

Morgan Stanley

PRIVATE WEALTH MANAGEMENT

STRATEGIC PHILANTHROPY

EXPLORING YOUR INSPIRATIONS

Your set of philanthropic objectives is as personal as your vision of a better world. Determining your objectives, however, can be challenging when there are so many worthy causes and so many unmet needs. As you explore which efforts will ultimately give you the greatest satisfaction, consider the following:

SPIRITUAL DEVELOPMENT

How do the beliefs and values that guide your life serve as a compass for your philanthropy? Does your congregation do important work you would like to support? Do you believe strongly that children should have access to faith-based education?

PERSONAL DEVELOPMENT

When you think about the most transformative moments of your life, what stands out? Which social involvements, travel experiences and volunteer activities have meant the most to you?

FAMILY BACKGROUND AND VALUES

Would you like to continue a family tradition of giving to a particular cause, or address an issue that has had a particularly strong impact on a beloved friend or family member?

EDUCATION AND PROFESSIONAL DEVELOPMENT

If your schooling helped to enrich your life, perhaps you would like to help less affluent students enjoy that same opportunity, or fill a notable gap in your alma mater's infrastructure.

SEMINAL LIFE EVENTS

Life-altering events, positive or otherwise, may inspire new avenues in philanthropy. What has happened to you, or those closest to you, that might lead to an inspired gift?



DEFINE YOUR PHILANTHROPIC MISSION

Many well-intentioned individuals begin their philanthropic journeys by asking themselves where they want to donate money. Consider asking a different question:

What do you want to accomplish?

Answer as precisely as you can, then sort your answers into four categories:

- Core:** The area or areas where your primary passions lie.
- Discretionary:** The causes you support at the behest of others.
- Emergency:** Temporary, reactive causes (e.g., disaster relief).
- Other:** Causes outside your core interests.

Using the priorities you have just established, begin to craft your philanthropic mission statement. This exercise is a great way to organize your thoughts and focus your ambitions so you can make the greatest impact in the areas that mean the most to you.

EXAMPLES OF WELL-CRAFTED MISSION STATEMENTS:

“My mission is to substantially reduce the number of dogs and cats that are euthanized in my city by supporting the most efficient no-kill adoption centers and promoting spay and neuter programs.”

“My mission is to make a difference in the health and well-being of others and to stop child obesity, by sharing my personal experiences and knowledge about diabetes.”

HOW TO REVIEW A GRANT PROPOSAL³

If you are taking an active role in your family or corporate foundation, or perhaps starting one of your own, you will be spending a lot of time and energy reviewing grant proposals. What should you look for? Think of a grant proposal as a prospectus for an investment opportunity. In this case, the return on investment that you are seeking is not monetary profit, but public benefit. Like a prospectus, the grant proposal must convince you that the organization is sound and its plans are likely to achieve its intended goals. A well-written grant proposal should:

- Detail a standing need or problem.
- Outline an organizational strategy for addressing the problem.
- Support the case for the strategy.
- Indicate who will handle each important task.
- Include the duration and the cost of the initiative.

In all likelihood, your foundation will receive far more grant proposals from compelling organizations than you are able to fund. You will need to establish clear guidelines to make sure that you are not flooded with inappropriate requests and that you only review those requests that merit your attention. Vet incoming grant applications by:

- Making sure that your foundation’s priorities are clear.
- Providing applicants with guidelines that help them present their case.
- Insisting that those guidelines be followed.

When reviewing a large stack of proposals, it’s advisable to do a preliminary scan to quickly weed out those that fall outside the mission of your foundation or don’t adequately follow the guidelines you set forth. As you take a closer look at the applications remaining, consider the following four qualities:

CREDIBILITY

Does the proposal reflect an organization that knows what it is trying to accomplish and has proven that it knows how to get the job done?

CAPABILITY

Does the organization have the staff, structure and systems in place to accomplish its goals? If this proposal represents a big step up for the organization, has the applicant proven that its model is scalable?

FEASIBILITY

Even great organizations can get ahead of themselves. Is the specific project that the organization is proposing sensible? Has the organization considered the obstacles and how they will be overcome?

IMPORTANCE

Why does this proposal need to be funded right now, and what will happen if it isn’t? With so many worthy causes out there, why is this cause the one that absolutely must have your support?

IMPACT INVESTING AND SOCIAL ENTERPRISES

Today’s increasingly global and connected world offers even more diverse opportunities to explore new forms and structures that may better execute your philanthropic mission. As successful philanthropists explore these avenues, many have developed an interest in the social impact of their investing strategies in their foundation and personal accounts as well as in their giving strategies.

SOCIAL ENTERPRISES Social enterprises are created when entrepreneurs establish a for-profit venture, or “social enterprise,” that aims to also achieve social change. As such, its performance is measured in profit, financial return, and whether it generated positive return to society.

