record, albeit along the blue-chip line, or startup organizations with a novel approach and maybe no track record or a combination of both types of organizations?" So your giving philosophy is critical in defining your funding approach. Now, donors can also choose to fund charities on an active or passive basis, and both, which can serve an important purpose.

So, for instance, for a local nonprofit that I'm impressed with, I can volunteer for it, I can advocate for it, and even serve on the board, which we know in private funds, taking a board seat is a very active form of investing. On the other hand, for emergency relief abroad, I may want to fund a nonprofit that has decades of experience in this area for whom this is not their first rodeo. And there's no need for me to micromanage what they do on the ground. So it makes sense to take a passive approach and then just fund without restrictions.

So clarifying your preference helps to prioritize not just your capital, but your valuable time. And lastly, due diligence is also essential in selecting charities as with financial investments. And so we do guide private wealth clients on the resources and strategies to conduct this process as philanthropists. And just not to delve into it, but just key factors generally include track record, financial health, a funding roster.

Anu: Yeah. Those are all great points. And as someone who sits on a Multi-Asset team and thinks about asset allocation, you know, with clients itself and the IPS, the investment policy statement, figuring out what a strategic asset allocation looks like, understanding risk tolerance and client guidelines. Those are all things as you mentioned, are actually really important just to think of when you have a philanthropy mindset as well. So-

Julia: Absolutely.

Anu: Yup. So as people in the investment world, we also can't ignore things like tax benefits that come from beyond the act of giving to the cause that we find to be most meaningful. But also, I'm thinking about the previous episode with our secondaries colleagues, where we spent a lot of time thinking about how investors are really craving liquidity. So two-part question for you, Julia. First, what are some of the tax implications of charitable contributions? And secondly, can- can you have your cake and eat it too when it comes to liquidity needs and philanthropy?

Julia: Well, first of all, I don't want to get in trouble by actually promising that you can always have your cake and eat it, too. But, Anu, if there's ever a time to combine liquidity planning with philanthropy, it's actually now as we approach year end and review our portfolios for gains and losses. So, traditionally, when we give to charity, we donate cash on one end, and with the other hand, we sell shares to raise liquidity for our other needs. And the problem with that, of course, is that when you sell appreciated assets, you realize capital gains, which can trigger tax, and that-that can be a problem if you're out of capital losses to offset.

So, instead, what you can do is you can hold on to your cash which most human beings want to do anyway, and donate long-term appreciated shares held for over a year to charity, and you can bypass capital gains tax completely and also getting a full fair market value deduction to boot, even if you only paid a fraction for those shares years ago. So, again, if you have a net capital gain on securities that you're looking to reduce your exposure in any way, why not donate these assets directly to charity, and retain your other sources of liquidity to enable you to have your "cake" and eat it, too. But we do always urge our clients to consult with their tax advisors to identify the optimal amount to donate, in light of the client's gains and losses for the year.

Now, following this line of logic, you could transfer securities to multiple charities and hunt down multiple receipts for tax time, which is a huge pain, or you can simplify the process even further by donating the securities to a donor-advised fund. And in a nutshell, a donor-advised fund, or DAF for short, is simply a tax-free charitable account that provides an upfront tax deduction upon funding, enables you to diversify out of the donated securities tax free, and then distribute to any number of charities as you wish over time with a click of a button online. And, through a DAF, our clients can keep track of their charitable gifts online in real-time and their philanthropic allocation. And, so, in this way, DAFs helped to make complex mechanics of giving much simpler, and as you know, our clients always value simplicity during a very busy life.

Anu: Especially not having to find those receipts at the end of the year. [chuckles]

Julia: Exactly. And-and, to also ask your spouse, "Whom-whom did you give to this year and-

Anu: Exactly.

Julia: -you know, can you give me the receipts for that?"

Anu: Yeah.

