

Donor-advised funds continued to attract assets in 2004, as wealthy individuals looked for more efficient ways to make charitable donations

# IT'S BETTER TO GIVE

By Kieran Beer



## AMONG THE 23 DONOR-ADVISED FUNDS

that participated in **BLOOMBERG WEALTH MANAGER'S** fourth annual ranking, assets under management rose 27 percent in 2004 to \$5.1 billion. A strong market helped—the S&P 500 index returned almost 11 percent last year. But it's important to remember that even as they were gathering donations, the funds on average gave away 24 percent of their assets last year in grants to charities. And the three largest funds, Fidelity Charitable Gift Fund, Vanguard Charitable Endowment Program, and Schwab Fund for Charitable Giving, gave away an even larger percentage—24.8, 25.8, and 23.9 percent, respectively.

The Fidelity Charitable Gift Fund in Boston remains by far the largest donor-advised fund in our ranking. With \$3 billion in assets, it accounts for almost three-fifths of the total assets of the funds listed. Although it can be considered “mature” by virtue of its size and age—the fund was one of the first donor-advised funds launched by a mutual fund company—it still grew by 15.4 percent in 2004.

What prompted the growth? The rise in the equity markets not only fattened the Fidelity fund but also affected the kinds of donations it received, says fund president Jon Skillman. Contributions of securities were the highest they've been since 2000,

representing 68 percent of all contributions, he notes. Skillman attributes most of those contributions—as well as the overall increase in assets—to Fidelity Investments' adviser channel, which was the focus of an educational push by Fidelity about the place of donor-advised funds in wealth management. Meanwhile, the number of charitable grants the fund made also reached a historic high: 168,000, representing \$693 million in contributions.

At Schwab, the jump in assets was even more dramatic: 53.7 percent. Like Skillman, Kimberly Wright-Violich, president of Schwab Fund for Charitable Giving in San

asset-management program that allows donors to recognize an investment adviser to manage the assets in their account," she says. Wright-Violich also points out that part of the appeal of donor-advised funds for advisers and their clients is that they allow for greater privacy than do private foundations (see "Secret Mission," page 23). Donor-advised funds are also a lot easier to set up—and cheaper to operate—than private foundations, she says. Interestingly, although assets grew from \$287.5 million in 2003 to \$442 million in 2004, the Schwab fund's client base increased by only about 10 percent. "The increase represents substan-

have gone to private foundations instead. "We had at least three donations that came in above \$10 million, and two of those were well above \$10 million. One was the largest single donation we've ever received," says Pierce. "And we had a lot of inquiries from people contemplating \$30 million, \$40 million, and even \$50 million donations," he notes. All told, assets in the Vanguard fund increased by 46.8 percent in 2004, to \$908.4 million.

One feature of donor-advised funds that can make them particularly attractive to wealthy clients is that noncash assets can generally be donated at their appreciated value. True, there are some caveats—for ex-

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## WHERE IT ALL WENT

**LAST YEAR, THE 23 DONOR-ADVISED FUNDS IN OUR LISTING GAVE AWAY ALMOST \$1.1 BIL-**

lion. What kinds of charities were the biggest beneficiaries of this largesse? With some exceptions, grants made in 2004 by the three top funds tended to follow national giving trends. According to Kimberly Wright-Violich, president of Schwab Fund for Charitable Giving, Americans give the largest single amount of their charitable dollars—about 35 percent—to religious organizations and charities. Community and human services organizations typically get about 26 percent, and educational organizations get about 13 percent. At Fidelity, religious organizations and charities received the lion's share—33.6 percent. At Vanguard, however, human services got the largest share of donor contributions, 32.6 percent, while religious charities got 22.2 percent. Meanwhile, at Schwab, educational charities got the most money from donors—36 percent—while religious charities received 26 percent.

Interestingly, Jon Skillman, president of Fidelity Charitable Gift Fund, points out that many giving decisions last year were spurred by the tsunami disaster in Southeast Asia. Although the disaster struck just as the year was coming to a close, donors responded quickly. About 10 percent of the total contributions at Fidelity were earmarked for tsunami relief, he says. And these donations may not tell the whole story. "There are always a lot of donations to Oxfam and the American Red Cross, which may not specifically be designated for tsunami relief," but which may have gone to help the victims anyway, says Skillman.

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Francisco, attributes the fund's big jump in assets largely to advisers' increased awareness of the benefits of—and comfort level with—donor-advised funds. "Average account size is significantly bigger [now], and that's largely attributable to our charitable

tial donations—\$20 million, \$30 million, even \$50 million," Wright-Violich says.

