MILKEN INSTITUTE

Stepping Off the Sidelines:

The Unrealized Potential of Strategic Ultra-High-Net-Worth Philanthropy

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The Milken Institute is a nonprofit, nonpartisan think tank. We catalyze practical, scalable solutions to global challenges by connecting human, financial, and educational resources to those who need them.

We leverage the expertise and insight gained through research and the convening of top experts, innovators, and influencers from different backgrounds and competing viewpoints to construct programs and policy initiatives. Our goal is to help people build meaningful lives in which they can experience health and well-being, pursue effective education and gainful employment, and access the resources required to create ever-expanding opportunities for themselves and their broader communities.

ABOUT THE CENTER FOR STRATEGIC PHILANTHROPY

The Milken Institute Center for Strategic Philanthropy (CSP) advises individuals and foundations seeking to develop and implement transformational giving strategies and offers leadership to make the philanthropic landscape more effective. We conduct deep due diligence across a range of issue areas and identify the areas where philanthropic capital can make the biggest impact and create a better world. For more information, please visit philanthropy.milkeninstitute.org.

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DISCLAIMER

While many organizations are mentioned as examples in this report, the Milken Institute is not advocating or endorsing any of these organizations specifically.

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FOREWORD

We often speak of philanthropic capital as a catalyst, and indeed, well-deployed charitable giving has ignited seismic changes in all manner of worthy initiatives around the world, including increasing children's survival rates, developing cleaner water systems, researching previously unrecognized diseases, funding arts institutions, and educating girls.

In the context of the COVID-19 pandemic, we've seen once again philanthropic capital's strength as an asset class that can act quickly and fill gaps in ways that other sectors cannot. It is also a reminder of the ability, and the urgent need for philanthropy to be the force that can transform systems and change lives for the long term.

Even with the large-scale donations to mitigate COVID-19's challenges, there is still an unprecedented amount of dormant capital sitting on the sidelines when it could be working to achieve long-term, life-changing gains all over the world. At a time when the need to address stubborn challenges is more urgent than ever, social investors have a significant opportunity to leverage philanthropic capital as a unique, risk-tolerant asset class, and to apply strategic thinking and efficacy metrics to ensure best results.

We hear from people in our network and beyond—especially now—who say getting started in philanthropy can be an overwhelming endeavor, and the multitude of options leads to the paralysis of indecision. Sorting through the myriad of questions—What cause should I champion? What organizations are addressing the issue at hand effectively? Does my contribution matter? —can often keep philanthropists running in place.

The Milken Institute Center for Strategic Philanthropy designed the following analysis to guide both nascent stage and longtime philanthropists through these questions, with a primer on where to start, what to do, and how to evaluate if their strategies are working. Consider it a push off the starting gate.

Real change takes time, and this is why it's important to put wealth to work sooner rather than later to achieve the change you want to see in the world. Over the next 25 years, more than $60 trillion in wealth will change hands from one generation to the next. Given the fact that the wealthiest 1 percent is responsible for 99 percent of charitable giving, these dollars must be spent thoughtfully and strategically. We often ask philanthropists, "Is the money growing faster than the problem?" If not, it might be time to rethink your plan.

This report takes a holistic view of the philanthropic landscape and the giving of ultra-high-net-worth individuals, identifies and analyzes the latest trends, and makes recommendations for how potential philanthropists can approach risk and take the necessary steps that lead to bold change. It's a beginning, and we'll be following up with more tools and information to guide your giving journey.

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OUR TAKE

The Dilemma

Today's social and environmental challenges require the urgent attention and resources of high-capacity philanthropists. However, individuals with the most resources—and potentially with the greatest ability to fund social impact—are not participating in philanthropy at the rates that they should be.[1] Just 36 percent of the world's ultra-high-net-worth individuals (UHNWIs, defined as having a net worth of $30 million or more) are engaged in philanthropy.[2] The personal wealth of the world's richest is accumulating faster than philanthropic capital is being deployed, and faster than global issues are being solved. Much-needed philanthropic capital is sitting on the sidelines, stalling the rate of social and environmental progress.

Further, more than half of high-net-worth individuals (HNWIs, defined as having a net worth of $5 million or more) do not know whether their philanthropy has an impact, and 78 percent do not monitor or evaluate the effectiveness of their contributions.[3] By being more intentional and strategic with their allocated resources, philanthropists can set the stage for more effective change-making.

Strategic philanthropy is intentional and holistic. Strategic philanthropists understand the problem they want to address and are clear about the change they seek to engender. They use the right tools to tackle the issue at hand and leverage the unique attributes of philanthropic capital to realize the largest impact. Strategic philanthropy involves listening to individuals in the communities where resources are deployed because those closest to the problem are closest to the solution.

