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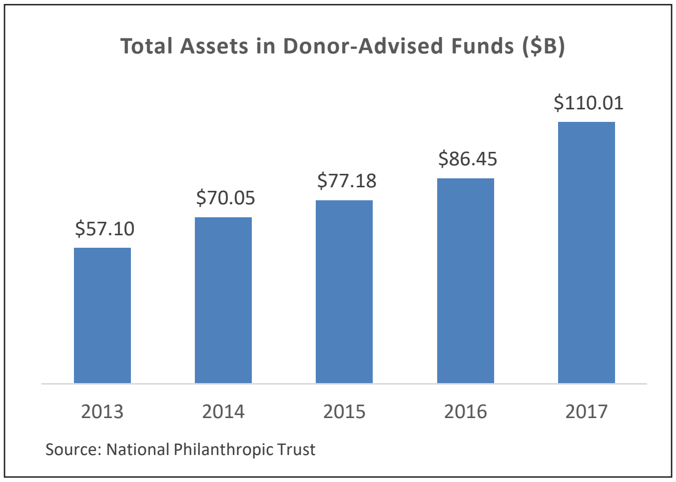
You probably won't be able to guess the U.S. charity that has raised the most money from private sources every year since 2015. It's not United Way. They are in second place, raising $3.2 billion in 2017. It's not the Salvation Army. They are in third with about $1.5 billion in 2017 donations. The top spot goes to Fidelity Charitable, which raised $6.8 billion in 2017 (more than double that of any other charitable organization).

The reason for this is that Fidelity Charitable focuses exclusively on Donor Advised Funds, which are growing much faster than traditional charities. Donor Advised Funds are registered 501(c)3 organizations funded with cash, highly appreciated stock, and other assets. Called "sponsoring organizations," they operate like a charitable brokerage account where donors receive an immediate tax deduction for their gift but the asset can be sold, diversified and invested in the account for many years before it is eventually given to a final charitable beneficiary.

Donor Advised Funds currently make up more than 10% of all charitable donations in the U.S. according to Giving USA and the National Philanthropic Trust. This is more than double the rate of five years ago. The total assets of Donor Advised Funds are in excess of $110 billion. If trends continue, Fidelity Charitable with pass the Gates Foundation as America's largest charitable grant maker.

The growth of Donor Advised Funds has been driven by their flexibility and ease of us—an individual or family can make a single charitable contribution today, while putting off making grants to final recipients until years or decades from now. They are often an attractive alternative to making direct gifts or setting up a private foundation. They also allow for easy sale and diversification of appreciated stock and permit the use of one's personal investment advisor to manage assets on an ongoing basis.



Source: National Philanthropic Trust

Despite their success in raising money, and perhaps in part because of it, Donor Advised Funds has started to receive some criticism. One area of debate is whether the funds are disbursing cash to ultimate beneficiaries as quickly as they are gaining contributions. The lack of disclosure requirements makes it impossible to answer this question.

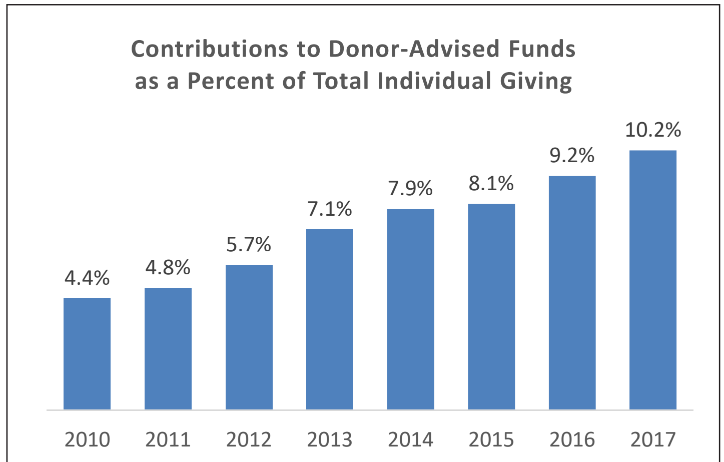
Critics claim that the funds are sitting on piles of cash and assets because they are paid more to keep the assets than to disburse them. Moreover, there is no legal requirement for individual donors to make final donation requests on any type of time table. Theoretically, assets can sit in the Donor Advised Fund growing tax-free indefinitely.

One critic is James Andreoni, an economics professor at U.C. San Diego. He recently wrote that if people get a tax deduction for putting money in a Donor Advised Fund but don't send it along to charities, "they may create no benefits for society, but add significantly to the tax costs of the US Treasury."

BUCKINGHAM STRATEGIC WEALTH

Some Donor Advised Funds require at least one small gift every 2-5 years but none are willing to provide meaningful statistical data for independent review. Schwab Charitable says 80% of its contributions have historically been distributed to charity within 10 years. And Fidelity Charitable claims an 84% distribution rate over 10 years.

It seems reasonable that some baseline level of gifting—like the 5% minimum distribution rule for private foundations—may become required in the future. There was a bill in the House of Representatives a few years ago that failed, but Donor Advised Funds are now much larger and getting more attention from policymakers and economists, so there may be more interest in getting legislation passed now.



Source: National Philanthropic Trust

Another criticism of Donor Advised Funds is that they often don't make it sufficiently clear to individual donors that they are legally giving up control of the assets when they are donated to the fund. The gift is irrevocable and the Donor Advised Fund has the ultimate decision-making power on both the management of the money and where it ultimately goes.

It seems to be extremely rare that there is a problem with funds accepting instructions from donors, but there is currently a lawsuit against Fidelity Charitable claiming that they unexpectedly sold $100 million of a donated stock against the wishes of the donor and without notifying him, despite representing that they would not sell the shares. The suit alleges that Fidelity violated verbal assurances one of its sales representative made to the donor about how they would sell the stock in small amounts slowly over time so as to not negatively affect the stock's market price.

All prospective donors should know that sponsoring organizations are only required to take "requests" or "advice" from donors (hence the name Donor *Advised* Fund). For example, Fidelity says they will start choosing charities approved by its trustees on its own if no donations are requested by the donor within three years of depositing money.

Despite these issues, we believe Donor Advised Fund are a very useful planning tool. We've been especially happy with the American Endowment Foundation. They are an independent Donor Advised Fund with no conflicts of interest or affiliations with banks or brokerage firms, and they do not offer any financial products of their own. They work well with advisors, have low costs, and integrate with all custodians including Schwab and Fidelity.

Please let us know if you would like to discuss how you might incorporate Donor Advised Funds into your charitable giving plans. Other charitable giving strategies include Charitable Remainder Trusts, Private Foundations and, of course, direct giving.

As always, thank you for you continued trust and confidence.

Warm regards,

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