

PHILANTHROPY COMES OF AGE

The continued rise of donor
advised giving in the UK



UK COMMUNITY
FOUNDATIONS
GIVING FOR LOCAL GOOD

Registered charity number 1004630

CAF

Charities Aid Foundation

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FOREWORD

I am delighted to share the results of our research into the donor advised giving market in the UK. This is the second year we have produced this report and it is very welcome to see strong and continued growth. Around £500m of new contributions were made into DAF-like structures in 2016/17 and philanthropic assets under management have grown to around £1.2 billion.

I believe this reflects the steady growth in awareness among individuals, organisations and advisers that these structures provide an easy, flexible and effective way to give. Of course it is not just the level of cash and other assets contributed into these funds which matters but critically, the fact that donations are made to beneficiaries and used to make a significant difference to people's chosen causes. This means ensuring that donations get to the right place and are used in the way intended, especially in some of the more risky and challenging parts of the world where often the need is so acute. It is also why we have included a number of case studies in the report, from CAF and the UK Community Foundations, which show how these donations are being used to address different needs.

We encourage donors to think about the difference they want to make with their funds whether by planning their giving for the long term, or by making an immediate impact. We also encourage values-based giving, help donors to connect with others who may have similar interests, or bring their families into their giving and plans for the future. And as philanthropy matures into additional forms of social investment like loans and development bonds, it is important that the right options are provided for the use of those funds.

I hope you enjoy our report and please do share it with others. At CAF we want to inspire and enable effective giving and social investment. The growing market for these types of funds means they play an increasingly important role in achieving this.



David Stead
Director of Philanthropy and Development

CAF
Charities Aid Foundation

ABOUT THIS REPORT

Donor advised funds and trusts in the UK have grown strongly in recent years. These funds work by allowing donors to give cash, shares, property or other assets into a long-term charitable fund managed by a charitable entity and to be used only for charitable purposes. They cannot be returned to the donor. Funds can be invested and grown over the years to increase the amount available for distribution. Donors can ask for these philanthropic funds to be distributed all around the world but only for charitable purposes.

In the USA, these funds are referred to as Donor Advised Funds. However, the UK market includes a

range of similar products, very much like American DAFs, but often with more flexibility than their American counterparts, such as CAF Charitable Trusts or similar vehicles from other providers. The report looks at this way of giving.

CAF is one of the UK's biggest managers of donor advised giving, accounting for over half of the UK market in terms of grants and contributions. The research within this report has included desk research and analysis of ten main providers' annual reports across a number of metrics.

CHANGES FROM THE 2017 REPORT

This is the second year in which we at CAF have produced this report and there are points of note between last year's and this year's version. Firstly, one additional provider has been included this year, reflecting the change in the market as donor advised giving continues to grow in the UK.

Secondly, the 2016/17 financial year, on which this report is based, saw the proposals of some tax changes which were subsequently delayed, which may have had an effect on some major donors with international interests. There is an interesting debate about the effect of the tax regime on major donors and more research is needed to determine how the tax system can encourage major donors to

increase their giving and ensure the vital flow of large donations.

In terms of the wider context, although the structures in the UK are different, within the USA there have been claims that some DAFs are too slow in making grants to beneficiaries. This reinforces the need to focus on using DAFs to make an impact on causes, which we do through our strong emphasis on domestic and cross-border grantmaking. Overall, this research shows that in the UK, a very large proportion of money donated in this way is granted quickly to charities across the world, although some donors do choose to build up their philanthropic funds for future donations.

KEY FINDINGS

- Donor advised giving funds in the UK continue to grow significantly
- Contributions into donor advised giving funds reached a new high of over £495 million in 2016/17, having grown by 33% since the previous year
- Grants made from donor advised giving funds to charities grew to over £331 million in 2016/17
- Charitable assets under management continues to exceed £1billion, with a 24% increase from 2015/16
- We are projecting that contributions to donor advised giving funds should reach £1 billion in the UK by 2025