IMPACT INVESTING Impact investments are made in companies, organizations and funds with the goal of generating social and environmental change alongside a financial return. The investments can be made across asset classes, from private equity or venture capital, to debt and fixed income.

LOW-PROFIT LIMITED LIABILITY COMPANY (L3C) L3Cs, available in fewer than ten states, are business entities created to bridge the gap between nonprofit donations and for-profit investments. L3Cs have a primary charitable mission and only a secondary profit concern. They are intended to facilitate investments in socially beneficial for-profit enterprises while avoiding onerous nonprofit regulations.

More than 1.5 million nonprofit organizations are registered in the U.S.¹



TRANSLATING INTENTION INTO ACTION

Once you have determined what causes and organizations you wish to support, the next step is to identify the most efficacious manner of structuring donations and, increasingly, social-impact investments. The first issue to consider is whether your mission is best achieved through direct donations to nonprofit groups, formation or continuation of a family foundation or donor-advised fund, strategic investments in for-profit entities with a social agenda you support, or any combination of the above. Perhaps the best route is to establish a new nonprofit organization to address an unmet need.

QUESTIONS TO CONSIDER:

- Should you provide unrestricted support to your core charities or target your donations for a specific capital project or other purpose?
- Would it be more efficient to concentrate your giving in fewer organizations?
- Would a matching or challenge gift amplify your contribution? Would it create an unnecessary administrative burden for the nonprofit?
- Is it more impactful to make a substantial, one-time gift to an existing foundation, charitable organization, nonprofit or cause, or stretch your gift out over time?

DIRECT GIFTS TO NONPROFIT ORGANIZATIONS

No matter what change you want to make in the world, there’s a very good chance that at least one nonprofit organization is already devoted to the cause. The simplest method of structuring support to that organization is often by making a direct contribution from your personal accounts. Legally, a nonprofit organization is a corporation or an association that conducts business for the benefit of the general public without shareholders and without a profit motive. Nonprofits that file for 501(c)(3) public charity status are eligible for tax-exempt status and companies and individuals who donate to them can potentially write off contributions.

When making a sizable donation, you may want to work with the nonprofit leadership to structure your gift so that it both addresses your goals and enables the nonprofit to efficiently pursue its mission. Be careful about making the terms of your gift overly narrow. If the organization has effective leadership, they should have some leeway in how to best utilize the resources you have provided. If it doesn’t, you should question whether they are the best recipients of your support. For smaller gifts, it’s generally best to write a check for general support.

PRIVATE FOUNDATIONS AND DONOR-ADVISED FUNDS

As your philanthropic efforts expand, you and your family are likely to consider methods of giving that provide more structure and financial flexibility.

FOUNDATIONS A foundation is a nonprofit organization typically created with endowments from individuals, families or corporations. They can be set up in corporate form or trust form. Often times they make grants or operate programs from the income derived from the initial investment. Private, or family foundations are often operated with the participation of members of the donor’s family. Working within your family foundation can provide an outstanding practical education in philanthropy under the tutelage of more experienced family members.

DONOR-ADVISED FUNDS A donor-advised fund is a fund held by a public charity. The donor recommends to the charitable organization to which the grants should be made and the charity, even though not legally obligated to do so, will generally make the grant requested by the donor. While donor-advised funds and private foundations are similar in some respects, the former aren’t subject to the rule that requires private foundations to pay out an annual 5% distribution of investable assets annually.

CONDUCTING DUE DILIGENCE

Once you have defined your philanthropic mission, it’s time to assess and select an appropriate mix of philanthropic investments that are aligned with your objectives. So, how do you make informed decisions about which nonprofits most efficiently achieve the strategic goals you have set? Do your homework. At the very least, spend time on nonprofit websites, read their financial reports, and conduct news searches to learn about their recent activities. Check out third-party evaluators, such as GuideStar, for more objective information. If you are making a substantial donation, it’s often advisable to consult a philanthropic advisor for help with the due diligence process. Whether you choose to work with an Advisor or on your own, here are some key issues that need to be considered:²

STRATEGY

Is the organization’s strategy aligned with your objectives and is it pursuing that strategy in a manner that you can support? For example, if your goal is to reduce homelessness in your city, would you be comfortable contributing to an effective organization with a religious agenda that differs from yours?

RESULTS

You should understand clearly how the organization defines success and look for clear evidence that it is achieving the outcomes it promises. Look to third-party sources to verify that the organization is well-respected in its field.

LEADERSHIP

Strong leadership is vital to the continuing success of any organization. Does the executive director of the organization have a clear vision and track record of success? Is he or she supported by a strong board and professional staff? Is there a clear succession plan in place?

FINANCIALS

An organization must be financially sustainable to make an enduring impact. Review the organization’s filings to ensure it has systems in place to evaluate its financial progress. Be wary of organizations with revenue sources that are highly concentrated or that do not have enough cash on hand to weather a short-term downfall. Find out what percentage of its budget is covered by reliable funding sources.

