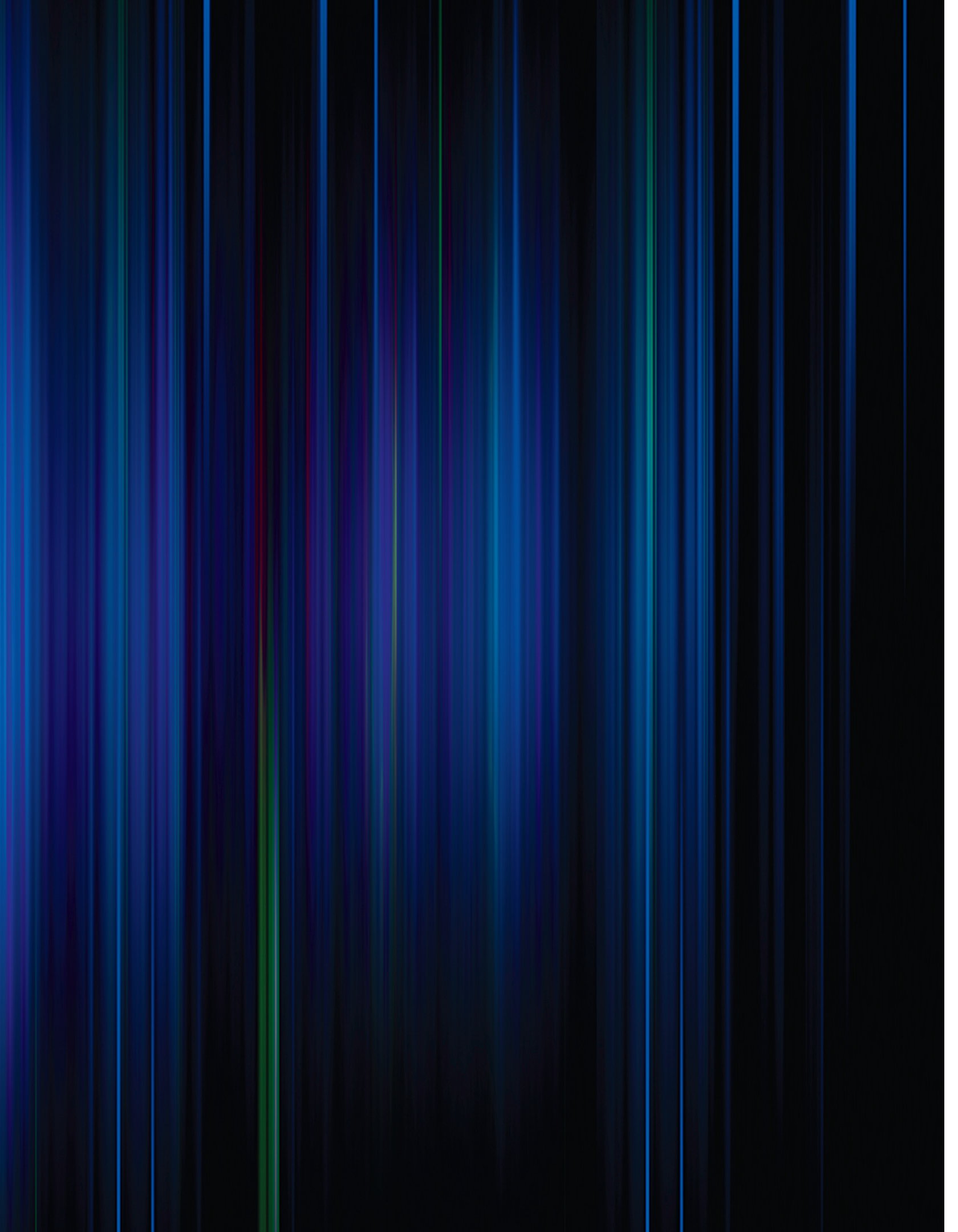


*William Blair*

Private  
Wealth  
Advisory

Philanthropy in an  
Age of Disruption



## By understanding and embracing new trends that are reshaping the way people give, families can strengthen their philanthropic legacies for generations to come.