RECOMMENDATIONS

- Advisors to the wealthy should increase their engagement with donor-advised giving as a vehicle to help their clients reach the causes they care about and affect real and lasting change. The wealth creators of today are different from thirty years ago, with the majority in the UK now being self-made¹, and our experience shows that these people are looking for flexible, effective tools that meet their increasing need.
- Professional advisors should look at this way of giving as an essential part of their 'philanthropy toolkit' with clients to help start on a philanthropic journey with real impact. In the next thirty years, an estimated \$30 trillion will transfer from the baby boomer generation to their children and grandchildren. Millennials and Generation Z are widely acknowledged as making values-based decisions in all areas of their life, so advisors should seize the opportunity to make philanthropy part of the discussion about this transfer of wealth. The next few decades represent a unique moment in time.
- Donors should look to work with donor advised fund providers to help them best manage risk in their philanthropy and social investment, particularly when supporting high impact organisations around the world. The validation and verification services of the donor-advised model provide reassurance and protection for today's donors and social investors.
- Donor advised fund providers should consider widening their offering to include impact investing and social investment. The most effective providers are recognising this and enable their clients to make a range of social investments as well as grants, and have been working with Big Society Capital on promoting awareness this year. The demand from donors for alternative ways of achieving impact is significant.
- Donor advised fund providers should monitor the amounts being paid out in grants from the accounts they manage. They should work with their donors to ensure that they have access to the information and advice they need to find compelling opportunities to give. Given the notable increase in assets under management this year, providers should aim to increase the funds deployed over the next few years to demonstrate the social impact potential of this model of giving.

¹ Source: Sunday Times Rich List 2018: <https://www.thetimes.co.uk/article/sunday-times-rich-list-2018>

INTRODUCTION – DONOR ADVISED GIVING

Donor advised giving funds continue to go from strength to strength in the UK. Having originated in the USA in the 1930s, variations on the American DAF concept arrived in the UK, with the first one being the CAF Charitable Trust, introduced in the 1970s with similar characteristics to an American DAF but with greater flexibility, donor choice and investment options. Since then, the market, the number of similar vehicles and the number of players in the market has grown. The term widely used to describe a fund is a 'DAF' but there are a number of names for DAF type products in the UK, ranging from Charitable Trusts to Donor Designated Funds and Donor Advised Foundations.

Although there are some differences between these products, the key benefits of using them are fundamentally the same: they essentially allow you to create a charitable fund today, invest the funds and then donate the funds to the causes you care about, whenever you want to. These funds offer a number of benefits compared to direct individual giving or setting up a foundation.

When we conducted qualitative research amongst providers in 2017 we identified some of the key benefits, namely:

- Ring-fenced money for long or short-term charitable giving, including retirement projects
- Estate planning
- Giving across a range of asset types including cash, shares, bonds, property and artwork, using tax incentives to increase giving
- The ability to name the fund as you choose or stay anonymous, as many major donors wish to do
- The ability to see, within one place, where you have given and to whom
- Validation of investments and gifts to charities or social enterprises by the provider
- Lower start-up costs, and lower ongoing time and expenses in connection with legal, administrative and accounting services as compared to private foundations
- No need to appoint a board of trustees
- Option to invest to grow funds for future distribution

Continued from previous page

For most, individuals make an initial donation into a fund and then can top-up whenever they want. They can then advise the provider of the fund where they would like the money to go. The trustees of the provider, or their delegated authorities, ensure the beneficiary organisation has a charitable purpose and then grant the money. Depending on the provider, other services and advice may be offered, including impact management and consultancy. The ways in which the vehicles can be funded varies including cash, shares and property, as the main three cited, but also most types of assets ranging from vintage cars through to artwork or rare books.

Donations of shares have been quite high over the past few years, largely a reflection of stock market performance and it is anticipated that, should market

conditions remain the same, the gifting of shares will continue to grow. DAFs and their equivalents can be an effective solution when a client has a windfall and wants to give but is not sure where to give – an example is that of entrepreneurs who sell businesses and decide to give a proportion to charitable causes, alongside gifts to their family and longer-term security for themselves. This has become increasingly popular when individuals have inherited money. With changes to inheritance tax and rules around second properties in recent years, there has been an upsurge in those donating inherited properties into funds. One misconception around this way of giving is that it is only relevant for those with vast wealth. Although some funds hold millions of pounds, the entry point is around £10,000 with some providers.

OVERVIEW

Donor advised giving continued to grow in 2016/17, shown through the year-on-year growth of contributions made to funds, which is reflective of its increased popularity within the UK. Overall, the level of contributions has more than doubled over the last four years, having seen a 101% increase in contributions over the period 2013/14 – 2016/17. A 33% increase in contributions since 2015/16 may have been influenced by a number of factors including anticipated regulatory and tax changes, stock market performance and others.