The Call to Action

Given that the wealthiest 1 percent donates 99 percent of the world's charitable gifts, there is a need to strengthen UHNW philanthropy and motivate more giving.[4] More can be done to unlock the strategic deployment of this philanthropic capital:

- **Take on risk thoughtfully**
  Philanthropy is uniquely positioned to serve as society's risk capital. As such, philanthropy should support experimentation and innovation, while funding the scaling up of proven solutions. To this end, the very concept of philanthropy is evolving to include higher-risk, hybrid approaches such as impact investing and equity investments in social enterprises.

- **Diversify philanthropic portfolios**
  As with financial investments, philanthropists should diversify their giving in terms of their approach and their beneficiaries. Philanthropists should deploy the full spectrum of assets at their disposal (e.g., financial, social, intellectual) to generate an impact and should follow a holistic approach to foster transformative change.

- **Commit to building the nonprofit sector**
  Investments in the nonprofit sector's people, infrastructure, and technology will allow organizations to scale effective solutions so that they can better absorb large amounts of capital and further their impact. Donors should challenge themselves to learn about and evaluate unfamiliar organizations to ensure capital is being used to advance a diverse set of effective solutions.

- **Lean on the philanthropic ecosystem**
  Wealth can be isolating, but individuals do not have to forge their philanthropic paths alone. Experts within and in proximity to a UHNWI's existing network can provide counsel and facilitate educational and experiential opportunities to accelerate strategic philanthropy practices.

TRENDING PRACTICES AND KEY OPPORTUNTIES FOR ACTION

Thoughtfully Take on Risk and Diversify Your Philanthropic Portfolio

DEFINING RISK

Philanthropic capital is uniquely positioned to support risk, innovation, and experimentation; however, just as philanthropy is an inherently personal endeavor, so is one's definition of and appetite for risk. For some, it might mean supporting a pilot program with unpredictable outcomes. For others, it might mean supporting any program without established measures of impact. Contributing to an organization outside of a philanthropist's immediate network may seem unfamiliar and, therefore, risky.

THE CHANGING APPETITE FOR RISK

Traditionally, UHNW donors begin their philanthropy with giving that is familiar and low risk, such as their alma mater or a child's school. Other typical recipients of their charitable giving include hospitals and museums. These establishments are considered "safe bets" in philanthropy and are also elite in nature; that is, they serve the wealthy donors and their kin.[5] Across the board, major donors largely give to nonprofits that can absorb significant gifts, which means that recipients are often established institutions that can direct these resources to capital projects or add to their endowments—presenting minimal risk to a philanthropist. Individuals who are willing to assume more risk can venture beyond philanthropic safe bets.

Next generation (next gen) philanthropists—individuals between 18-40 years of age—tend to have a higher tolerance for risk and are more inclined to call for innovation to disrupt current systems. Younger UHNWIs consider philanthropy to be a crucial element of their "financial morality," prioritizing charitable commitments over their lifetime rather than preserving their assets for future heirs, which is a departure from historical trends of family and institutional foundations operating in perpetuity.[6] The UHNW next gen cohort also funds newer, less established organizations, as well as grassroots advocacy efforts. Compared to the older UHNW generations, many UHNW millennials orient their philanthropy toward more social and environmental causes. They also diversify their philanthropic portfolio to include impact investments as well as charitable gifts. (See "Deploying Capital via Traditional and Innovative Channels" on page 5 for definitions and more in-depth explanations of these terms). Given the increasing severity of global challenges, the field could benefit from the wider adoption of these promising approaches.

Almost $60 trillion in wealth will be transferred to the next gen, and an estimated $27 trillion of that amount is projected to go to charitable causes.[7]

This emerging cohort is poised to revolutionize the field of philanthropy in three ways: by taking greater risks, supporting less established organizations, and engaging in new forms of social impact.

The concentration of wealth and philanthropic influence is also shifting geographically from east to west within the United States. The rising prevalence of tech philanthropists is already shaping the social sector, particularly in terms of bringing innovative methods to the fore. Although only 11 individuals from the tech industry—who are largely based in Silicon Valley—made the 2017 Philanthropy 50 list, they contributed 60 percent of this group's total charitable giving in that year ($8.7 billion).[8] Compared to the UHNW cohort overall, tech philanthropists are more likely to be risk-tolerant and opt for nontraditional philanthropic structures and pursuits, which is paving the way for more individuals to adopt these approaches.

BOTTOM LINE

Seek Out the Best Opportunities for Impact

- Transition from reactionary and network-based giving to a more intentional, discerning, and impact-focused channeling of resources
- Revamp traditional due-diligence processes and actively seek new information, recommendations, and referrals from sources beyond your immediate network
- Consider supporting grassroots movements or organizations led by minorities or individuals with lived experience of the issue being addressed
- Consider innovative channels for deploying capital that are appropriately matched to the financing gap you are trying to overcome

Deploying Capital via Traditional and Innovative Channels

A range of tools are available for individuals to transfer capital for philanthropic purposes. Depending on an individual's philanthropic activities, some tools are more suitable than others.

CREATIVE USES OF CAPITAL

As investment portfolios and giving practices become more sophisticated, wealthy individuals often use multiple vehicles to deploy their philanthropic capital. Besides cash, gifts can be made in stock, real estate, and even various investment classes such as private debt.