Julia: And so, because it takes minutes to open a donor-advised fund, it's easy to establish. But I will say, Anu, that the real-time pressure comes from transferring the securities well ahead of time to count towards the current year deduction. And these deadlines exist for DAFs or any other charity. Pulling up to a global level, I'm often asked about, "What about tax incentives abroad," and for charitable giving. And they do vary by jurisdiction. But I do find that three common motivations for philanthropy remain universal, aside from the tax deduction.

The first is to advance the family legacy within the community. The second, and we're talking about world religions to demonstrate one's religious faith through action. And the third is to engage younger family members not interested in the core family business but still passionate about social impact. So regardless of tax implications, it's still relevant all around the world.

Anu: Sure, absolutely. And, you know, as you said, donor-advised funds are a fantastic vehicle, which can offer donors an effective and flexible means to support causes that they're passionate about. But you mentioned younger family members, and so I want to ask a little bit about how various generations of wealth handle philanthropy. A few episodes ago, we had Stephanie Luedke on to speak about the great wealth transfer. So, Julia, I'd like to hear your perspective on some of your observations between generations when it comes to philanthropy.

Julia: Well, it's interesting to note, Anu, that only 35% of baby boom generation members actually view themselves as, quote, "philanthropists," while 75% of millennials do. And you may wonder, "Wow, do they even have enough money to be philanthropic?" But, you know, certainly what it means to be philanthropic has certainly evolved and broadened over time, way beyond writing a check. So, traditionally, if we had to draw a typical philanthropist on paper, we'd probably think of an older, you know, Mr. Money Bags with a big Monopoly top hat, you know, writing checks to a large institution and naming a building after him.

But now, philanthropy involves bringing your whole self to the table in affecting change. And your whole self has many elements. So not just the cash we contribute but, first of all, volunteering, your time as a volunteer, or more regularly, as an actually nonprofit board member, and giving the many needs of the nonprofit sector, including technology, finance, marketing, the possibilities of leveraging your talents are endless. Another way of amplifying your personal impact is to become civically involved through voting. And not just during high-stake elections, but whenever you have a chance to elect your local representative and vote on specific issues. Because we've seen that the seemingly unimportant races can actually affect our everyday quality of life, and thus presents an additional lever of change. And we do see younger generation members actually taking more of an interest in expressing their voice that way.

Also, while social media has a whole host of ills, and that's probably a topic of another podcast, it's also an incredibly effective platform for raising public awareness and funds toward a cause you care about. We also find that more and more donors want to align – young donors, younger donors – want to align their financial capital with their values. So, for example, if I care about the environment, why would I invest in a company that pollutes downstream? Also, market-driven activity can often accelerate the rate of change you want to see in the world. So it's common to see both philanthropic and personal investment capital at work in a similar direction. And in addition to expressing your values as a volunteer, a voter, influencer, and investor, you can also have an impact as a consumer; through the choices you make in shopping, traveling, and even dining. So these are just some of the ways you can advance your philanthropic impact in many practical, everyday ways.

And here at Neuberger Berman, we actually embrace and cultivate all the ways families can affect change because it will take many levers to make the rate of progress that we'd like to see.

Anu: Those are some great points. One that I picked up on, your example, "If I care about the environment, why would I invest in a company that pollutes downstream?"—this is one area that we've engaged with a lot of clients on, this idea of divesting from companies that don't align with your values. The opposite of which at Neuberger Berman we often spend time on, which is engaging with those companies. So rather than divesting from them and not having any voice at the table for those companies, what if we take the other side?

What if we put ourselves at the seat at that table and become the agent for change as well? And I think there's some really interesting ways that we have tried to evolve ourselves as a firm and as well as with our clients. This is such a journey and an important one that we know so many clients care passionately about. So, um, I appreciate your comments there.

Julia: And a Neuberger Berman is quite the leader in these areas.