It is encouraging to see that there was also a year-on-year increase in funds that were transferred to a chosen charity via the means of a grant, up 19% from 2015/16 to £331.7 million in 2016/17.

The total charitable assets held within the funds has also continued to grow. We saw that in 2015/16 assets exceeded £1 billion for the first time, and in 2016/17 this is now in excess of £1.2 billion amongst the ten main providers in the UK (an increase of 24% since 2015/16).

SIZE OF DONOR ADVISED GIVING IN THE UK

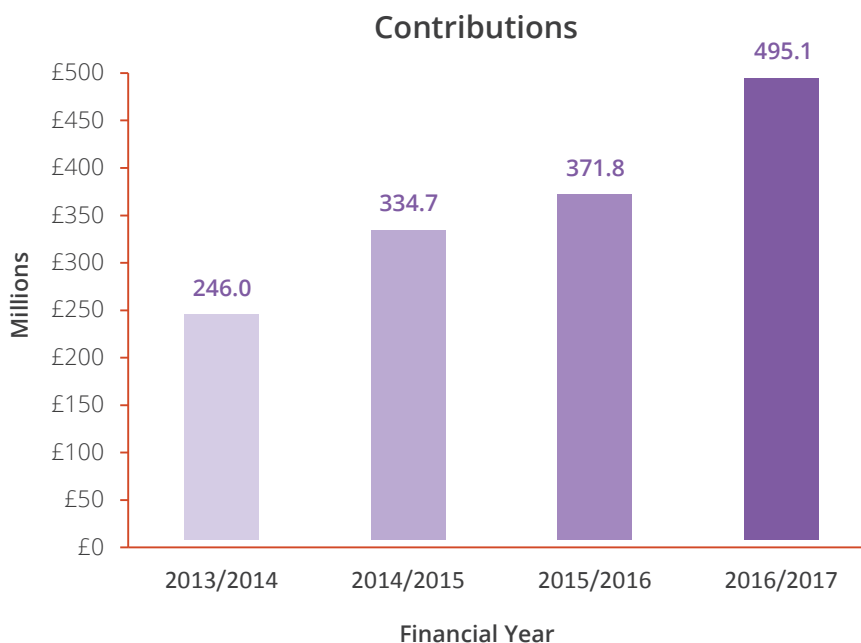
The following section will look at the size of the DAFs and their equivalents in the UK and how this has changed over the last four years. This has been

produced from a review of the main providers' annual reports (see page 20) using the most up-to-date reports available, which cover the financial year 2016/17.

CONTRIBUTIONS IN

Overall contributions into these funds continue to grow year-on-year. Contributions rose to a new high of £495.1 million in 2016/17 as a result of a £123.3 million increase since 2015/16 (33% growth).

Whilst this has not exceeded the 36% percentage growth seen in 2014/15, it has exceeded the monetary value of the previous growth, when we saw a £88.7 million increase in 2014/15, compared to 2013/14.

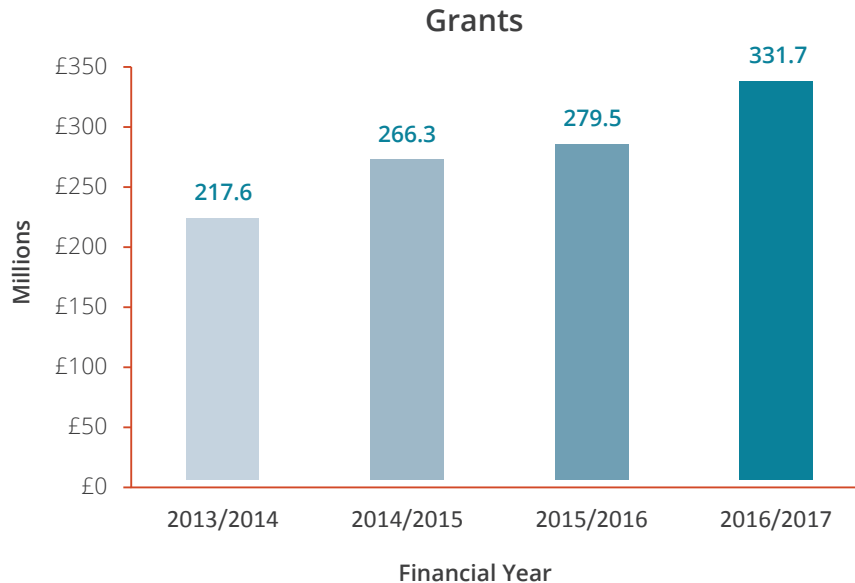


GRANTS

The amount of money granted out from donor advised giving funds to charities also continued to trend upwards over the four years, rising to £331.7 million in 2016/17 and representing an increase of 19% year on year. This exceeds the previous highest level seen in 2015/16.

