HSBC

Video Transcript

Philanthropy

Andra Ilie

Good morning everyone. And thank you very much for joining our ninth and final 2023 webinar on the Beyond Business Ownership Series on the topic of Philanthropy. My name is Andra Ilie, and I am a Senior Advisor on Family Office Governance and Philanthropy here at HSBC Private Banking. I hope you did manage to join us for some, if not all, of our previous webinars which looked at the exit journey of a business owner. Now, if you didn't and would like to, please do contact your Relationship Manager for a copy of the recordings, or indeed, you can visit our website, www.privatebanking.hsbc.com/beyond-business-ownership.

Now, over the course of this webinar, we will tackle some of the questions that we've been hearing from our clients around how and where to start your philanthropic journey. We're also going to look at things such as what options are available to you? How can you go about philanthropy? And indeed, one of the questions we've been getting more frequently is around how can you educate yourself as you progress through your journey? Now, I must confess that I have been looking forward to this session for a while now. And that's not least because it comes at a time when we are having more and more conversations with clients around the topic of philanthropy. And I will also admit that I have been saving some of those questions for my guest speakers today.

So, on that note, I'm absolutely delighted to be joined by a very experienced panel made up of Jonathan Brinsden, Charity Partner at BDB Pitman. Russell Prior, Head of Family Enterprise Succession, here at HSBC Private Banking, focusing on philanthropy. James Henderson, Relationship Manager focusing on charities and education, also here at HSBC Private Banking. Thank you very much everybody for joining me. And for our audience this morning, if you also have questions for the panellists, please do use the question box at the bottom of your screen and we will do our best to come to them at the end.

Finally, before we get started, just a quick reminder that HSBC UK Bank and our panellists have no responsibility for and are not providing legal or tax advice in this webinar. So please do not rely upon anything that is being said. Right, so housekeeping is over, let's get started.

So, philanthropy is a very big topic, and it is often one that we talk to business owners about both before and after the sale. Now, in some cases, business owners know exactly what they want to do, but perhaps don't really know how exactly to do it or where to start. And again, that's one of the questions we get more often. Some business owners have a very clear view of what they want to achieve. In other cases, it's a completely new area. Now, the question that I would like to ask my panel is, what should be the starting point when you embark upon this philanthropic journey? And how do you approach the topic with clients, or indeed do they approach it with you? Russell, good morning. May I come to you first, please?

Russell Prior
Good morning, Andra. Yes, I'm delighted to be with you today, and it is a great first question. As you said, it's one that comes up so often in the conversations we have with our clients. I guess most of the people though that I talk to about philanthropy start at that starting point, start with often a how question. For example, how do I set up a charitable foundation? Or how do I find a charity doing good work in an area or a cause that matters to me? So very often, a sort of sense of inquiry about quite a specific thing. But what I've found over the many, many years of doing philanthropy advice is that this simple question often hides a much greater source of inquiry. And some of the points you were making in imposing the question, I think, absolutely do come through.

So, for that reason, the approach that we take when we're talking about this subject of philanthropy at that initial stage is to step back almost and take a slightly more fundamental approach. We start really with three simple questions: why, what, and how. And you'll notice that the how for us kind of comes at the end of the three questions. And if I may, I'll just briefly run through what we mean by these three questions.

So, the why question is really about the motivation for philanthropy. So why is the philanthropist looking to do something philanthropic? And we find this is really important because at its heart lies the reasons, not only for the giving that the philanthropist wants to undertake but also, it's about the area or the cause that they want to give to. Now, there are many, many reasons why people want to do something philanthropic, but they're usually very deeply held and very personal. And so, it's really important to tap into that motivation.

The what question, the second question looks at the area or the cause where the philanthropist wants to make a difference or wants to fund. And often the answers we get when we say, what is it you are interested in, are quite broad. They might say, for instance, young people or education or homelessness, just to give three examples. And those are very, very broad, descriptors. And clearly, within each of those areas, it covers numerous issues and numerous needs that could be tackled. So, what we're trying to do here is not only to drill down within that area to something more specific but also to ask what's the level of social change you want your philanthropy to make? Are you looking to assist in an area of extreme need today or are you looking to make a long-term, social change that tackles the root causes of the issue?

Now, both of those approaches are important, but they are very different. So let me just give you a brief example that came up just this week. A couple that I was talking to said that they wanted to tackle food poverty in the immediate area around where they live in London. Now, to me that's more specific, it's quite identifiable. It's also quite actionable and should be quite measurable. So that's really helpful if you want to get down to something that you can really act on.

And then finally, the how question. So, what are we talking about when we ask that how question? What we are saying is, okay, how are you going to deliver the change that you want to make? So, for instance, the type of philanthropic entity, the philanthropic mode, there's also the research into the area of need. How will we know what the specific needs are that we want to tackle? How will we know what the best solutions are? And then what sort of organisations will we work with? What projects will we set up or fund? And finally, how will we know that we've made a difference?