For much of the past century, philanthropy has been viewed as a fairly predictable industry, one defined by iconic families with multi-generational foundations, well-established nonprofit organizations with massive infrastructures, and familiar patterns of fundraising and giving that usually centered on annual campaigns or year-end gifts. But just as nearly every for-profit industry has been jolted by disruptive forces related to new technology, shifting demographics, and evolving attitudes, philanthropy, too, has seen monumental changes in how people and companies give and how nonprofits engage with their donors and constituents.

These changes have created powerful opportunities for donors and the organizations they support to affect change throughout society. The disruptive forces driving these changes, however, have also created new challenges and considerations for donors seeking to maximize the impact of their charitable efforts and for nonprofits looking to fulfill their missions. We examine the six greatest disruptive forces that are reshaping the philanthropic landscape and look at what they mean for donors and nonprofits.

- *Demographics: Millennials Redefine the Meaning of Philanthropy*
- *Technology: Democratizing and Socializing Philanthropy*
- *Transparency: Donors Increasingly Focus on ROI*
- *Corporate Giving: Finding New Ways to Inspire Employees and Impact Communities*
- *Impact Investing: The Intersection of Doing Well and Doing Good*
- *Tax Reform: Changing Math for Charitable Deductions*

In 2015, Millennials, or individuals born between 1981 and 1997, surpassed Baby Boomers as the largest living generation in the United States, according to the Pew Research Center<sup>1</sup>. In addition to the generation's sheer size, Millennials are rapidly gaining economic clout as they progress in their careers. This financial influence is being magnified by the fact that an estimated \$59 trillion of wealth will be transferred across generations between 2007 and 2061, according to a study by the Boston College Center on Wealth and Philanthropy<sup>2</sup>.

Much has been written about how Millennials' attitudes toward careers, wealth, and social issues differ from older generations and how these changes are shaping everything from the housing market to the labor market. These attitudes are also shaping the way Millennials approach philanthropy. Some of the most important ways in which Millennials view philanthropy differently than older generations include:

### **Giving episodically and opportunistically**

Traditionally, many individuals and families have taken a very planned and structured approach to philanthropy. Often, giving decisions were made once a year, as evidenced by the surge in year-end giving around the holidays. Younger generations tend to be continually evaluating ways to make an impact, and their giving decisions are driven less by the calendar and more by opportunities that arise. While this may create budgeting challenges for nonprofits, it also opens the door for organizations to shift from relying on year-end fundraising campaigns to engaging potential donors throughout the year.

### **Not waiting until they are established to give**

With older generations, people often waited until they were well-established financially and in their careers before they started thinking seriously about making an impact through giving. Many Millennials, however, believe that they can and should begin making a difference as soon as they start earning a steady paycheck. Even if the size of their contributions in terms of dollar amount are relatively small, these young professionals are eager to begin doing their part to improve society.

### **Focusing on social impact, not tax benefits**

For many older donors, tax considerations play a central role in decisions about how and when to give. This approach is based on an understanding that maximizing tax efficiency is critical to maximizing the donor's ability to make an impact. While younger generations are certainly aware of these tax considerations, the size of the charitable deduction seems to be less integral in their decision making. Instead, many younger philanthropists are driven primarily by a desire to impact society and are less willing to let tax

implications influence their giving decisions. Later in this report we discuss how the 2017 tax reform has changed the math around charitable donations.

### **Integrating philanthropy into every part of their lives**

Younger generations tend not to compartmentalize philanthropy to the extent that older generations have. Rather, younger generations tend to view making a social impact as central to their personal mission. Thus, they are looking to "do good" in every part of their lives, including their careers and their investment portfolios, two topics that we will explore in more detail later.

### **Contributing more than time and treasure**

For younger generations, philanthropy means much more than just donating money or even volunteering time. These individuals believe that their technical expertise, social networks, and fresh perspectives can be invaluable resources to help organizations. Whether it's a young founder of a startup looking to use the company's technology to solve a social problem or a fast-rising analyst at a hedge fund helping an organization use data analytics to optimize the efficacy of its services, young professionals are looking for ways to leverage their expertise and connections to improve society.