However, despite this increase in grants, 67% of the money taken into donor funds was paid out, which, while still high, is a 8% decrease since the previous

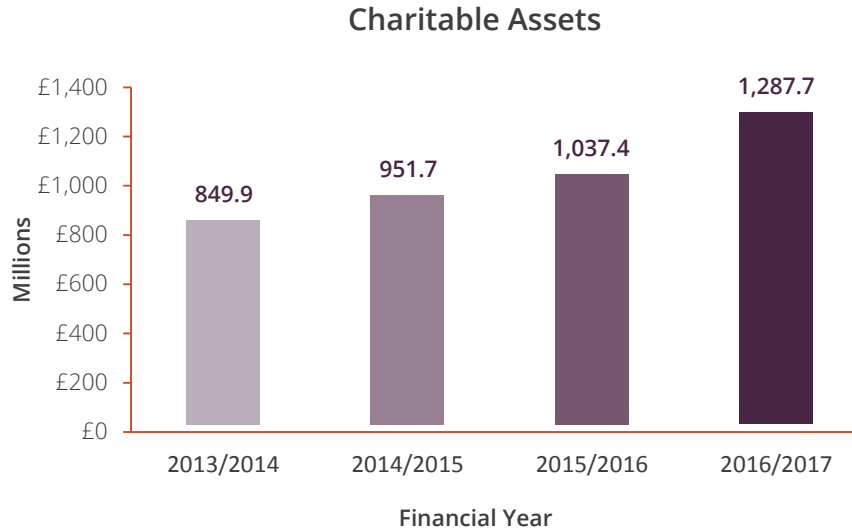
year (67% compared to 75% in 2015/16). This drop is due to the increased contributions made in the 2016/17 financial year, rather than a decline in grants out. While the level of contributions grew in 2016/17, this was not fully reflected in money granted out and instead saw a higher proportion of assets being held under management, suggesting that donors were building up philanthropic funds now for distribution to charitable causes in later years.



CHARITABLE ASSETS

Charitable assets under management in all donor-advised giving accounts continued to increase, with assets exceeding £1.2billion in 2016/17, having seen a 24% increase since 2015/16. This growth in charitable assets is reflective of the increase in contributions made to donor-advised giving accounts

in 2016/17, whilst a decreased proportion of the money taken into donor funds was paid out (67% compared to 75% in 2015/16). Charitable assets are the assets held with the various providers ready for granting out for future charitable projects