Therefore, philanthropists are diversifying the types of resources they bestow. Blended portfolios can include traditional grants and charitable donations, loans, and even equity investments in social enterprises. For example, Pierre and Pamela Omidyar's **Omidyar Network** practices a blended philanthropy approach, engaging in grantmaking, impact investing, and equity investments to further its social impact agenda.

High-capacity philanthropists largely view themselves as problem solvers rather than supporters of charity, and, in turn, innovative practices such as impact investing and hybrid gifts are gaining traction, and the very concept of philanthropy is expanding.

UHNWIs can also leverage their philanthropic capital in creative ways to attract additional resources to causes of interest. Donor matching is one such tactic, which involves an entity or individual committing to contribute the amount of funds raised by others to an organization, usually during a defined campaign or time period. Research indicates that donor matching increases both the participation and revenue generated for charitable campaigns using donor-matching tactics versus those that do not. Of note, this increase is evident when the donor match is a ratio of 1:1, but raising the ratio to 2:1 or 3:1 has no additional effect.[9]

LLCS

A limited liability company (LLC) is the newest model to gain traction in the social impact sector, particularly among the ultra-wealthy. Prominent UHNWIs (especially from the tech industry) have championed this model to pursue a range of activities—grantmaking, advocacy, lobbying, impact investing, entrepreneurship, and more—to achieve their desired social impact. Though critics note LLCs' lack of transparency and frequent emphasis on tech-centric solutions to complex social problems, research suggests that these entities are a promising philanthropic instrument, primarily because of the flexibility they provide.

NOTABLE LLCS

Many high-profile philanthropists have opted for an LLC structure because it allows them to seek social change through a variety of avenues, including those beyond the nonprofit sector. For example, the **Emerson Collective**, started by Laurene Powell Jobs, provides grants in addition to investments in entrepreneurs, and even filmmakers, to achieve its philanthropic priorities. In 2019, John and Laura Arnold transitioned their philanthropy from a private foundation to an LLC, called **Arnold Ventures**, to house grantmaking alongside advocacy and policy initiatives under the same umbrella organization. Mark Zuckerberg and Priscilla Chan's LLC, the **Chan Zuckerberg Initiative**, engages in traditional charitable contributions as well as political giving, impact investing, and investing in new enterprises. Whether the cause is the environment, criminal justice, or health, these philanthropists appreciate the complexity of the issues and the need to address them from every angle. An LLC structure provides not only flexibility but also greater integration of various social impact activities to expedite progress.

IMPACT INVESTING AND VENTURE PHILANTHROPY

Impact investing is a growing trend for risk-tolerant philanthropists. One study found that the number of family foundations engaged in impact investing has doubled since 2015.[10] The practice entails investing in an organization or fund that aims to provide a social or environmental impact in addition to a financial return, which can range from below-market to market-rate.

The legal and regulatory framework for impact investing remains largely untested, so UHNWIs who are participating in this practice are doing so at more modest levels compared to their other philanthropic engagements. Nonetheless, it remains a promising avenue for individuals who seek to galvanize social or environmental impact. Among HNWIs, two-thirds of impact investors consider this activity to be a supplement rather than a replacement to their charitable contributions.[11]

Venture philanthropy is an umbrella concept that involves a "purpose-, results- and responsibility-driven worldview."[12] With this approach, philanthropists, especially those who are investment-minded, offer financial support to an organization, which can be a nonprofit, social enterprise, or other socially oriented business. Incubators and venture philanthropy funds, such as **Acumen**, **Draper Richards Kaplan**, **New Profit**, and **Legacy Venture**, function to pool philanthropic capital and offer technical assistance to organizations, with the aim of building capacity and scaling impact.

Pay for Success (PFS) financing, a practice that establishes Social Impact Bonds (SIBs), is another approach with the potential for a return on investment. This model directs private capital to a nonprofit, with the expectation that it will meet a predetermined social or environmental outcome metric. These funds offset support that government would normally provide, and if the nonprofit can demonstrate its achievement of the metric within a defined period of time, the government—or in some cases, philanthropies—then repays funders, commensurate with the organization's level of performance. PFS is a relatively new vehicle to which UHWNIs can directly contribute, usually in a pooled investment with fellow UHNWIs.

Move Toward More Strategic Philanthropy

SYSTEMS CHANGE

To create lasting change at scale, progress must be made at the systems level, which entails reconfiguring societal structures to remedy an issue. The Social Innovation Generation in Canada defines systems change as "shifting the conditions that are holding the problem in place."[13] The conditions consist of public policies, norms, and behavior, as well as market, investment, and political practices.

UHNWIs can contribute to systems change by funding a diversity of activities—for example, coalition building and grassroots organizing, awareness-raising and educational campaigns, nonprofit leadership development, and advocacy. Storytelling and impact production—the promotion of media that encourages behavior change and mobilizes broad awareness of issues and support for solutions—are additional, influential tactics that help shift public norms. Donors can also support trusted intermediaries such as Blue Meridian Partners, Tipping Point Community, Robin Hood, Co-Impact, and New Profit, which provide a valuable connection to pre-vetted organizations that are working in communities, nationally and internationally to effect systems change.