Benjamin Pierce, executive director of the Vanguard Charitable Endowment Program in Malvern, Pa., also reports an influx of large donations that in past years might

ample, in order for a donor to claim an appreciated value, a charitable organization must employ the asset in some "related use." The charity must display a painting, say, instead of sending it to the auction block. With a private foundation, by contrast, it doesn't matter how noncash contributions are used, they must always be valued at their cost basis, Wright-Violich explains.

Because of the increased interest in noncash assets, a number of donor-advised funds have, in fact, embraced third parties to facilitate contributions of real estate, private partnership interests, closely held stock, art, and collectibles. Not all funds tout these connections. Skillman, for example, says that although the Fidelity fund will accept real estate that is clearly marketable, it will not generally accept donations of art, jewelry, or collectibles. The fund will, however, quietly refer donors or their advisers to a third party to handle the sale of the noncash assets.

Schwab, by contrast, is very public about its reliance on Charitable Solutions in Atlanta to handle noncash donations. A for-profit consulting firm, Charitable Solutions uses the Dechomai Foundation (*dechomai* is Greek for "graciously receiving a gift") and a 501(c)3 supporting organization organized as a trust to swap the noncash assets into cash, says

## DONOR-ADVISED FUNDS SPONSORED BY FOR-PROFIT COMPANIES

| Fund name   | Assets under management (\$MM) | % Change from 2003 | Number of donor-advised accounts 2004 | % Change from 2003 | Minimum initial contribution (\$) | How much did the fund pay out to charities in 2004? (\$MM) |
|---|--------------------------------|--------------------|---------------------------------------|--------------------|-----------------------------------|--|
| Fidelity Charitable Gift Fund (Boston)                                  | 3,000.0                        | 15.4               | 34,005                                | 4.6                | 10,000                            | 693.0  |
| Vanguard Charitable Endowment Program (Malvern, Pa.)                    | 908.4                          | 46.8               | 4,370                                 | 18.9               | 25,000                            | 197.1  |
| Schwab Fund for Charitable Giving (San Francisco)                       | 442.0                          | 53.7               | 6,200                                 | 9.1                | 10,000                            | 87.0   |
| Goldman Sachs Philanthropy Fund (Clifton Park, N.Y.)                    | 119.7                          | 64.1               | 136                                   | 46.2               | 25,000                            | 22.3   |
| Bank of America Charitable Gift Fund (Boston)                           | 118.7                          | 22.8               | 121                                   | 23.5               | 50,000                            | 14.1   |
| AEF Donor Advised Fund (Hudson, Ohio)                                   | 101.7                          | 65.9               | 413                                   | 17.7               | 10,000                            | 3.3  |
| U.S. Charitable Gift Trust Donor Advised Fund <sup>b</sup> (Wilmington) | 90.0                           | 30.9               | 1,233                                 | 16.4               | 10,000                            | 15.7   |
| Smith Barney Charitable Investment Fund (New York)                      | 59.2                           | 80.6               | 522                                   | 46.2               | 25,000                            | 6.8  |
| Merrill Lynch Community Charitable Fund Program (New York)              | 54.7                           | 189.4              | 284                                   | 123.6              | 25,000                            | 9.0  |
| Raymond James Charitable Endowment Fund (St. Petersburg, Fla.)          | 31.6                           | 55.7               | 303                                   | 42.3               | 10,000                            | 3.1  |
| T. Rowe Price Program for Charitable Giving (Baltimore)                 | 24.2                           | 76.4               | 586                                   | 39.9               | 10,000                            | 3.6  |
| myCFO Charitable Fund (Palo Alto, Calif.)                               | 23.2                           | 14.3               | 22                                    | 10.0               | 100,000                           | 6.4  |
| AMG Charitable Gift Foundation (Englewood, Colo.)                       | 19.3                           | 16.1               | 49                                    | 11.4               | 10,000                            | 2.1  |
| Renaissance Charitable Gift Fund (Indianapolis)                         | 16.3                           | 22.0               | 114                                   | 123.5              | 5,000                             | 3.1  |
| American Gift Fund <sup>c</sup> (Newark, Del.)                          | 13.2                           | 59.4               | 145                                   | 5.1                | 5,000                             | 1.1  |
| Fund for Charitable Giving <sup>d</sup> (Pittsburgh)                    | 11.3                           | 26.0               | 67                                    | -1.5               | 10,000                            | 1.0  |
| Minnesota Center for Philanthropy (Northfield, Minn.)                   | 10.6                           | 323.9              | 61                                    | 69.4               | 5,000                             | 0.5  |
| Calvert Giving Fund (Bethesda, Md.)                                     | 10.0                           | -13.0              | 195                                   | 62.5               | 5000                              | 1.8  |
| Legg Mason Trust Donor Advised Fund (Baltimore)                         | 9.3                            | 54.9               | 145                                   | 26.1               | 25,000                            | 2.8  |
| SEI Giving Fund (Oaks, Pa.)   | 7.2                            | 80.4               | 24                                    | 41.2               | 50,000                            | 1.3  |
| Heartland Charitable Trust (Dubuque, Iowa)                              | 6.8                            | 25.6               | 99                                    | -5.7               | 10,000                            | 3.6  |
| Fiduciary Trust Charitable Giving Fund (New York)                       | 2.7                            | 5.7                | 15                                    | 15.4               | 25,000                            | 0.4  |
| National City Charitable Gift Fund <sup>f</sup> (Cleveland)             | 2.7                            | 140.0              | 36                                    | 140.0              | 10,000                            | 0.9  |