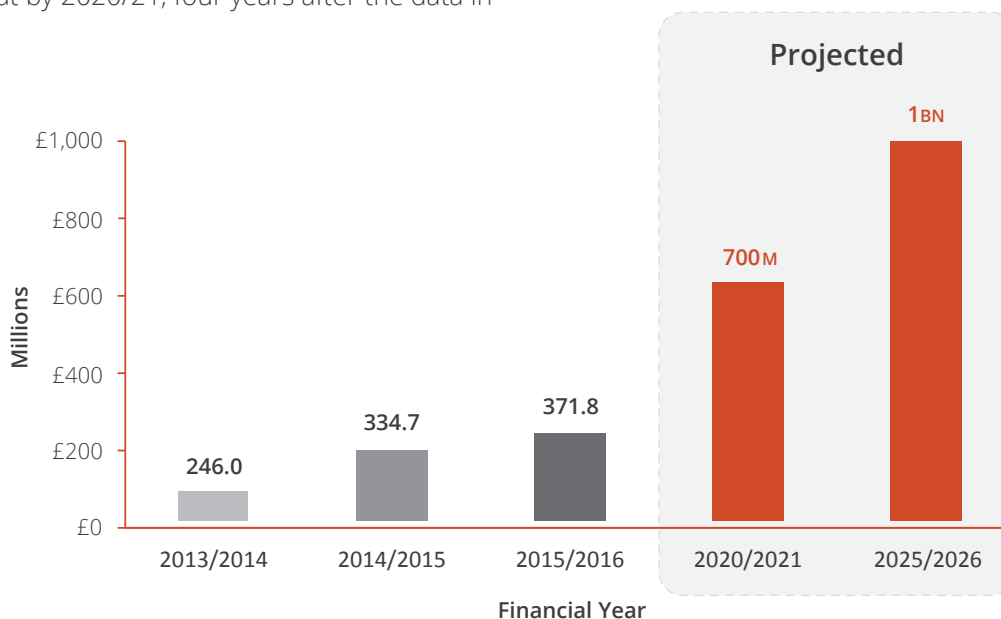
PROJECTIONS FOR FUTURE GROWTH

In order to look at what future growth could look like, in 2017 we conducted a modelling exercise based on previous growth within the UK. This year, we have reproduced the exercise including the data from the 2016/17 financial year, and the projection made last year remains unchanged and instead, reinforces last year's findings.

From the qualitative interviews we conducted last year and without any significant changes in the market, we believe these figures are likely to be at the lower end of the levels that this type of fund could reach and will continue to run the projection each year. Indeed, all of the qualitative interviewees believed the market would continue to grow and that current growth levels could be surpassed. Based on the model, we are predicting that by 2020/21, four years after the data in

this report, contributions could reach between £500 and £700 million and up to £1 billion in the financial year 2025/26.

Growth in the number of High Net Worth Individuals (HNWI) and Ultra High Net Worth Individuals (UHNWI) is key to the increase in future donor advised giving – as is economic stability and performance. The Office for National Statistics (ONS) estimates the UK population in 2016 as 61,110,000. The New World Wealth 2015 UK report² estimates 695,634 HNWI living in the UK, meaning that just over 1% of the UK population fall into this group. The UK's HNWI population is forecast to grow by 12.9%, to reach 791,279 in 2020³. Based on these findings, the future for these types of fund looks bright.



² Source: <https://www.uk.capgemini.com/thought-leadership/world-wealth-report-2015-from-capgemini-and-rbc-wealth-management>

³ Source: Wealth Insight UK Wealth Report 2016

CASE STUDY Woodford Investment Management

Helping charities prepare for the future

Helping charities prepare for the future by improving and changing the way they work is no easy task.

But CAF's private clients team has been supporting one of its trusted donors, **Woodford Investment Management**, to do just that.

Woodford began their charitable journey in 2014 when the business was set up. They set off with a simple commitment to "do good stuff" and to initiate a programme that was high in energy but deliberately low profile.

Finding many of the charities they engaged with apologetic about core costs, they quickly gravitated to a programme which they described as "*supporting the business of charity*". This reached the next level in 2015 with the high-profile collapse of Kids Company which led to a conversation with former ACEVO CEO, Sir Stephen Bubb. This discussion was the trigger for the creation of the Charity Futures think tank the following year – led by Sir Stephen.

The brief to Charity Futures was an uncommon one – to look at a fifty year horizon and to direct where resources should be best focussed in order to make the biggest systemic improvement. Accordingly, the think tank has concentrated on three broad areas – leadership/governance, collaboration and reputation. Jonathan Smith, Woodford's Head of CSR, and Charity Futures Chair, explained CAF's part in their journey: "*CAF provided a lot of answers for us from the outset,*" he said. "*It made setting up easy for us and has since become a powerful ally in all we are doing. We have developed great relationships with its account managers and Senior Team over the years.*"

Since it was formed, Charity Futures has held consultations with chief executives and chairs from charities large and small, with sector experts and researchers, funders and philanthropists, charity academics and journalists, training providers, and umbrella bodies all around the UK.

CASE STUDY Hummingbird Foundation

Helping to build a prevention of human trafficking model in India

Disrupting the dangerous patterns that can lead to vulnerable people becoming trapped in human trafficking and modern slavery is not an easy feat.

And the private clients team at CAF have had the opportunity to work with a Foundation that combats just that.

Established in 2014 by Clare and Chris Mathias, the focus of the Hummingbird Foundation is to co-create a Prevention of Trafficking model in 24 North and 24 South Parganas in West Bengal, India, through community action.

The Foundation works closely with its partner organisations that work locally within the community to challenge cultural and social norms as well as bring about a systemic change.

And that is no easy task.

