Perspectives News report

Philanthropic boom

HELEN BRADFORD-SWIRE LOOKS AT TRENDS IN GLOBAL PHILANTHROPY AND RESOLVING GENERATIONAL DIFFERENCES IN FAMILY PRIORITIES

In January 2024, 260 of the world's millionaires and billionaires signed a letter to the World Economic Forum as part of the Proud to Pay More initiative.[1] In the letter, based on a 2024 report,[2] the signatories asked for a wealth tax on high- and ultra-high-net-worth (HNW/UHNW) individuals in order to redress extreme wealth inequality and create fairer tax systems internationally.

'Inequality has reached a tipping point, and its cost to our economic, societal and ecological stability risk is severe – and growing every day,' the letter reads. 'Our request is simple: we ask you to tax us, the very richest in society. This will not fundamentally alter our standard of living, nor deprive our children, nor harm our nations' economic growth. But it will turn extreme and unproductive private wealth into an investment for our common democratic future.'

The co-signers note that the solution to economy imbalance 'cannot be found in one-off donations'. However, this by no means reduces the importance of philanthropic giving or environmental, social and governance (ESG) investing as HNW and UHNW clients seek to use their assets to do good in an increasingly turbulent world.

There has been an exponential increase in the number of philanthropy conversations in the past few years as HNW and UHNW individuals around the world seek to invest their money in a way that is sustainable and carries a positive impact for future generations.

GIVING TRENDS

There is still some way to go to translate the conversation into affirmative action. World events may trigger the conscience but, equally, they have ramifications for the global economic outlook, affecting interest rates, energy costs and the cost of living, and slowing growth.

In the UK, think tank Onward has released findings of a report[3] showing that the top 10 per cent of earners donate proportionally less than the poorest 10 per cent of households. Lombard Odier research,[4] meanwhile, has found that HNW investors in the Asia Pacific region 'are rethinking their portfolios across prominent themes of sustainable investing and private assets for growth and diversification, but many have not taken the plunge'.

'Sometimes philanthropy is a difficult subject to broach with clients and advisors may be reluctant to engage in the discussion. However, it is of great personal importance for many HNW clients,' says Julie Man TEP.[5] 'The COVID-19 pandemic shone a spotlight on this: it had a huge global impact on every aspect of life, bringing with it different struggles for everyone. The same can be said for the war in Ukraine and the situation in Israel and Gaza, both of which have had an impact on many people.

'These events have resulted in a huge outpouring of support, with many philanthropic responses. It is human nature, when seeing people suffering, when placed in a place of no control or the unknown, to want to feel empowered to help and be proactive. Clients have therefore been more aware and advisors have needed to be involved in guiding clients on how they can help and respond.'

Matthew Briggs TEP,[6] Deputy Chair of the STEP Philanthropy Advisors Global Special Interest Group (SIG) Steering Committee, agrees: 'The charity sector, and philanthropy, will always be affected by such large global events. Advisors have seen a real push towards ESG investing and it seems like those families that are putting generous resources into the charity sector are looking at doing so in a more socially and ecologically sound way.'

ESG has for some years been seen as an investment buzzword, both from the perspective of meeting global responsibilities sustainably and receiving a sound return on investment.

Citibank's 2023 report, *Philanthropy and the Global Economy*,[7] notes that philanthropic behaviours globally have seen a 'boom' in the past three years, indicating that they are not merely a response to international crises but a shift towards a 'new normal'.

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MIND THE GAP

The reaction is not only due to global events but can also be attributed to the so-called 'great wealth transfer': the ongoing transition of a huge amount of assets globally from the Baby Boomer generation to Generation Z.

Lombard Odier's research finds that Asia Pacific clients are 'taking an introspective view of their wealth goals, anchored by the need to balance family dynamics in preparation for the great wealth transition'. The trend is not limited to one region. In the US alone, it is estimated that USD84 trillion of assets will be passed to the next generation over the coming decade.