### **Prioritizing different causes**

While younger generations care about mostly the same causes that older generations do, there is a gap in terms of how generations prioritize those causes, according to a survey conducted by Fidelity Charitable<sup>3</sup>. For example, the survey found that Millennials rank addressing violence and conflict as the fourth-most important issue, while Baby Boomers rank it seventh. Conversely, Baby Boomers rank access to basic quality education fifth, while Millennials rank it seventh. The survey found that Millennials are also more likely to view social issues through an international lens, as opposed to focusing more on domestic issues.

*As nonprofits think about the future of their fundraising and donor engagement efforts, organizations must realize that many of the approaches that worked in the past may not resonate with their next generation of supporters. Furthermore, organizations should look for ways to utilize the full suite of resources, beyond just money and time, that young professionals can bring to the table.*

*For families that are focused on inspiring younger generations to uphold the family's philanthropic mission, older generations should be open to giving children and grandchildren the freedom to find new causes to support. Senior generations should also look to younger generations for new ideas about how the family can make the greatest impact.*



In December 2017, *Sports Illustrated* named Houston Texans defensive lineman J.J. Watt as one of the magazine's two "Sportsperson of the Year" winners. From an athletic-achievement perspective, the award was surprising because Watt played in only five games in 2017 before suffering a season-ending leg injury. But in terms of his impact off the field, few athletes can match what Watt accomplished in 2017.

After Houston and the surrounding region was ravaged by Hurricane Harvey, Watt launched a fundraising campaign that was powered largely by his celebrity, social media, and crowdfunding. In less than a month, Watt's efforts raised more than \$37 million for hurricane relief, which was more than 185 times more than his original goal of \$200,000.

Watt's story illustrates how social media, crowdfunding, mobile giving, and other technology-driven tools have dramatically reshaped fundraising. Specifically, technology has enabled three main trends that have changed the way nonprofits and donors interact.

### **Empowering grassroots efforts**

In the past, only large, established organizations had the infrastructure, brand awareness, and marketing muscle needed to orchestrate multi-million-dollar fundraising campaigns—and such efforts required immense amounts of time and planning. But the advent of crowdfunding platforms such as GoFundMe, Kickstarter, and YouCaring, which is the platform that Watt used, have dramatically lowered the barriers-to-entry in terms of reaching potential donors and processing transactions. Social media and other digital marketing tools provide inexpensive ways to reach audiences that are both massive in geographic scope and highly targeted in terms of interests. As a result, grassroots efforts and startup organizations are able to amplify their reach and impact.

### **#NoLongerPersonal**

Philanthropy used to be seen as a highly personal decision. While many people still prefer to keep their giving decisions to themselves, social media has ushered in a new era in which letting people in your network know about your involvement in a cause can be even more impactful than the money or time that you donate. Nothing illustrates the social aspect of philanthropy more than the Ice Bucket Challenge. In the summer of 2014, an estimated 17 million people sought to raise awareness and funds for ALS research by dumping ice water on themselves, sharing the video on their social networks, and challenging others to do the same<sup>4</sup>. The grassroots effort resulted in \$115 million being donated to The ALS Association during an eight-week period<sup>5</sup>.

### **Facilitating the flow of information**

One of the challenges of the sudden democratization of philanthropy is that donors now have more options to consider for their charitable dollars. Sorting through these options and learning about different organizations, particularly newer ones with shorter track records, can seem overwhelming for donors. Numerous technology-enabled platforms have been developed to help solve this problem. Organizations such as Charity Navigator and GuideStar have websites that help donors research and evaluate nonprofits. uBack is a startup technology company that has developed an app that allows donors to find nonprofits that match the donor's interests, gather data about nonprofits, and make donations in just a few clicks.

## Transparency: Donors Increasingly Focus on ROI



Today, donors view their philanthropic contributions, not as gifts, but as investments—and measurable progress toward the organization’s mission is the dividend that donors expect to receive. This increased focus on return on investment (ROI) is shaping the giving decisions of individual and corporate donors alike. According to Fidelity Charitable, 41% of donors said they have changed their giving due to increased knowledge about nonprofit effectiveness<sup>6</sup>.