Speaking about the vital work the Foundation carries out, Chair and Chief Executive of the Hummingbird Foundation, Clare Mathias, said: *“Targeting social and cultural norms along with a change in attitude towards gender is extremely important. While this is one of the most sustainable ways to prevent trafficking, it is also one of the slowest and most time-consuming. We have to be patient to see change in these communities as these social and cultural norms are deeply rooted.”*

The pair were inspired to take action after one of their three daughters came back from school one day and shared what she had learned about missing girls in India.

The couple have since been working closely with the private clients team at CAF to ensure that funds and resources are put to work on the ground in a secure way.

The Foundation’s seven partner organisations work with young people, community-based institutions like Village-level Child Protection Committees and the community at large to target vulnerabilities that exacerbate trafficking.

But Clare says there is much more work to be done, adding: *“In 2016, the Global Slavery Index estimated 48.5 million people are in some form of modern slavery. This is a staggering number and the more people are aware of the issue the better. It is important to reflect on why this exists and the social and political norms that allow it to flourish so abundantly.”*



CASE STUDY

Wild Young Parents' Project

Becoming resilient for young parents and children

'Fighting crisis after crisis' is an experience that all too many small charities share nowadays.

And for **WILD Young Parents' Project**, the impact of austerity and a rise in demand for its services has meant that the charity has had to explore alternative sources of funding and create a better working structure fit for the future.

With guidance from the CAF Advisory team, who are piloting a two-year programme called CAF Resilience, which has been wholly funded by CAF Charitable Trust donors, the charity is now shifting to long-term thinking and away from firefighting on a daily basis. The programme, which aims to help charities with strategic and financial resilience, is now coming to the end of its first year.

And speaking to CAF, Charity Manager Jo Davies said the programme has already been a 'transformative experience'. She said: *"As a small charity, we often feel we are fighting crisis after crisis. But the programme will ultimately give us a strong foundation to prepare us for a future where we can keep growing."*

Reflecting on the past year, she told us about the organisation's new strategic thinking around governance and a newly defined senior management team.

The charity has also won the GSK Impact Award, which recognises excellence among small to medium sized charities following an assessment of the organisation's strengths and weaknesses.

Jo said: *"Every aspect that was identified, was an aspect we had already identified with CAF, and which we could show clear plans of how we were addressing the issues. Without the CAF Resilience programme, we would not have been organisationally strong enough to win the award."*

The charity has now switched to a new IT system and even rolled out social media and PR training for its staff, helping to triple its follower base on Instagram and Twitter. The charity is also now looking into sources of funding that include major donors, corporates or traded income.

But the journey was not necessarily an easy one, as it revealed problem areas that were not previously identified or expected, including lack of governance planning and trustee development, weaknesses in impact reporting, staff reaction to change, and the impact of workloads on individuals.

Jo added: *"It feels like we have made lots of progress, and the whole team are excited by the changes. The whole experience was a much more emotional, human one than we had thought. It felt very much like we had exposed our charity and turned it inside out. So, year one had to deal with these issues, but also led to a very outward-looking year two."*

Based in Cornwall, WILD work to support young parents, many who have come from disadvantaged backgrounds. The charity works with mums, dads, and children, running group sessions across Cornwall, focusing on mental health, better relationships and healthy lifestyles.



CASE STUDY

The Moss Family Fund

Case study in partnership with



The Moss Family Fund, managed by Two Ridings Community Foundation, was created in memory of Alan and Addie Moss by their three daughters to help voluntary organisations, community groups and small charities based in and serving the communities of Kirkbymoorside, North Yorkshire.

During their lifetime, Alan and Addie were generous supporters of a wide range of community activities and it was the family's wish that this should continue in their memory in the area where they grew up.

Although Alan and Addie's daughters now live many miles from Kirkbymoorside, including one in Australia and one in Canada they and their own children remain keenly interested in the fund.

The family have visited Kirkbymoorside for a large family reunion and during this time they visited projects which have been funded through the Moss Family Fund including the Next Steps Mental Health Resource Centre, Ryedale Carers Support, Kirkbymoorside Brass Band, Kirkbymoorside Junior Cricket Club and the Kirkbymoorside Local History Group.

This is just a selection and the fund has supported many projects in the area adding to the vitality of the local community.