SOURCE: Bloomberg. All data as of 12/31/04. <sup>a</sup>Via charitable intermediary. <sup>b</sup>Sponsored by Eaton Vance. <sup>c</sup>Sponsored by American Guaranty & Trust. <sup>d</sup>Sponsored by PNC Bank. <sup>e</sup>Does not include mutual fund fees reflected in the pricing of the NAV. <sup>f</sup>Sponsored by Armada Funds. 🏠 = art, 🏠 = insurance, 💎 = jewelry, ○ = other, 🏠 = real estate.

Bryan Clontz, president. There is a fee, of course. Wright-Violich says Charitable Solutions typically charges a 3 to 8 percent handling fee on top of whatever other fees may be necessary—a real estate broker's or appraiser's fee, for example—to achieve the liquidation.

Not all gifts are received graciously. "Some gifts we're going to decline," says Clontz. "In fact, we say no a lot, especially if the gift is a 'brownfield' industrial wasteland or a place where something is glowing."

In the past year or so, there has been a fair amount of controversy about noncash gifts, as a number of abuses have come to light. As a result, noncash contributions is just one of the topics likely to be aired at the hearings on charitable donations and tax-exempt organizations scheduled to begin this spring in Washington, D.C. In anticipa-

tion of those hearings, Senate Finance Committee Chairman Charles Grassley (R-IA) has announced that he expects to introduce legislation designed to tighten oversight of public charities. Clues to what that might entail are contained in a report that he embraced at a press conference in early March. Among other things, the report calls for a statutory definition of a "donor-advised fund"—there currently isn't one—and seeks minimum activity rules to ensure that donated funds are actually being granted to charities. The report also calls for a prohibition on public charities using assets in a donor-advised fund for reimbursement to a donor for expenses incurred in vetting grantees or for any services rendered to the charity. And the report contains a proposal for prohibiting the use of donor-advised

funds to fulfill a legally binding charitable pledge by the donor. All of these provisions are already in line with the practices of the biggest donor-advised funds. "I don't think there's any proposal that will hurt the industry," says Wright-Violich. "If anything, it will show who the legitimate players are."

Skillman, for one, though, says he doesn't see why donors shouldn't be able to use the funds to fulfill pledges. Not surprisingly, Clontz also has some concern about a move by some lawmakers to place harsher restrictions on noncash gifts to charities. Earlier legislative proposals "attacked the used-car scam, and there are a number of cheesy shelters they've been looking at, which is good," says Clontz (for more information, see "Can't Give It Away," November 2004). But he fears other proposals that would require

