Special Report

Rethinking Philanthropy in turbulent times

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> “When you have alignment between your values and your giving, philanthropy can move from being transactional to being transformational.”
>
> \- Beth Renner

When circumstances make you rethink your philanthropic plan

No matter where you are in your philanthropic journey, turbulent times such as a natural disaster or pandemic will likely give you pause for reflection. What can you do to help? Does your current giving plan make sense during a crisis? Or, do you feel pulled to move in a different direction?

During times of crisis, we are often inundated with information that makes it hard to ascertain what is valuable and what is hype. Making decisions in isolation—and before all the facts are known— can lead to unintended consequences. Our goal with this paper is to give you some solid insights into making an impact, and help forestall any investment decisions based on emotions.

Considerations for donors

In general, we suggest being very intentional and disciplined about how you approach philanthropy. If you want to have the greatest impact, you should be consistent in the ways you chose to donate no matter what the economic or market environment. Nonetheless, there are times, such as the extreme conditions created by the COVID-19 pandemic, when you may want to consider being slightly more flexible.

In these moments, it is worth considering how your impact might be diminished if needs are left unaddressed. Being nimble in a dynamic situation does not imply that you have lost your philanthropy focus or diminished your impact

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- **Flexibility mixed with trust.** During normal circumstances, it is common to put restrictions on the way in which your charitable dollars are used. You will want to fund programs that directly align with your values, and inspire the change you want to see in the world. However, you may, instead, consider making contributions to nonprofits for their general operating expenses. During times of dramatic and changing societal disruptions, the organizations you support may be in need of extra resources to be effective.

  The dedicated and knowledgeable people in reputable nonprofit organizations understand the challenges they faces—probably more than any other sector. By providing unrestricted funding to nonprofit organizations, you allow talent to be retained during difficult times. When the crisis passes, experienced talent remains to tackle continued societal issues—and the mission—with the same intensity as before. Bottom line: If you trust your nonprofit partners, try to be flexible instead of overly directive.
- **Document your process and decisions for future generations.** When the situation has more or less normalized, we recommend reflecting on your successes. With the benefit of hindsight, what might you have done differently? Were you thoughtful? Could you have engaged your advisors in a different way? How do you feel about your choices?

  Now consider one last important task. Consult with your trusted advisor and philanthropic specialist to document your process for the next generation. When your heirs face a crisis, they may feel equally as unsettled as you are now. You can provide a narrative—a roadmap, perhaps—on how to handle adversity. With your guidance, those that follow can be even more effective when it’s their turn to make an impact during a time of uncertainty. What a gift!

What nonprofits may be experiencing

Turbulent economic times can be especially difficult for nonprofit organizations. The value of their endowments and other investment assets have probably decreased, and donations from funders have likely dropped significantly. At the same time, organizations that provide basic human services are facing increased demand and all organizations need basic operating expenses.

Well-prepared nonprofit organizations have three particular strategies in place to weather lean economic times:

- Continue to build strong endowments while also asking for current gifts,
- Develop and maintain strong bequest or testamentary gift programs,
- Ask funders to give from their already established donor advised funds (DAFs).

Endowments are gifts to nonprofit organizations that must be invested and held in perpetuity. A certain percentage of the endowment, typically 4-5%, as determined by the nonprofit board, is available for charitable use each year. Some charitable organizations do not have large endowments—or any endowment—because their fundraising focuses on current gifts that can be used immediately for operations and charitable purposes. Weathering down economic years requires foresight and diligence by nonprofit leadership to establish and commit to growing an endowment program. Now is the time for nonprofit boards to review their endowments and commit to its growth.

Having a robust testamentary gift program is another way nonprofits weather lean times. Larger charities usually have testamentary gift programs that solicit more complex gifts such as charitable gift annuities, charitable remainder trusts and charitable lead trusts, but any size nonprofit can establish a bequest program that asks funders to include the nonprofit in their estate plan (a will, qualified retirement plan, or revocable trust). Bequest gifts are some of the largest gifts and can mature in both robust and lean economic times.

Organizations with established bequest programs will have a pipeline of testamentary gifts with the likelihood of a few maturing each year. When starting or growing a bequest program, start with funders who have continuously supported an organization for five or more years. They are most likely to continue their support after their lifetimes, if asked.

When the economy is in decline, funders are more likely to withhold donations until asset values have increased. However, this is when nonprofits need more support to continue their services and pay their expenses. The creation of DAFs has rapidly increased over the last several years. Now is a great time for nonprofits to ask funders to give from their DAFs. Because those funds have already been set aside for charitable use, funders may be more likely to use their DAF for current giving.

Investment considerations

In all market conditions—but especially during difficult markets—it is important to review and remind ourselves of what goes in to a philanthropic investment portfolio. A fiduciary investment manager takes a donor-centered approach to determine the portfolio's overall asset allocation, taking into account the organizational values, mission, and potential liquidity needs for grantmaking. At the same time, the investment manager also will consider the varying needs of the beneficiary population.

This information is used to build a diversified and prudent portfolio allocation based on the most predictable long term factors such as:

- Payout rates,
- Inflation expectations,
- Cash reserve levels,
- Full market cycle return for each asset class,
- Risk expectations for each asset class.

Once your investment manager has determined an optimal allocation, the strategic portfolio allocation is outlined and codified in your Investment Policy Statement. This process does not attempt to time or predict short term market movements, but prescribes disciplined processes that include maintenance and use of cash reserves, verification of asset manager selection, and regular rebalancing of assets to maintain the ability to avoid irreplaceable long term capital losses.

This fiduciary approach seeks to provide consistent and reliable results in what is often analogized as an "all-weather portfolio". This disciplined process may help avoid emotional overreactions that can lead to the most common and avoidable errors in portfolio management; radically altering the portfolio composition in pursuit of perpetual fair weather.

This approach does not mean portfolio management that is rigid, static, or unresponsive to market conditions. Measured tactical shifts, such as over or underweighting an asset class within a predefined range based on the portfolio's long-term strategic target, is an important tool for effective risk management. It is our recommendation that long-term goals and objectives be verified regularly through both bull and bear markets. The prudent investment manager acknowledges and changes the long-term allocations and underlying managers' selection as goals and objectives evolve over time. This approach helps to maintain alignment of the resources with the values and goals of the portfolio's philanthropic mission.

In closing

While philanthropy serves many, all philanthropy is personal. Your charitable donations can have a broad reach and support many people in your community. Yet at the same time, the process of putting your wealth into action for charitable purposes is a deeply personal journey. Wells Fargo Philanthropic Services is here to help guide you as you develop your philanthropic roadmap.

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