THE IMPORTANCE OF CONSTITUENCY INPUT

No matter the issue area, elevating and incorporating the voices of local constituencies and beneficiaries is an important practice in any social impact effort. By intentionally and thoughtfully understanding the lived experiences of individuals who endure entrenched problems, philanthropists can glean insights that will help them achieve the impact they seek. When philanthropists enter a new space, they should engage with community leaders and local experts. Before philanthropic priorities are defined or strategies decided, feedback loops should be built into all stages of philanthropic giving. Philanthropists should listen to constituents frequently, learn continually, and take feedback seriously.

NONPROFIT CAPACITY BUILDING

An organization's ability to affect change is only as strong as its operations and systems that drive its programming. Thus, nonprofit capacity building is a crucial, but often overlooked area of philanthropic investment. To support nonprofit capacity building, philanthropists could follow specific guidelines proposed within the sector. Some concrete recommendations include committing at least 1 percent of philanthropists' net worth toward building the nonprofit infrastructure, including technology platforms and databases.[20] Another recommendation is allocating 10 percent of one's philanthropic contributions to research and analysis to help support nonprofits' measurement, evaluation, and learning processes.[21]

In their efforts to build capacity, nonprofits would also benefit from flexible funding. UHNWIs offer a refreshing break from institutional foundations' regular grant cycles and are therefore better positioned to provide rapid response or rescue funding to nonprofits. Nonprofits require flexibility to adapt to changing circumstances, which is why they are most in need of multiyear, unrestricted general operating support. The Open Road Alliance exemplifies how philanthropy can meet a crucial need in the sector by providing responsive and flexible risk capital to mid-implementation projects.

By funding nonprofit capacity building and collaboration, the field can best create impact at scale.

A pipeline of shovel-ready organizations could then be established to receive significant capital, making them prime recipients for philanthropic big bets.[22] To that end, previous barriers such as deal flow will also be less of an issue for UHNWIs seeking to make large gifts.

NONPROFIT COLLABORATION AND THE SCALING OF IMPACT

The Urban Institute's National Center for Charitable Statistics calculates that more than 1.5 million nonprofits exist in the United States.[28] Many of them have small budgets and provide duplicative services. Some nonprofits should consider merging with others, but those at an inflection point for growth would benefit from funds to build their infrastructure and, therefore, their opportunities for success and impact. Given their access to vast networks, individual philanthropists can play a matchmaker role to encourage mergers when they make sense and to help diversify the supporter base of nonprofits with the potential for scale.

Today's literature underscores the lack of resources focused on scaling proven solutions for social issues. Project grants account for greater than 75 percent of US foundation giving, but not enough funds are allocated to cover the indirect or administrative costs needed to support a nonprofit's overall functions and financial health.[29] This issue highlights a larger problem of philanthropists' unwillingness to cover the full cost of a nonprofit's operations. In response, the Bridgespan Group and five leading institutional philanthropies—Ford, Hewlett, MacArthur, Open Society, and Packard foundations—are coordinating an effort to address this issue, known as the "nonprofit organization starvation cycle."

To maximize its impact, a nonprofit needs "scale funds" to cover its expenses related to technology upgrades, the hiring of senior-level professionals, and general infrastructure improvements.[30] In particular, the operational components required for scaling must be built out to include operation manuals, legal agreements, quality controls, supply chain negotiations, and a myriad of policies, processes, and procedures. Nonprofits find it challenging to secure these kinds of charitable gifts because they do not produce immediate results, but UHNWIs could play a major role in infusing this capital. Further, the potential for future social impact makes providing scale funds a worthwhile endeavor.

THE GIVING GAP: PUTTING HIGH-IMPACT PHILANTHROPY IN CONTEXT

The mainstream American population has historically participated in philanthropy, often contributing to places of worship and organizations providing basic-need care to individuals in their immediate community. With the ongoing shrinkage of the middle class, this group's philanthropic involvement is waning, and those organizations have therefore received fewer charitable gifts. Recent trends underscore a movement toward "ultra-philanthropy," where the top 0.5 percent of the population gives roughly 30 percent of all charitable dollars.[23]

Research indicates that since the 1970s, there has been an increase in nonprofit institutions—think tanks, advocacy groups, media outlets, etc.—that prioritize the interests of the wealthy.[24] At the same time, nonprofits that provide social services and safety net offerings have struggled to secure ample resources. UHNWIs support these organizations less than middle-class donors do, partly because the wealthy tend not to use or have many direct experiences with social service organizations. Research shows that the wealthiest 2.5 percent of organizations (i.e., colleges and hospitals) hold greater than 50 percent of the wealth in the nonprofit sector.[25] Meanwhile, human-service organizations account for more than one-third of charities and hold just 11 percent of the nonprofit wealth.[26]

Critics have argued that ultra-wealthy individuals' use of philanthropy has facilitated a minority rule and threatened the integrity of the country's democratic institutions. Further, a growing tension between the "responsibility of wealth" and the outsized influence of the ultra-wealthy continues to chafe societal mores.[27] As the wealth gap intensifies in the United States, so too does the giving gap, which has untold ramifications for the nonprofit sector and for society.