Anu: Yes. Yeah, of course, you know, engagement is such a core pillar of what we're doing, and there's just some great innovations happening across the investment platform when it comes to engagement. Julia, we're aware of some of the benefits of philanthropy that you've highlighted today, of course. But on the flip side, tell us about some of the risks involved. What should people be aware of as they're considering their philanthropy options?

Julia: So a common fear or regret actually often involves failure or scandal of the organization's donors support. But to address that, I will say a little upfront, due diligence we engage with our clients can go a long way in mitigating the downside risk of uninformed choices. But also tell you about the hidden risks that donors don't think about enough, uh, from what I've seen. So one is determining a solution without learning from the affected community and their experience what they want or need to solve through this problem. And bypassing their perspective completely can lead to a lot of time and money wasted with a solution that never gets the desired uptake. We've seen a lot of unused wells, unused toilet facilities, unused education centers because they never bothered to ask the folks, "What do you find to be useful?"

Now, other downsides include reinventing the wheel and creating a new charity when existing networks or organizations are already on the ground working on the same issue. And candidly, I kind of wince when a client wants to start a new charity without understanding what exists first. I mean, an entrepreneur, a skilled one, would never launch a solution without understanding the marketplace. And the same is true here. But once you've researched the landscape, it's also important to remember that philanthropy is often the engine of innovation, much more so than government.

So productively failing forward is an important aspect of affecting positive change. And so for that reason, the biggest risk of all, in my opinion, lies in sitting on the sidelines and not doing anything. And that's why we're here for our clients in helping them to make informed big bets because now is the time to embrace philanthropy. Because as the question goes, if not now, when?

Anu: Well, that is a great and profound question, Julia. I was wondering if you could share some concrete ways that families can engage in philanthropy.

Julia: So, Anu, I'm so glad that you're asking this question because for all of our clients worldwide, passing down values and what lies in their heart, that has an emotional weight, that's more important than passing down material wealth. And often it's the biggest reason, if you will, for incorporating philanthropy into family life to begin with. But I will say before engaging the kids, I actually encourage all of our clients to conduct their own emotional due diligence to ask themselves first a couple of questions.

So first, "What values do I want to live by at home, at work, in my personal relationships and share with my children? And what are the messages I want to convey on wealth within our family?" And lastly, "What does gratify me about giving, and what would I want my children to enjoy in their own philanthropy?" Answering these questions for yourself is often really a clarifying process, but it's also you learn a lot from asking these questions of your spouse or partner and having his or her perspective. And together your answers will provide the words for bringing up family values in casual conversation. I will say though, as your children enter adulthood, expressing what's important to you is part one of the family conversation. Part two is being open and curious to hear what your children care about in making the world a better and safer place. And we know from future inheritors within private wealth, being able to have your voice heard and valued opens up space for you all to inhabit, meet, and find common ground and what you want to accomplish together as a family. So, back to your question, Anu. And I know you asked about concrete giving.

Tangible steps include having a family giving fund, easily done through a donor-advised fund, and asking your children to research and making a case for granting a certain amount to charity so that they can experience the process of due diligence in making a case. Another would be to give a granting certificate, again, through a DAF. So instead of an Amazon gift card of $100, you can give your children an electronic card that enables them to give a $100 to a charity of their own choice. And so in this way, you're converting the consumer behavior to a giving behavior and activating that muscle, if you will. And they can do so in a format that children know best, which is online or through their phones.

So both of these strategies have had great success for our clients. But I will say that one of the most effective ways of sharing your values is through family volunteering. And you may think, "Wait, isn't that what school is for?" But, but nothing can actually match or replace the experience of volunteering together. We have clients today who are in their 40s, 50s, and even 60s who mention family volunteering as one of their most cherished memories because children will never remember the galas you attend. They may not even know about the checks you write to charity. But I promise you, they will always remember the times you went together to distribute toys or serve food or care for your animals.