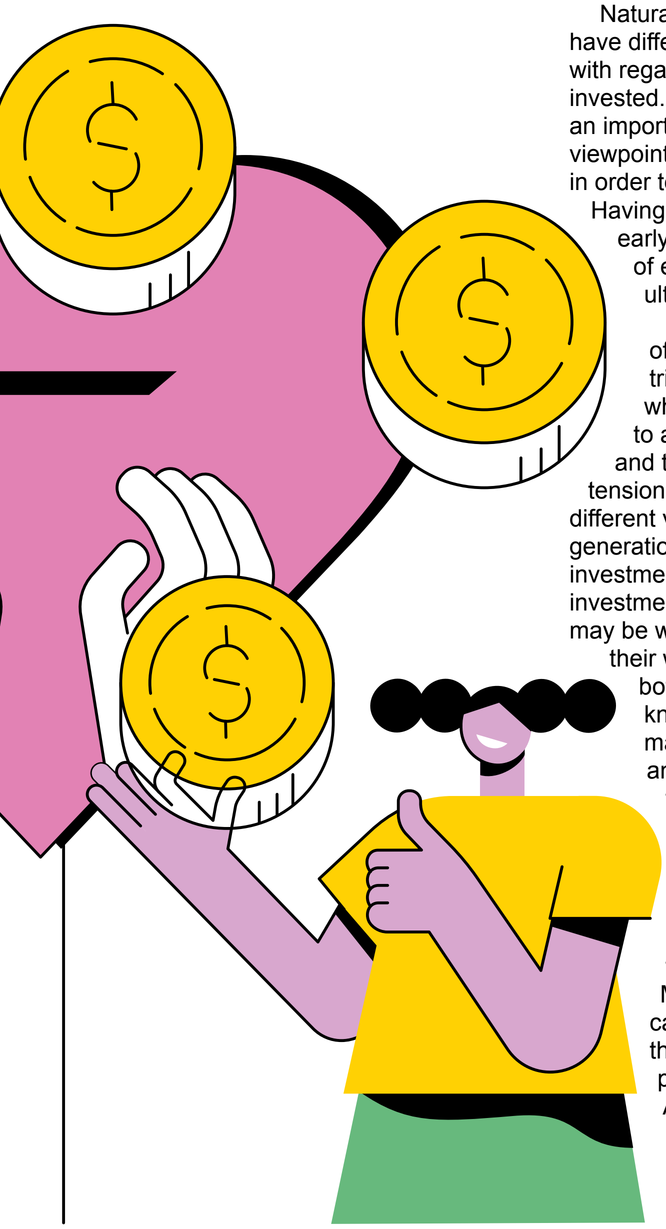
Michelle Chow TEP,[8] Committee Member on the STEP Philanthropy Advisors SIG Steering Committee, notes that this transfer of wealth is a driver in planning when it comes to philanthropic and ESG investments. 'The next generation is more impact focused: advisors usually see them aligning businesses with purpose, social enterprises and impact investing,' she says. 'Younger family members are increasingly exerting a greater influence over decision making and are embracing a more strategic, systematic approach.'

Naturally, different generations will have different priorities and expectations with regards to how wealth should be invested. Consequently, advisors have an important role to play in balancing all viewpoints and creating a family dialogue in order to effectively manage assets. Having the wider family involved at an early stage can only help the process of education, communication and, ultimately, decision making.

'Balancing the needs and views of different generations can be tricky, and a large part of our role when advising families is helping to align views on dynastic planning and to help alleviate any family tensions that may arise concerning different views,' says Briggs. 'A younger generation may want to convert an investment portfolio into only green investments, whereas an older generation may be warier and prioritise protecting their wealth. In fact, you can have both options: with well-placed, knowledgeable advisors – and many more sustainable options and green alternatives available these days – the needs of multiple generations can be addressed.'

'Everything pivots around educating the next generations on the views and intentions of the older generations,' adds Man. 'This can often be done by careful structuring and involving the next generation in the planning conversation early on. An example could be setting up a family charity or foundation, and involving the next generation in that structure so that they understand what the older generation wanted to achieve and their philanthropic purposes.'

Having such a structure in place and ensuring that the governing documents and family charter of a multi-generational family office are clear and fit for purpose are key steps in navigating and mitigating any family divisions.



BORDER CONTROL

Planning for philanthropic giving has wider implications than reaching cross-generational consensus. With the growth of cross-border giving comes a plethora of regulation that advisors must make clients aware of.

'It's important to understand the jurisdictional and cultural differences in regulations,' reminds Chow. 'There is not a universal framework that can be applied across all jurisdictions in terms of project planning, execution and due diligence.' She adds that advisors must remain aware of the ever-shifting picture in terms of regulatory requirements around the world, as well as any reputational risk tied to certain jurisdictions.

'Families should work with advisors to assess how potential regulatory change and public discourse in the concerned jurisdictions may impact their philanthropic work over time, especially if they plan for it to be a long-term project rather than a one-off donation,' she observes.

'Adding in cross-border giving adds yet another layer of complexity to philanthropic planning, with each country having their own specific requirements,' agrees Briggs. 'And considering current world events, including wars and sanctions, there is even more importance placed on the source and destination of funds. Now, more than ever, it is vital to ensure that due diligence is kept up-to-date and that all funds in and out of the structure are absolutely legitimate.'

#BUSINESS FAMILIES #CHARITIES #FAMILY OFFICE #GLOBAL #PHILANTHROPY

1 www.proudtopaymore.org **2** bit.ly/48zROwV **3** bit.ly/3I4bGxk **4** bit.ly/3wkqYLI **5** Julie Man TEP is Private Client Partner at Russell-Cooke Solicitors, winner of Philanthropy Team of the Year 2023 at the STEP Private Client Awards. **6** Matthew Briggs TEP is a Private Wealth Partner at Irwin Mitchell. **7** bit.ly/4blzWmi **8** Michelle Chow TEP is a Private Client and Tax Lawyer at Withersworldwide.

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