Strategic Philanthropy in Action

PLACE-BASED PHILANTHROPY AND COLLECTIVE IMPACT

Given its complexity, systems change often can be more effective within a particular geographic region. Although UHNWIs tend to have a global outlook, their philanthropic assets can drive substantial progress when targeted in a specific location, especially when social capital supplements financial resources. Several UHNW donors are therefore focusing on place-based philanthropy to incubate and galvanize systems change within a manageable scale.

Collective impact, a term coined by the consultancy FSG, describes a particular place-based, systems-change approach. It is a structured partnership model whereby stakeholders from across the public, nonprofit, and private sectors commit to a shared agenda and measurement system to solve a social problem. Funders and service providers alike engage in mutually reinforcing activities with the goal of creating systems change. With the collective impact model, groups can collaborate in a way that is strategic, holistic, and poised to have a transformative impact. Institutional foundations—large-scale and well-staffed philanthropies—have traditionally supported collective impact initiatives, but individual philanthropists are also starting to engage in these efforts, so long as they possess a long-term commitment to the work and the humility to forgo some decision-making authority.

NOTABLE PLACE-BASED PHILANTHROPIES

- The **Jacobs Family Foundation** directs its grants to the Diamond neighborhoods of San Diego to support a diverse range of grassroots community development efforts.
- The **Steans Family Foundation** concentrates its support in Chicago's North Lawndale area by addressing early childhood, school-based education, and caregiver advocacy.
- The **Rainwater Charitable Foundation** has funded collective impact efforts, bringing together dozens of principals, school district staff, nonprofit leaders, faith-based groups, and other community representatives to strengthen early and secondary education in the Fort Worth, Texas, metropolitan area.

ASSESS THE RIGHT CONTEXT FOR SCALE

A social change intervention may only be effective in a particular setting, so philanthropists should understand the context of a program's success before attempting to scale it elsewhere. Donors could also focus on ensuring that the organizations and communities implementing a promising program have sufficient infrastructure to execute activities with the intended reach. For example, place-based initiatives such as **Purpose Built Communities** are positioned to effect change because the effort is attuned to the unique needs and motivators within a specific area. The organization positions an area for holistic community revitalization in 10 years, focusing on the stated needs of local residents.

BIG BETS

A massive influx of targeted capital can also drive systems change. Big bet philanthropy describes a charitable gift of $10 million or more from an individual to a single nonprofit organization.[14] Research indicates that big bet philanthropy has been critical to mobilizing social movements and scaling solutions.[15] In an effort to transform the pretrial system in the United States, **Blue Meridian Partners** recently committed $37.5 million over five years to **The Bail Project**, which seeks to reduce the justice systems' reliance on cash bail.[16] Between 2000 and 2012, however, only 20 percent of big bets (by dollar value) were designated for social change purposes.[17] The rest was directed toward institutional giving, and the primary recipients were universities, hospitals, and cultural organizations.[18]

Big bets offer game-changing capital to charitable organizations, but barriers such as lack of donor trust, deal flow, and the number of organizations able to seek and absorb such a volume of funds are cited as obstacles to their prevalence and success.[19]

THE VALUE OF PHILANTHROPIC PRIZE COMPETITIONS

Prize competitions are useful tools when philanthropists are interested in sourcing or scaling innovative solutions from organizations that operate outside of their immediate network. While only one or a small number of organizations may receive the philanthropic prize—for example, a monetary gift, network recognition, or an employment/business development opportunity—a repository of the vetted, unselected funding proposals can advance the philanthropic ecosystem by broadening donors' knowledge of prospective grantees. The **MacArthur Foundation** has helped design and manage several philanthropic prize competitions via its **100&Change** and **Levers for Change** initiatives and has developed a "**bold solutions network**" to serve as an open-source, searchable database for philanthropists to identify new funding opportunities in their chosen area of focus.

BOTTOM LINE

Invest in the Nonprofit Sector

- Fund general operating costs along with specific projects
- Explore a place-based giving strategy and support collective impact initiatives
- Commit to a philanthropic big bet, perhaps via a prize competition
- Play matchmaker to foster mergers between nonprofits to spur scale and reduce fragmentation
- Invest in nonprofit capacity building, including technology and infrastructure upgrades, as well as measurement, evaluation, and learning practices
- Listen to and incorporate feedback of constituents that the philanthropy is intended to benefit; collaborate with them whenever possible

Mobilize Philanthropic Capital

MAKE THE MOST OF A FOUNDATION'S ASSETS

Establishing a private foundation is a popular choice among the ultra-wealthy because it cements a clear mission and legacy for a family's philanthropic activities. By law, private, nonoperating foundations are required to spend—via grants or permissible administrative expenses—at least 5 percent of their net investment assets annually. Until recently, however, a 5 percent annual payout has largely been the extent of a foundation's engagement in social good. Family and institutional foundations have historically operated as though this threshold was a ceiling rather than a floor.