| % Average assets donated to charity in 2004 | Accept tangible assets? | If yes, what kind? | Fees charged for \$100,000 account (bp) | Fees charged for \$5 million account (bp) | Minimum grant to each charity (\$) | Number of investment choices            | Offer SRI option? | Inception year |
|---|-------------------------|--------------------|---|---|------------------------------------|---|-------------------|----------------|
| 24.8  | Y                       | 🏠                  | 110-212                                 | 30-132                                    | 250                                | 9                                       | N                 | 1991           |
| 25.8  | N                       | —                  | 82                                      | 70  | 500                                | 6                                       | Y                 | 1997           |
| 23.9  | Y <sup>d</sup>          | 🏠🏠🏠🏠               | 144-174                                 | 73.75-103.75                              | 250                                | customized for accts >\$250,000         | Y                 | 1999           |
| 23.2  | N                       | —                  | 143-204                                 | 94-155                                    | 250                                | 4                                       | N                 | 2001           |
| 13.1  | N                       | —                  | 193-210                                 | 117-152                                   | 500                                | 5, plus individ. managed accts          | N                 | 1955           |
| 4.0   | Y                       | 🏠🏠                 | 100                                     | 45  | 250                                | open architecture                       | Y                 | 1993           |
| 19.7  | N                       | —                  | 265                                     | 225                                       | 250                                | 4                                       | N                 | 2000           |
| 14.7  | Y                       | 🏠                  | 181                                     | 161                                       | 250                                | 6                                       | N                 | 2001           |
| 24.5  | Y <sup>d</sup>          | 🏠🏠🏠🏠               | 210                                     | 210                                       | 250                                | 6 represented by 12 invest. mgmt. firms | N                 | 2003           |
| 12.0  | N                       | —                  | 145-195                                 | 63.5-114                                  | 250                                | 6 funds, 15 SMAs for accts >\$500,000   | N                 | 2000           |
| 19.1  | N                       | —                  | 85-126                                  | 60-101                                    | 250                                | 6                                       | N                 | 2000           |
| 29.6  | Y                       | 🏠🏠🏠🏠               | 100                                     | 94  | 500                                | 4                                       | N                 | 2000           |
| 11.7  | Y                       | 🏠                  | 100                                     | 77.5                                      | 100                                | 3                                       | N                 | 1995           |
| 20.9  | Y                       | 🏠🏠🏠🏠               | 165                                     | 90  | 250                                | customized                              | Y                 | 2000           |
| 10.5  | N                       | —                  | 250                                     | 250                                       | 250                                | 3                                       | N                 | 1998           |
| 9.5   | N                       | —                  | 100-125                                 | 100-125                                   | 250                                | 4                                       | Y                 | 1995           |
| 7.0   | Y                       | 🏠🏠🏠🏠               | 110                                     | 110                                       | 250                                | >10 (customized portfolios)             | N                 | 2002           |
| 17.1  | Y                       | 🏠🏠🏠🏠               | 100-225                                 | 25-150                                    | 250                                | 12                                      | Y                 | 2001           |
| 35.9  | Y                       | 🏠🏠🏠🏠               | 195 <sup>e</sup>                        | 145-170 <sup>e</sup>                      | 250                                | 6                                       | N                 | 2000           |
| 23.4  | N                       | —                  | 138-186                                 | 78-166                                    | 500                                | 14                                      | N                 | 2000           |
| 59.3  | N                       | —                  | 100                                     | 50  | 100                                | 6                                       | Y                 | 1996           |
| 15.3  | Y                       | 🏠🏠🏠🏠               | 170                                     | 150                                       | 250                                | 3 blended options, 10 specific funds    | N                 | 2002           |
| 49.0  | Y                       | 🏠🏠🏠🏠               | 100                                     | negotiable                                | 250                                | 3                                       | N                 | 2002           |

a quick sale of noncash assets in order for donors to claim anything other than the cost basis of the gift could prove problematic. He reasons such haste could result in fire-sale prices for noncash assets.

The Grassley hearings aren't likely to specifically target fees charged by donor-advised funds or other charitable entities.

and was prompted by the realization that donor-advised funds are more of a service to wealthy clients than a profit center, says Stan Francois, vice president for philanthropic services at Citigroup Smith Barney. Schwab is also currently examining its fund offerings with an eye to providing some lower cost options, including an index fund,

lion account. Vanguard, by contrast, charged 82 basis points for a \$100,000 account and 70 basis points for accounts of \$5 million. "We always talk about making sure we're among the lowest cost providers," says Pierce.

It's not yet evident that there will be a stampede by other funds to lower fees. But considering the increased competition

## LAST YEAR, THE FEES CHARGED BY DONOR-ADVISED FUNDS RANGED AS HIGH AS 265 BASIS POINTS FOR A \$100,000 ACCOUNT AND 250 BASIS POINTS FOR A \$5 MILLION ACCOUNT

Nonetheless, it's clear that fees are very much on the minds of the fund administrators these days. Smith Barney, for example, lowered fees in some instances by more than 50 basis points last year. The change was intended to keep the fund competitive with the three industry leaders

says Wright-Violich.

Last year, the fees charged by donor-advised funds ranged as high as 265 basis points for a \$100,000 account and 250 basis points for a \$5 million account. The median fee for a \$100,000 account was roughly 155 basis points and 95 basis points for a \$5 mil-

among financial-services firms on all fronts, lower fees are certainly possible. Watch this space next year for an update on this and other matters affecting donor-advised funds.

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