After identifying a cause that they want to support, donors will research organizations in that field to determine which one will be the best steward of the capital. This research is both qualitative and quantitative in nature. The qualitative aspect involves learning about the organization’s history, programming, leadership team, growth strategy, and other aspects of how the organization goes about fulfilling its mission.

Nonprofits have always had to field questions about these qualitative aspects, but over the past decade, donors have been seeking hard data about the efficacy of an organization’s programming. For example, organizations that offer free tutoring are asked to measure the literacy advancements of its students against the general population. Organizations that focus on increasing access to clean drinking water in Africa are asked to provide more detailed information about the impact those efforts have on improving the health of people in affected areas.

### **Data Drive Giving Decisions**

The growing importance of transparency into nonprofit effectiveness is one of the most important trends shaping charitable giving.



*Donors whose giving decisions were affected by knowledge about nonprofit effectiveness*

Source: Fidelity Charitable. “The Future of Philanthropy:

Corporations have long taken a leading role in strengthening their communities, but recently there has been a marked shift in the nature of those efforts. This new age of corporate philanthropy is defined by three major trends:

**Focusing on deeper partnerships**

Rather than spreading their charitable gifts across a large number of organizations, corporations are looking to make a greater impact by concentrating their contributions on a smaller set of recipients. By forming larger, strategic partnerships with a select number of organizations, corporations are taking a greater stake in the success of those recipients. From 2014 to 2016, the median number of grants that participating companies made decreased by 12% while the median size of grants increased by 21%, according to the Committee Encouraging Corporate Philanthropy (CECP) annual Giving in Numbers report<sup>7</sup>.

**Corporations Make Fewer, but Larger Grants**

By concentrating their gifts on fewer recipient organizations, corporations are seeking to make a greater, more measurable impact.

Number of Grants 2014-2016	Size of Grants 2014-2016
-12%	+21%

Source: CECP, "Giving in Numbers – 2017 Edition."

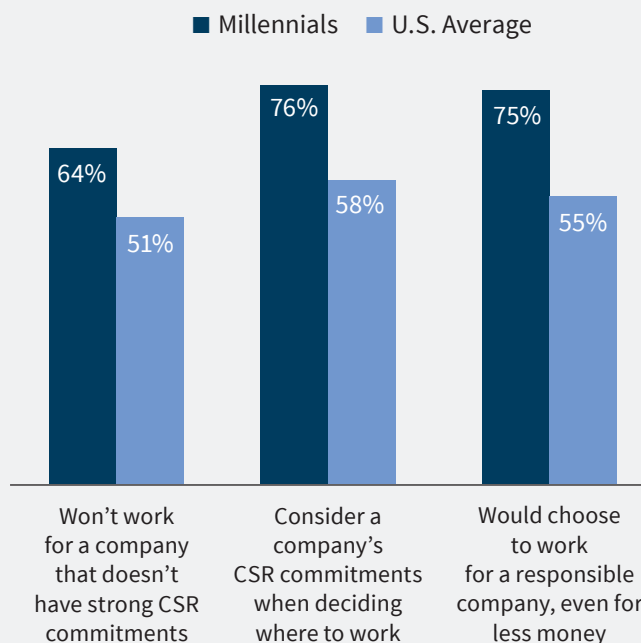
**Amplifying employees' efforts**

While many corporations have a long tradition of matching employees' charitable contributions, companies are finding new ways to collaborate with their employees. According to CECP, the three most successful programs offered by corporations in 2016 were company-wide service days, dollars for doers, and paid-time release programs<sup>8</sup>. Flexible scheduling was the program that saw the biggest increase in adoption, with 62% of companies offering that option in 2016, up from 57% in 2014.

**Using philanthropy as a recruiting tool**

Corporations are using philanthropy to strengthen their workforces, not just their communities. More so than older generations, Millennials want to work for a company that reflects their personal values. According to Cone Communications' 2016 Millennial Employee Engagement Study, 76% of Millennials consider a company's corporate social responsibility (CSR) commitments when deciding where to work, compared with 58% of all Americans. Seventy-five percent of Millennials would choose to work for a responsible company, even for less money, compared with 55% of all Americans<sup>9</sup>.