Now, a growing number of philanthropies are striving to make a positive impact with their remaining endowment capital. Trustees and boards are directing investment officers to invest in entities that operate under certain environmental, social, and governance (ESG) standards and to divest from companies that may have negative social or environmental externalities. Foundations are also making program-related investments (PRIs) and mission-related investments (MRIs) to maximize the impact of their charitable and endowment dollars. The KL Felicitas Foundation and Cordes Foundation are examples of this trend in practice—using 100 percent of their balance sheets for impact. High-capacity philanthropists are well-positioned to incorporate this practice into their own efforts, as desired.

DEFINITIONS:[32]

Program-related investments: investments made for charitable activities, with market or below-market interest; PRIs qualify as part of a private foundation's 5 percent required annual payout

Mission-related investments: any commercial investment activity that furthers the organization's mission, with market returns; MRIs do not qualify as part of a private foundation's 5 percent required annual payout

THE OPPORTUNITY FOR DONOR-ADVISED FUNDS

The surging assets and growth rates of donor-advised funds (DAFs) are primed to catalyze transformative social impact, and philanthropists should take note of their potential. With DAFs, individuals can house cash and appreciated securities, which are earmarked exclusively for future charitable giving. At the time of deposit, individuals take a tax deduction against their contribution, and most DAF sponsors have no rules regarding DAF asset distribution or timeline. This instrument offers increased privacy to the donor because the DAF sponsor aggregates its clients' charitable disbursements in its required reporting. Some UHNW families have chosen to give via DAFs rather than a private foundation because they are less expensive and provide more flexibility for the next generation, thereby releasing children from pursuing a family foundation's set mission.

DAFs have experienced a significant rise in popularity—total growth increased 106 percent in the past five years—and are now the top recipient of charitable dollars in the United States.[33] In 2017, DAFs accounted for 6 out of the top 10 organizations that received the most charitable contributions (a collective $13 billion), including Fidelity Charitable, Goldman Sachs Philanthropy Fund, Schwab Charitable Fund, and the Silicon Valley Community Foundation.[34]

While proponents assert that DAFs encourage more charitable giving because of the ease of accepting non-cash assets, critics argue that the growing use of DAFs actually "cannibalizes" charitable giving because more funds are directed to DAFs than disbursed to nonprofits, resulting in a negative overall giving rate.[35] For this reason, DAFs have been called a "charity that amplifies inequality."[36] To be sure, DAFs do provide funders with flexibility, perhaps even to warehouse charitable funds as they hone a big bet strategy or intent for an otherwise significant gift. DAFs within community foundations also are particularly well suited to support a place-based giving strategy. UHNWIs' increasing use of DAFs makes these vehicles hugely influential—for better or for worse—in the philanthropy field, so there is reason to explore opportunities to deploy DAF capital efficiently and strategically.

VOLUNTEERING: A PHILANTHROPIST'S MOST UNDERUSED ASSET

A philanthropist's time, talent, and ties (network) are profound resources for the nonprofit sector. Approximately 50 percent of high-net-worth donors also volunteer for charitable organizations—joining a board, providing direct service support, helping fundraise, and mentoring leadership, among other activities.[31] UHNWIs have valuable networks and talents to share with the nonprofits that they support financially, and volunteering often serves to deepen donors' appreciation and philanthropic commitment to these organizations.

BOTTOM LINE

Meaningfully Deploy All Philanthropic Assets Available

- Determine how a family foundation's endowment can be used to generate impact, including via MRIs and engaging in ESG investment practices
- Commit to moving money out of a DAF within a self-imposed time period so that those resources can be put to use in the nonprofit sector
- Volunteer, and lend your talent and experience to help nonprofits build out their operating capabilities

Lean on the Philanthropic Ecosystem

ACCELERATING THE PHILANTHROPIST'S LEARNING CURVE

Experts on philanthropy and advisors to UHNWIs are crucial actors to advance high-capacity individual giving. Philanthropic support organizations (PSOs), affinity groups, institutional foundations, and even wealth advisors all play a key role in this effort.

Newly wealthy individuals typically wait several years before engaging in philanthropy. When they finally do engage, gifts are often no more than $5,000 or $10,000.[37]

Donor education and philanthropic advising can reduce that period of inactivity and build the confidence of new donors so that they can more meaningfully participate in philanthropy, and sooner.

Because half of the upcoming generational transfer of wealth is projected to be directed toward philanthropy—and because the younger generations' giving profiles differ from their predecessors (e.g., more risk-tolerant, interested in innovative philanthropic financing)—more robust philanthropic advising is essential.[38]

A substantial amount of educational content is already available within the philanthropic sector, but it is not effectively reaching donors. This information gap partly explains why UHNWIs sometimes reinvent the wheel or stick to supporting "safe bets." Jeff and Tricia Raikes, co-founders of the Raikes Foundation, have launched an effort to promote donor education and mobilize more charitable contributions from individuals by developing and aggregating content on philanthropy into a central online hub, called Giving Compass. Curated content from trusted sources continues to be in demand to channel salient information to emerging and established philanthropists alike.