Members of the Moss Family including Alan and Addie's daughters from Australia, Canada and Bristol and also a granddaughter from Canada together with Jan Garrill, Chief Exec of Two Ridings Community Foundation and representatives from the Kirkbymoorside Local History Group.

CASE STUDY

Fryer Grassroots Fund

Case study in partnership with



John Fryer-Spedding CBE led the creation of the Foundation in 1997 when, as High Sheriff, he recruited a steering group to look into setting up a community foundation for Cumbria. He became the first Chairman of Cumbria Community Foundation.

The founding trustees wanted to create an organisation that would be home to a growing number of charitable funds. These would provide a sustainable source of support for voluntary bodies serving our people and communities.

The Fryer Grassroots Fund was established in 2009 by John and his wife, Clare, to support organisations who work with children and young people, particularly those leaving care. Many young people who have been in care are expected to live independently from as young as 16 years old. They do not have access to the same financial and family support systems that most young people experience.

Care leavers who attended a support group run by Inspira were able to create a recipe book, thanks to a grant from the Fryer Grassroots Fund. The book aims to help people leaving the care system to eat healthily on a budget. Funding contributed towards the production of the book and professional input from Cumbrian celebrity chef John Crouch.

Deborah Naylor, Area Operations Manager at Inspira, said: *“Learning the skills of not only how to cook a meal but one that is healthy and cheap can make a big difference.*

“One young man who hardly cooked was really proud of the fact that he managed to cook a vegetarian sweet and sour. He also made pasta bake and was surprised at how cheap it was and that he could ‘stick it in the freezer’ to eat at a later date.”

John Fryer-Spedding said: *“Helping these young people learn how to make affordable, healthy meals has been hugely rewarding for us. They have been a real inspiration in making this book so others can benefit from what they have learned.*

“These grants can make the challenge of leaving care that little bit easier, aiming to give young people a better start in life.”

This endowed fund is now worth more than £100,000 and the return it generates awards around £5,000.

METHODOLOGY

The research team at CAF conducted desk research in September 2018, reviewing annual reports of the ten main providers to obtain figures for contributions in, grants out and assets held in the funds.

One additional provider (Founders Pledge) was added to this year's report, as they began offering donor-advised giving funds in 2016. This addition reflects the continued growth of the market.

ASSUMPTIONS

Assumptions have been made when reviewing data within the annual reports, due to different terminology used by the charitable organisations.

For each annual report, a decision was made as to the correct source of funds to include under the term 'Contributions'. Investments and subscriptions (fees) were not included.

REFERENCES

The following annual reports were used to provide insight for this report:

- Charities Aid Foundation
- UK Community Foundations
- NPT – UK
- Prism the Gift Fund
- UBS
- Stewardship
- C. Hoare & Co.
- SharedImpact
- Charities Trust
- Founders Pledge

GLOSSARY OF TERMS

Donor Advised Fund (DAF)

A Donor Advised Fund is a charitable tool which allows donors to establish charitable accounts and/or charitable funds whilst remaining involved in supporting the issues they care about. The donor can donate assets into the account (either via a one-off donation or by topping up their account whenever suits the individual).

When a DAF is established, donors relinquish personal control of the funds. All funds distributed from these DAFs must be used for qualified, charitable purposes and may be eligible for certain tax reliefs. Although these funds are widely referred to as a “DAF” in the USA, some charitable organisations in the UK have other DAF type products: donor advised foundation; charitable trusts or donor designated funds.

Contributions

The amount that an individual donates into a donor advised giving fund. Most individuals make an initial donation into the fund and then top up whenever is convenient to them.

Grants

The transfer of donations from within a donor advised giving fund to a reputable charity or organisation which has charitable purpose.

Charitable Assets

The amount of funds that a charitable organisation (the provider) holds and manages. The assets are owned by the provider, not the donor, as the funds have crossed the charity threshold and tax relief has already been given or considered, increasing the value of the assets available for distribution.

ABOUT CAF

We are CAF and we exist to make giving go further, so together we can transform more lives and communities around the world.

We are a charity, a bank and a champion for better giving, and for over 90 years we've been helping donors, companies, charities and social organisations make a bigger impact. We are CAF and we make giving count.



ABOUT UK COMMUNITY FOUNDATIONS

UKCF (UK Community Foundations) is the leadership organisation for the national network of 46 accredited Community Foundations. Community Foundations are local charities that distribute funding to grassroots groups.





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