**Corporate Social Responsibility Shapes Millennials' Career Decisions**



Source: Cone Communications, Millennial Employee Engagement Study, 2016



## *Case Study: William Blair - Invested in Our Communities*



A central component of William Blair's philanthropic mission is our Community Partners program. Each year we select a handful of organizations to partner with by providing meaningful financial support and employee volunteers. Through this program, we have supported college preparation and graduation initiatives, established mentoring relationships, provided new computer labs for after-school and summer programs, supported arts education in public schools, and brought nutritious food to school children and their families.

Our employees contribute to hundreds of charitable organizations through their time, financial resources, and leadership. In addition to sponsoring and organizing volunteer events for our employees around the world, our matching-gifts program amplifies the impact that our employees are having in their communities.

To learn more, search #WBCares or visit [williamblair.com/en/About-William-Blair/Community-Impact](https://williamblair.com/en/About-William-Blair/Community-Impact)





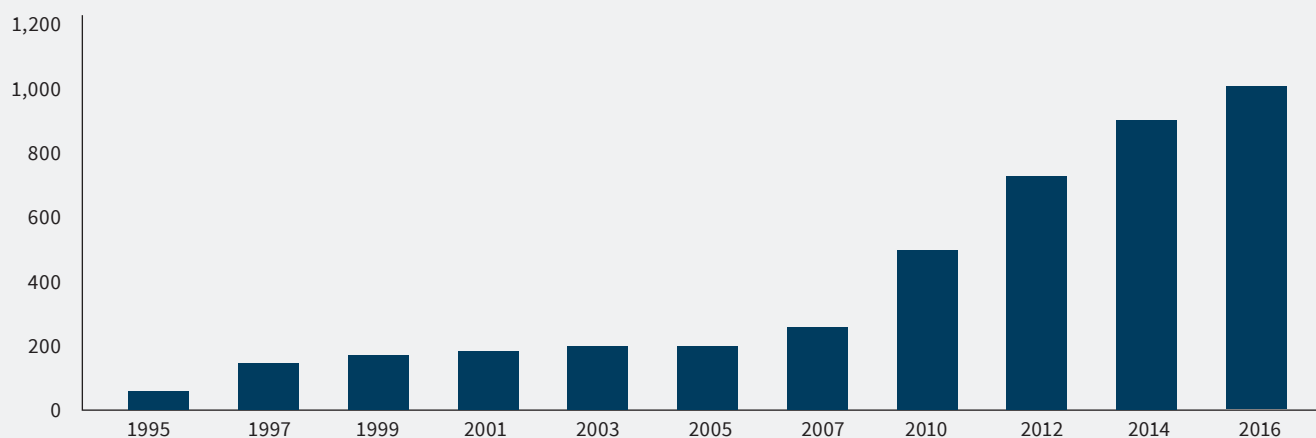
In the past, many investors would compartmentalize their wealth management strategies when it came to “doing well” and “doing good.” With the non-philanthropic portion of their wealth, their overriding concern was generating the highest risk-adjusted returns, and with the portion earmarked for charity, their focus was on doing the most good. Increasingly, however, investors don’t strictly separate these two goals.

One of the most important trends in the asset management industry over the past decade is the rise of “impact investing.” While impact investing can take many different forms, it’s generally defined as investing in companies that are expected to make a positive impact on society or the environment, as well as to generate an attractive financial return for the investor. Impact investing is a subset of the broader category of sustainable, responsible, and impact (SRI) investing, which focuses on avoiding stocks of companies that may have a negative impact on society or the environment.

The growing importance of SRI investing is hard to overstate. From 2014 to 2016, U.S.-domiciled assets under management using SRI strategies grew 33% to \$8.72 trillion—or about one in every five dollars under professional management in the United States, according to the US SIF Foundation’s 2016 Report on Sustainable and Responsible Investing Trends<sup>9</sup>. A key element of many SRI programs is incorporating environmental, social, and governance (ESG) factors into investment analysis and portfolio construction.

### Number of Investment Funds Incorporating ESG Factors

The dramatic growth in the importance of sustainable, responsible, and impact investing over the past decade is illustrated by the surge in the number of funds that incorporate environmental, social, and governance factors into their investment analysis.