Now, that sounds quite a lot behind those three simple questions, and I guess that's the point when we're having these conversations, it is about getting down into a deeper understanding of what the client's trying to do.

Andra Ilie
Thank you, Russell. And I know we'll explore quite a few of the points you just made in a bit more detail. But Jonathan, can I come to you as well? How does it work for you? How do you approach the topic with clients?

Jonathan Brinsden
Thanks, Andra, and good morning everyone. Nice to be here. I would absolutely agree with what Russell has been saying, that it's important to get a sense of sort of mission or purpose regarding what you'd like your philanthropy to achieve, and that's key. And dare I say, even having a sense of what you mean when you use the term philanthropy is important. Because the word does mean different things to different people. And I appreciate you've asked a lawyer onto the panel, and I'm already splitting hairs about definitions. But, for example, many people see philanthropy as a way of dealing, it's taking a strategic approach to sort of underlying causes. Whereas charity is usually more of a sort of an emotional response to addressing a social problem. And

understanding where you sit, I think, on that spectrum is helpful to understand because that will inform choices that you make regarding how you'd like to go forward with supporting any specific cause.

But in terms of the starting point, and where you embark on this journey, I'd agree, again with what Russell was alluding to there, is that it probably doesn't involve a conversation with a lawyer. Lawyers can, I feel get involved too early in the philanthropic journey, which sometimes means that the conversation defaults to talking about legal structures and perhaps tax planning rather than that more involved subject of defining mission and purpose and the change which you might be looking to bring about. And so, people sometimes fall into that trap of creating a legal structure in the form of a charity or a foundation, and that somehow creating a structure will in and of itself let a hundred philanthropic flowers bloom. And that's not often the case. So, I think legal structures should be the full stop at the end of a long sentence concerning what your philanthropic purpose is.

Because over the years I've seen sort of legal entities wither away through non-use because the funder didn't really have a clear idea when they set out what they wanted to do with that structure in the first place. And I know a lot of people who will be watching this are going to be time scarce, but I would suggest that it is time well spent to do some research about the cause that you might be interested in. Because when you peel the onion on any area from homelessness to guide dogs to the blind, you will quickly find that there are all sorts of overlapping issues which you simply might not have known about.

And also, to learn and have conversations with other philanthropists, if you can, about the challenges in terms of getting going. And it may be that you don't know anybody that fits that bill because people tend to keep their philanthropy quite quiet in the UK. So, then it's worthwhile having a conversation with someone like you or even your lawyer, accountant, to try and connect you potentially to a philanthropic network, philanthropy advisor, potentially another philanthropist to have a conversation. And you'll often find that they're very generous with their time and sharing their experiences because often a person's philanthropy will be something about which they care very passionately about. And so, they'll be very engaged with it, and they will be enthusiastic about sharing what they've learned.

Andra Ilie
Thank you very much, Jonathan. I guess it reinforces Russell's points around the why, what, how, and how the order in which you do things is so important. But I guess what you mentioned reminded me of a conversation I was having with a philanthropist who was saying, "I've been running my business for a very long time. This is the area that I'm comfortable with. I don't know

very much about philanthropy other than the fact that I want to do something. So, finding the people that can help me with this, educating myself, and finding others is always really, really important." So, thank you for bringing that out.

And James, good morning. If I can move over to you. I suppose you might be the one actually being approached by clients in this space. How do you tackle the conversation around philanthropy?

James Henderson

Yeah, good morning, Andra, and good morning everyone. Glad to be with you all today. So, yeah, as Andra said, given my role as a relationship manager, conversations actually usually start with investment aims and purposes. And then philanthropic and ESG-related aims will often come next. So, in terms of philanthropic or ESG-related aims, clients can sometimes have specific ideas of what they wish to achieve with their investments, but more often than not, clients simply have an idea that they would like to do something more than traditional. So, that might be a discretionary portfolio that has a higher ESG score or a lower carbon intensity score versus a market-comprised portfolio. It may be an advisory portfolio with funds linked to taking advantage of trends relating to climate or gender equality, for example. Or it may be investing more directly in companies that are aiming to have a measurable impact. So, what's been interesting is that this has become an increasing trend with clients, but it hasn't been a uniform shift. And almost always clients have differing ideas on what they wish to achieve.

Andra Ilie

Thank you. Thank you very much, James. Thank you for that. Now, I mean, we've touched upon the why and the mission and the purpose of one's philanthropy, and we've talked about why it's so important to articulate that clearly. Now, once that's been established, what are the main options that you see families using when engaging in philanthropy? And perhaps if we can share a brief overview of each of those. I know, Jonathan, you mentioned some of them before, and we'll come back to you in a bit. But Russell, perhaps do you care to talk a bit about the main options that you see families using philanthropically?

Russell Prior

Yes. Happy to do so. I guess typically we see three main routes being used. And as you say, let me just run through those. I guess very often the starting point is, and to Jonathan's earlier points, that about charity and charitable giving, many of the people with whom we'll have a conversation about philanthropy have been giving money charitably for many years and to a number of organisations. But I guess when you make that shift up to a more sort of strategic philanthropic focus, then something bigger or more connected needs to happen. But the first step can be literally building on relationships you have with charities already and establishing more meaningful bilateral relationships with those organisations. Most medium and larger charities these days have major donor teams that can help philanthropists to take the charitable giving to that next stage. Indeed, some of the larger charities now have their own philanthropy teams as well to help.