PSOs and other intermediaries expedite learning about the nonprofit sector for donors so that they can fund charitable causes on a larger magnitude and faster timeline. The curriculum should describe how social-change work varies from business operations and how the nonprofit sector sometimes requires different philosophies and tools to drive progress. Feedback loops are crucial to strengthening a philanthropist's learning process, providing insights on measuring impact, and ensuring effectiveness. This awareness can also inspire donors to increase their giving.

Institutional foundations can also play a key role in developing a philanthropic ecosystem, given their extensive knowledge and networks in the field. Foundations can leverage their intellectual and social capital to connect with additional donors to channel more financial assistance to vetted nonprofits. In addition, these entities could serve as a "philanthropy concierge" to UHNWIs by sharing their portfolios, due diligence, and grantee reports, as well as establishing sidecar funds and customized investment opportunities to which philanthropists could contribute and essentially invest alongside foundations.[39] Institutional foundations, PSOs, and other intermediaries such as wealth managers are well poised to act as trusted guides to UHNWIs to maximize their giving and impact. For instance, the Giving Pledge—the brainchild of Bill and Melinda Gates—serves as a reputable hub for pledge signatories to partake in learning sessions on various philanthropic issues.

In addition, the literature highlights that wealth advisors are not used to their fullest capacity in terms of advancing UHNW philanthropy.[40] Wealth advisors make recommendations based on ease and tax optimization, not on their clients' philanthropic goals and desired impact. Since UHNWIs first turn to these professionals for guidance on their philanthropy, the opportunity exists to educate and harness the influence of financial advisors to help scale strategic philanthropic giving.

PEER-TO-PEER LEARNING AND FUNDER COLLABORATIVES

UHNWIs sometimes find their wealth isolating, and research reveals their eagerness to discuss and learn about philanthropy from their peers. This finding may explain why efforts carried out in a collective, or collaborative, are proving to be effective in improving UHNWI's philanthropic practices. Donor education offerings and giving circles are potential options for participation, but UHNWIs are more likely to benefit from curated programming from an already-trusted source. This is another reason why harnessing individuals within their existing network is the most promising way to engage them in strategic philanthropy.

In addition, PSOs such as consultancies and think tanks could help facilitate "learning journeys" for UHNWIs, which consist of exploring social problems and opportunities to activate one's charitable activities.[41]

In a group setting, UHNWIs can experiment and learn about philanthropy together, which is likely to reinforce strategic giving and create an appetite for more sophisticated philanthropy.

UHNWIs have also begun to partake in funder collaboratives, pooling their charitable funds to catalyze systems change in an economically efficient way. Through this model, already used by institutional foundations, donors align their philanthropic giving based on shared long-term goals, geographic areas, beneficiary populations, or another area of common interest. Members of funder collaboratives often leverage the expertise and strategy of a central management team.

Collaboratives also spread risk among participants and help to reach scale and a level of impact that would be less attainable for a single donor. UHNWIs who engage in funder collaboratives should proactively address common challenges, including the length of participants' funding commitments, varying appetites for risk, approach toward measurement and evaluation, and reporting expectations.

UHNW donors can engage in "collaborative philanthropy" and share data, best practices, lessons learned, and more with each other.[42] Some foundations have opted into this practice, and PSOs can facilitate adoption among UHNWIs. Doing so could help to scale philanthropic endeavors and avoid duplication of efforts.

FUNDER COLLABORATIVES

Opportunities exist for high-impact philanthropists to participate in joint learning and funding efforts, a longstanding practice of institutional foundations. To that end, Melinda Gates and H.R.H. Crown Princess Mette-Marit of Norway established Maverick Collective and Maverick NEXT, which are member-based groups of women philanthropists who support piloted initiatives for the global health organization Population Services International. Their model focuses on investing in women and girls to end extreme poverty. Now chaired by Mette-Marit and Precious Moloi-Motsepe of South Africa, the Maverick Collective provides intensive technical and advocacy trainings for its members so that they can strategically deploy their intellectual and financial resources for philanthropic ends.

Blue Meridian Partners and Co-Impact are two new collaboratives that focus on US poverty and health, education, and economic opportunity for the Global South, respectively. Both groups consist of institutional and individual funders. At Blue Meridian, general partners commit a minimum of $50 million over five years, and impact partners commit at least $15 million. Core partners at Co-Impact commit $25 million to $50 million over 10 years, and community partners commit $250,000 to $750,000 annually. Members of The Audacious Project, housed at TED, collectively award grants up to $50 million to global change-makers seeking capital to scale their ideas. Pooled funds among multiple donors can be managed and fiscally sponsored by local nonprofits, such as a community foundation, or by national consultancies, including Arabella Advisors, Rockefeller Philanthropy Advisors, and Tides.