Source: US SIF, “U.S. Sustainable, Responsible, and Impact Investing Trends,” 2016.

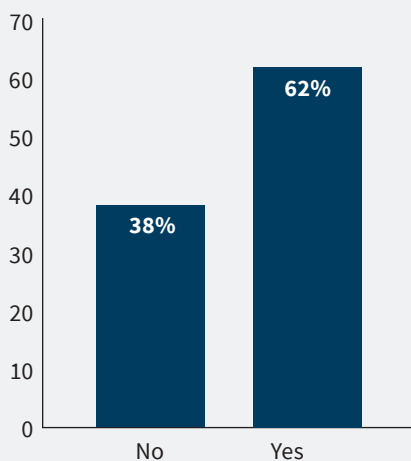
According to a poll conducted by William Blair, 66% of respondents believe that incorporating ESG factors into investment decisions is additive to risk-adjusted performance. To learn how William Blair integrates ESG factors into our institutional investment process, visit: <https://www.williamblair.com/en/Institutional-Investment-Management/About-Us>

SRI investing’s rapid growth raises challenging questions for investors and asset managers. While most investors say that ESG factors matter to them, it’s not clear how much they matter. That is to say, it’s difficult to know how much of a drag on performance investors are willing to accept if, in fact, ESG factors don’t turn out to be additive to returns. Asset managers, for their part, are continuing to determine the proper way to measure and analyze ESG factors, many of which can be difficult to quantify.

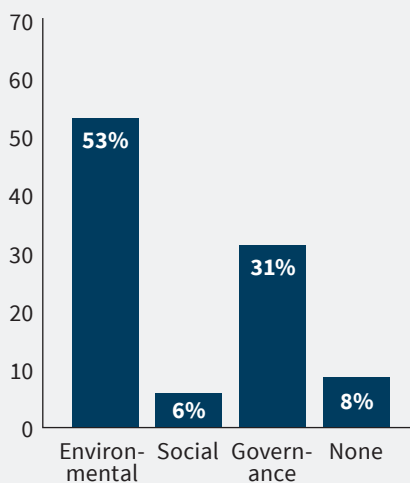
### Investor Attitudes About Environmental, Social, and Governance Factors

William Blair conducted an informal poll of investors in June 2017 to gauge their attitudes about how ESG factors influence their investment decisions.

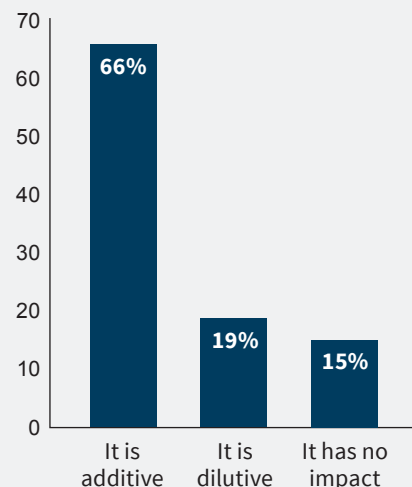
Do you take environmental, social, and governance factors into consideration when making investment decisions?