OPERATIONS

A well-managed nonprofit should have a clear and effective decision-making process. The staff should be motivated, allowing the organization to attract and retain a talented workforce. The staff should be supported by the appropriate technology and receive the training necessary to continually improve.

FUNDRAISING TIPS

Looking to help raise money for your favorite cause? Here are some tips from a recent study that may help you refine your communications strategy and improve your outcomes:⁴

- Donors say that alignment with your mission is a top priority (68%), but even more need to know that you are spending their money wisely (71%), so make that clear.⁴
- Peer-to-Peer fundraising communications are greatly preferred over paid and social media. 87% of both Millennials and Gen Xers report that it is their preferred channel of engagement. The personal touch work.⁴
- Only 52% of donors say that the organizations they support take their preferences into account when appealing for donations. Think about how you can give them more control over how their money is spent.⁴

PHILANTHROPY AND WEALTH TRANSFER

For many ultra high net worth families, philanthropic initiatives span generations and become a core component of the family tax, trust and estate planning. There are many legal structures that can be utilized to further both your philanthropic and wealth transfer agendas. These include:

CHARITABLE REMAINDER TRUSTS CRTs allow you to provide for both a beneficiary (such as yourself) and a charitable cause. CRTs are designed to make payments to you or your individual beneficiaries first, and provide the remaining funds as a gift to a specified charity upon termination of the trust.

CHARITABLE LEAD TRUSTS CLTs are the inverse of charitable remainder trusts: beneficiaries are paid only after income is paid for a period of years to a specified charitable organization. This trust is often funded with assets that the donor doesn't currently need, but that the donor wishes to keep in the family.

POOLED INCOME FUND A PIF is a mutual fund composed of gifted assets, the income from which is distributed to you and named beneficiaries according to your allotment of total shares in the fund. Upon your death, your shares in the fund are transferred to the underlying nonprofit organization. These funds can be used to provide income and also offer charitable deductions.

CHARITABLE GIFT ANNUITY CGAs enable you to transfer assets to a charity in exchange for a tax benefit and a lifetime income stream. Your charitable deduction is limited to the amount contributed to the annuity in excess of its present value according to IRS parameters.

CHANGE YOUR WORLD

Perhaps the most enduring benefit of affluence is the opportunity to effect positive change. With wealth comes great opportunity to support the people, institutions, and causes that add meaning to your life. Make the most of these opportunities by conducting due diligence, determining the structures needed to maximize your impact, and, most importantly, committing yourself to the causes that genuinely stir your passions.

DONATING YOUR TIME

Volunteering is a rewarding experience that allows you to see the direct result of your contribution. Volunteering provides outstanding opportunities to connect with like-minded people in your community and can give you practice insight into the workings of nonprofit organizations. In addition to helping you establish new friendships and business relationships, these communities can serve to amplify your efforts and further your philanthropic agenda. That said, not all volunteer activities are equally fulfilling and taking the wrong approach can be detrimental to the organization.

In her book, "The Politics of Volunteering," University of Southern California Professor Nina Eliasoph reports that low-impact, infrequent volunteer activities have the potential to do more harm than good. She cites an afterschool program for underprivileged children where volunteers could spare only a couple of hours a week for a few months. "Wanting instant intimacy and lacking time to get to know the kids enough to help them, the volunteers ended up distracting the kids from their homework."⁵ Others note that many volunteer programs are designed more to pad the volunteer's resume than to help the cause.

So, what makes a great volunteer? Celebrated nonprofit leader Michael Lindenmayer offers the following advice:⁶

- **Be results driven:** It's not about spending time, it's about making a difference.
- **Be passionate:** Don't volunteer unless you really care about the cause.
- **Have a collaborative mindset:** Work with the nonprofit leadership and your colleagues to multiply your efforts.
- **Make no excuses:** Make a commitment and stick to it. Get the job done.
- **Be consistent:** Great volunteers are always looking for new ways to be helpful.
- **Add energy:** The more you put in, the more you get out.
- **Give to get:** Focus on what you can accomplish more than what you get back.

REFERENCES

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⁶ Source: Michael Lindenmayer, 7 habits of highly effective volunteers. Available at: <https://idealisticareers.org/7-characteristics-of-awesome-volunteers/>. Accessed November 8, 2017.

DISCLOSURES

Investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund before investing. To obtain a prospectus, contact your Financial Advisor or visit the mutual fund company's website. The prospectus contains this and other information about the mutual fund. Read the prospectus carefully before investing. Morgan Stanley Smith Barney LLC, its affiliates and their employees (including Financial Advisors and Private Wealth Advisors) do not provide tax or legal advice. These materials and any statements contained herein should not be construed as tax or legal advice. Individuals should consult their personal tax advisor for matters involving taxation and tax planning, and their attorney for matters involving personal trusts and estate planning. Investments and services offered through Morgan Stanley Private Wealth Management, a division of Morgan Stanley Smith Barney LLC, member SIPC.