BOTTOM LINE

Lean on the Philanthropic Ecosystem

- ✓ Seek opportunities to accelerate learning and build confidence as a donor
- ✓ Join forces with others via funder collaboratives or peer-learning engagements
- ✓ Consult with external advisors to sharpen your philanthropic strategy

UNDERSTANDING THE ULTRA-HIGH-NET-WORTH INDIVDUAL

ABOUT THE INDIVIDUAL

AGE

Individuals 50 and older hold the majority of wealth

GENDER

Although predominately male, the share of UHNW women is growing

1 in 7 UHNWIs are women

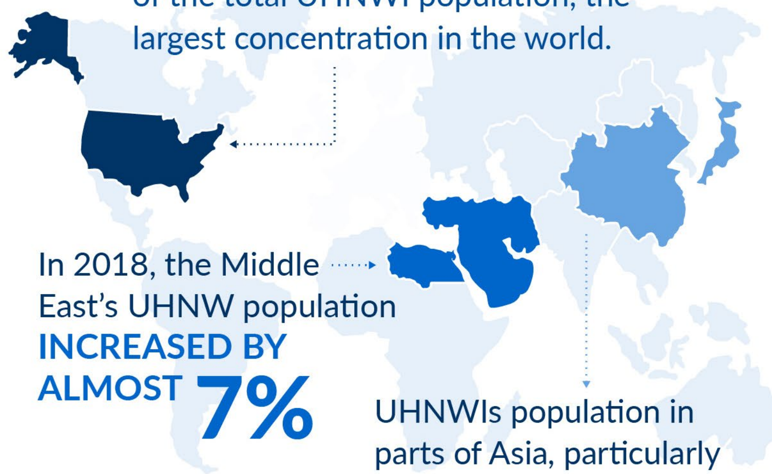
DONATION SIZE

UHNWI philanthropy accounts for 20-30% of all US individual giving

Nearly **9%** of UHNWIs have made a sizable charitable gift of **$1M** or larger

GEOGRAPHY

In 2018, there were 265,490 UHNWI in the world



The US is home to more than **1/3** of the total UHNWI population, the largest concentration in the world.

In 2018, the Middle East's UHNW population **INCREASED BY ALMOST 7%**

UHNWIs population in parts of Asia, particularly **China, Japan, & Hong Kong,** have seen a **STEEP RISE**

WEALTH

(by region)

North America leads in the number of UHNWIs and their combined wealth

Asia is not far behind

Sources: Grant and Wilkinson, "The Giving Journey." | Imberg and Shaban, "World Ultra Wealth Report 2019." | Michael Theis, "Male Entrepreneurs Give to Leave a Legacy; Women More Motivated by Causes," The Chronicle of Philanthropy, November 21, 2019. | "US Charitable Giving Tops $400 Billion for First Time," CBS News, June 12, 2018. | Imberg and Shaban, "The New Normal: Trends in UHNWI Giving 2019."

GROWING INFLUENCE OF WOMEN

Women are a driving force in philanthropy

As a proportion of their net wealth, UHNW women tend to **DONATE MORE** than men

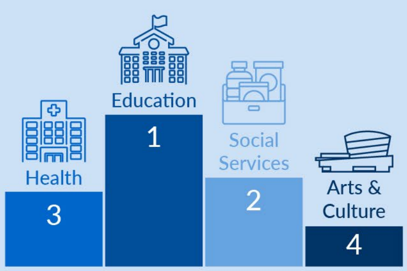
Approximately **92%** of HNW women give to charity

As women are assuming larger roles as donors, **ORGANIZATIONS THAT SUPPORT WOMEN & GIRLS** are booming

TOP CAUSES

(Women & Men)

Both genders largely give to the same top causes



MOTIVATIONS

Many UHNWIs say philanthropy is an essential responsibility

Male Entrepreneurs tend to donate to **LEAVE A LEGACY**

Female Entrepreneurs tend to donate to **SUPPORT A SPECIFIC CAUSE**

TIMING

UHNWIs are giving earlier and engaging more deeply

INTER-VIVOS GIFTS (*like* The Giving Pledge) are becoming popular

SPEND-DOWN PHILANTHROPY is gaining traction over large bequeathments

CONCLUSION

Today's philanthropic landscape—with its generational shifts, new mindsets, and flexible tools—can seem overwhelming. From a different angle, however, current trends offer an unprecedented opportunity for motivated philanthropists to galvanize major positive changes across a range of issue areas.

The amount of capital that is sitting on the sidelines can—and must—be put to work, particularly given the complex challenges facing the world. And given the knowledge and due diligence available, it can go to work quickly, in a way that's focused and strategic, tolerant of risk, and open to new mindsets and approaches.

By leveraging all of the assets at an individual's disposal—their time, talent, network, and financial capital—UHNWIs can engage in philanthropy in a thoughtful, intentional way—and accelerate the rate of social and environmental progress.

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