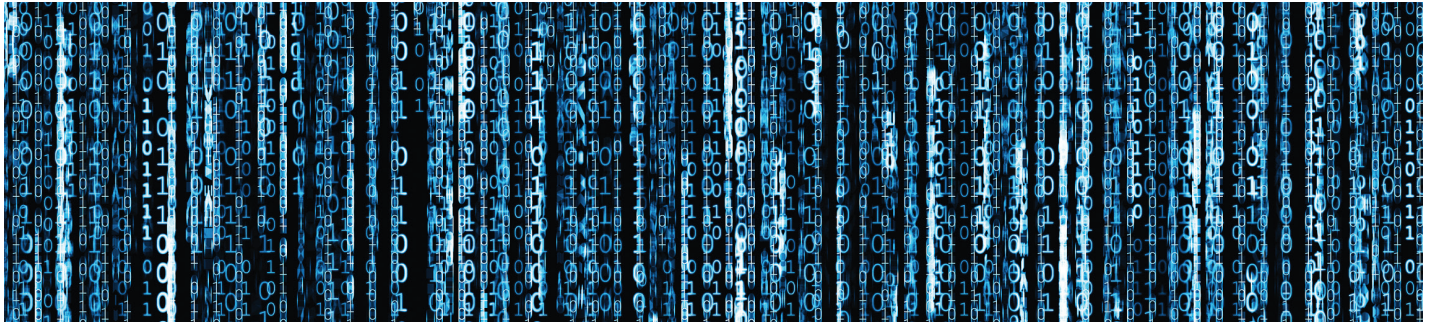


Which of the following ESG issues do you consider most important when making investment decisions?



How do you believe integrating ESG factors into investment decisions affects risk-adjusted performance?





The Tax Cuts and Jobs Act of 2017 created wide-ranging changes that went into effect in 2018 for individuals at all income levels and corporations. There are several elements of the new law that could influence individuals’ wealth planning as it relates to philanthropy.

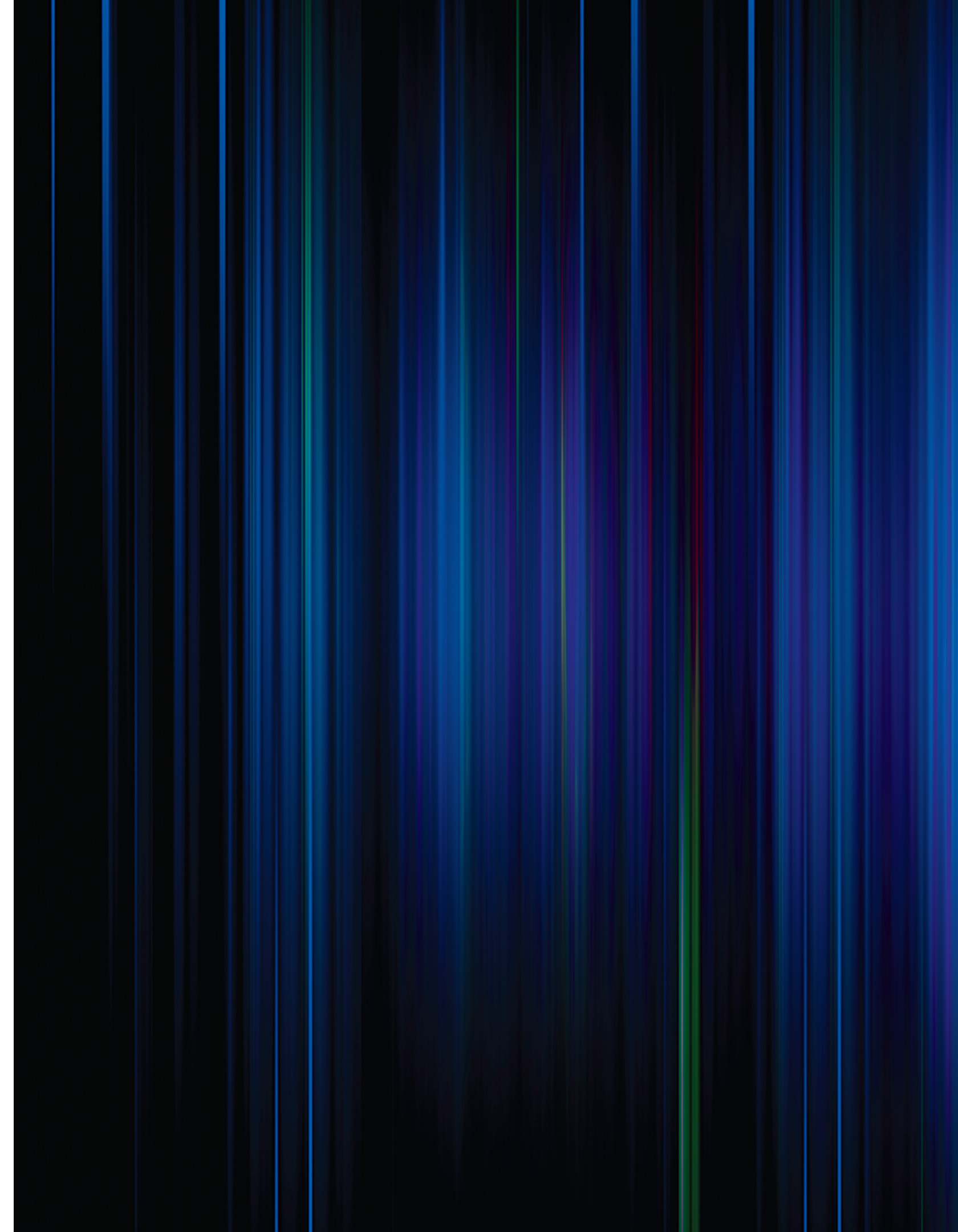
	<b>What Changed</b>	<b>How it could affect giving decisions</b>
<b>Standard deduction doubles</b>	The standard deduction, which is the amount that taxpayers who don’t itemize their deductions are able to automatically deduct from their income, increased from \$6,500 for single filers and \$13,000 for married filers to \$12,000 and \$24,000, respectively.	To receive a deduction for charitable donations, taxpayers must itemize their deductions. The new, higher standard deduction could cause the number of Americans who itemize their deductions to decline by around 45%, according to The Wall Street Journal <sup>11</sup> . How this will affect those individuals’ giving decisions is unclear, but many analysts believe that the higher standard deduction will prompt some donors to decrease their giving.
<b>Lower marginal tax rates</b>	The highest marginal income tax rate decreased from 39.6% to 37%, and tax rates and brackets at lower income levels also changed, with many taxpayers seeing a reduction in their marginal rates.	Because the value of a charitable deduction is positively related to the taxpayer’s marginal tax bracket, lower rates decrease the tax benefit of charitable gifts, albeit marginally.
<b>Increased limit on deductions for cash contributions</b>	In 2017, deductions for cash contributions to public charities were limited to 50% of the donor’s adjusted gross income (AGI). Starting in 2018, that limit increases to 60% of AGI.	Donors who make large cash contributions relative to their income will be able to benefit more from those gifts.
<b>Estate tax exemption amount doubles</b>	The estate tax, along with the gift and generation-skipping transfer taxes, all continue to exist under the tax reform, but the amount that can be transferred before being subject to the 40% tax doubles to \$11.18 million per individual or \$22.36 million per married couple.	With the higher exemption amount, fewer high-net-worth individuals may seek to use charitable giving vehicles, such as charitable remainder trusts and charitable lead trusts, as giving and wealth-transfer strategies.