Because not only will they witness the impact of their own volunteering, they will have had spent quality time with you, which is so rare and precious to begin with and unconsciously learn the values you demonstrate that day instead of hearing a lecture, for instance. And besides the natural endorphins that come from helping others, philanthropy is also about living the moments of connection and creating memories that will last a lifetime and inspiring your children to create traditions with their own children.

Anu: Lovely. Those concrete examples are wonderful to hear. And I know for my family, I've got a seven and a three-year-old and like you said, some of our core memories include, doing Meals on Wheels together and delivering those meals to people's doors, , serving the elderly at the senior center in East Harlem and our family tradition, which is every holiday season we create care packages for homeless folks. And so we invite a few of the friends of our kids over and all these little kids go around and, you know, fill up, extra, extra-large Ziploc bags with a whole bunch of things that folks in our community might need. And every year, you know, my kids think about that, talk about it, and, uh, we have really meaningful conversations about what it means to give back. So I know that's something that is really near and dear to my own heart.

Julia: Oh, what a wonderful and real example that you brought to the table, Anu.

Anu: Great. Well, thank you again for those actionable items. Let's wrap up this episode, Julia, with any key takeaways that you'd like our listeners to walk away with, particularly as we enter the holiday season.

Julia: Sure. So if I could just review some points to remember, I will leave your listeners with these. First of all, think about the why or what motivates you to give. It could be for tax, family, or community benefits or all three, but unless you define your philanthropy goals, you won't really reach them. And that's true for anything in life. And because philanthropy reflects an investment of your valuable resources and time, it deserves just as much proactive planning, frankly, as do the financial investments of your balance sheet. So developing your philanthropic portfolio can help you define your areas of focus and priorities in selecting charities.

And due diligence is what we do empower our clients in private wealth and developing as a process and skillset. Of course, year-end portfolio review is the optimal time to reallocate your investments as needed and benefit your preferred charities at the same time. And donating long-term appreciated securities and doing so through a DAF can simplify your charitable giving even more. And lastly, philanthropy provides the opportunity to be your best self with you and your family. And the connections from sharing this side of you will remain powerful through your life and your children's life.

Anu: Wow, those are some beautiful and important comments to end this episode, Julia. Thank you for sharing those. There's a lot of important takeaways that folks can walk away with today. Now, I can't let you leave without a bonus question. [chuckles]

Julia: Uh-oh.

Anu: The dreaded- [laughs]

Julia: The dreaded bonus question.

Anu: -the dreaded bonus question. You know, given the spirit of this episode, I would love to hear about what your favorite activity is when it comes to giving back or a core memory from your life that is centered around giving.

Julia: Well, I'm very food oriented and so the best moments come from-from cooking for others. So in any opportunity through Neuberger Berman, when it comes time to preparing food and serving it has always been rewarding. And I find that it nourishes them in-in many ways. And it's a very nurturing thing to do as a human being. So, I do- I do enjoy the cooking aspect and bringing that in.

Anu: That's great.

Anu: Julia, thank you for joining me today to discuss the ins and outs of philanthropy and charitable contributions and the implications, the risks, and the benefits. There's so much for people to take away from this episode, the actionable items that you mentioned, like setting up a family giving fund or a-a DAF using granting certificates as gifts, family volunteering, which, you know, is near and dear to my heart. And I especially liked what you talked about in terms of really understanding your own emotional due diligence when it comes to philanthropy. That's something that I know I will be taking away from this episode personally. And finally, I know that you distilled a lot of these topics into a recent article that you published titled *Constructing Your Philanthropic Portfolio*, which is available on www.nbprivatewealth.com. So I encourage our listeners to head there to learn more about some of these topics that you covered today. Julia, thank you again for being here.

Julia: Thank you, Anu, very much.

Anu: And to our listeners, if you've enjoyed what you've heard today on *Disruptive Forces*, you can subscribe to the show via Apple Podcasts, Google Podcast, or Spotify, or you can visit our website, www.nb.com/disruptiveforces for previous episodes, as well as more information about our firm and offerings.