## *Strengthening Philanthropic Legacies in an Evolving Landscape*

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In some ways, the disruptive forces that are reshaping philanthropy may seem like a threat to families who are focused on building an enduring legacy of charitable giving across multiple generations. The reality, however, is that disruption is creating countless new opportunities for people of all ages to enhance their social impact and allowing families to engage in philanthropy in ways that are more relevant to younger generations.

Like all endeavors, a family's philanthropy must adapt in order to survive for multiple generations. By remaining focused on the family's core philanthropic mission, while continuously looking for new methods for achieving those noble goals, families can ensure that their core values thrive amid the current disruptions and any changes to come.



<sup>1</sup> Pew Research Center, Richard Fry. “Millennials Overtake Baby Boomers as America’s Largest Generation.” April 26, 2016.

<sup>2</sup> Boston College Center on Wealth and Philanthropy, John J. Havens and Paul G. Schervish. “A Golden Age of Philanthropy Still Beckons: National Wealth Transfer and Potential for Philanthropy Technical Report.” May 2014.

<sup>3</sup> Fidelity Charitable. “The Future of Philanthropy.”

<sup>4</sup> CNN. John Bonifield. “One Year Later, Your ALS Ice Bucket Money Goes to ...” July 15, 2015.

<sup>5</sup> ALS Association. “Every Drop Adds Up.”

<sup>6</sup> Fidelity Charitable. “The Future of Philanthropy.”

<sup>7</sup> CECP, “Giving in Numbers,” 2017.

<sup>8</sup> CECP.

<sup>9</sup> US SIF, “U.S. Sustainable, Responsible, and Impact Investing Trends,” 2016.

June 2018

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