So, one way, very simple way forward is to manage or to establish a series of bilateral relationships on a more strategic level with a number of charities. Now, clearly, in terms of the way that that happens, that can become quite burdensome if the number is quite large. So, you need to think about exactly how you want to organise yourself.

At the other end of the spectrum and the second one I'll mention is something that Jonathan mentioned, setting up a charitable foundation or charitable entity for yourself. And this means setting up and running a legal entity with all that entails. So, here we're talking about registering it with the Charity Commission, the trustees, they all need to make reports of its work and its finances. It is to some degree, like running a small business, and there's a lot of responsibility, legal and fiduciary, that goes with that. So, these solutions typically ought to be focused more on people who are intending to make a very significant or long-lasting philanthropic intervention. They may want to employ people; they may want to enter contractual arrangements in support of their philanthropic plans. And in that sense, having a legal entity to do that can be quite helpful. It is worth making just re-emphasising the point that Jonathan made about that longevity point. And sadly, one or two of these have over the year’s sort of fallen into lesser use. So, it is a serious thought and a serious decision to make.
And one other thing I would say here. Jonathan made the point about the anonymity of sort of philanthropy in the UK. By setting up a charitable foundation registered with the Charity Commission, a certain amount of information will enter the public domain. It's searchable in the public domain. So again, that needs to be considered and understood by somebody thinking about setting up a charitable foundation.

And I guess the final thing I'd say is the third option, which is sort of a halfway house to some degree, between these first two. And this involves setting up what is now quite popularly known as a donor-advised fund, or a DAF, for short. Some of our listeners may have heard that term. And here what we're talking about is setting up effectively a philanthropy account or a giving account with a donor-advised fund provider. These providers, typically charities themselves, offer this facility for setting up a DAF account, and that can sit under their charitable umbrella. So, they're the charity, if you like an account with them, the monies that you put into that account, your charitable contributions are then held to your order and you can then give advice to the DAF provider as to where you want those funds to be distributed.

So, that's quite a, it's quite a helpful solution these days because the DAF provider takes care of all the admin. There's no sort of reporting, you don't have to register with the Charity Commission. And because you are sitting under the umbrella of the DAF provider, the information about you and your giving – so it is private, it's not in the public domain. So, for the purposes of this, they do charge, I should say, they do charge a fee for carrying out the admin and the activities. But that's the way they operate.

And just in terms of the DAF providers' two categories that I want to highlight. One is there's a small number of these DAF providers that operate on a sort of a national/international level. And there are also some that operate on more of a community level and they are the community foundations. There are 46 or 47 of them across the UK. And so, for any of our listeners today, wherever you are living in the UK, there will be a community foundation in your area. And effectively what they do is they offer this sort of DAF service but on a very local level. So, to the example I gave to the first question, if you ask somebody that wants to do work in your local area, right on your doorstep, then actually a community foundation is a really useful thing to look at.

So, I hope that brief has gone through those briefly, but those are the three options, really. So, bilateral relationships, setting up your own legal entity, charitable legal entity, or operating with a donor-advised fund.

Andra Ilie
Thank you very much, Russell. And I guess that's very neatly put. And I suppose what we're seeing in practice is a number of business owners and then families indeed start small and then build up as they move along. So, I guess before I move on to Jonathan, can I just ask you a follow-up question on that, Russell? Do you tend to see families engaging in philanthropy at an individual level or do they involve the family? Do they do it personally, do they do it through their business if, say, they still have a business? What are your thoughts on this?

Russell Prior
Yeah, really interesting and topical actually. I guess all three, and literally in the last fortnight I've had conversations about strategic philanthropy with all three of these forms. So yes, there is still the individual approach. The couple I was talking to, that I was alluding to earlier, their view is they want to do philanthropy in their lifetime. That is their mission, is in their lifetime, and it's not specifically something that they want to involve their family in strategically. If the children are interested, then that's fine. But for them, it's very much about doing it over the next period of years. Others, on the other hand absolutely do see this as something that is a family endeavour. They do want their children to become involved. They see it as something really

interesting for their children. Their children often expressing a lot of interest around social issues. And therefore, philanthropy is a natural fit and also actually quite an interesting education tool used by many families in this space. And then equally for some certain business owners, we deal with, a lot of business owners, obviously, yes, they are running philanthropic programmes out of their businesses as well as running private philanthropy. So yeah, all three of these are still very, very active routes for philanthropy.

Andra Ilie
Great. Thank you very much, Russell. And Jonathan, what are your thoughts on the options for giving philanthropically?

Jonathan Brinsden
Well, I was just going to comment on what Russell was saying about family philanthropy because I think that that does create interesting dynamics. And you see families go about their philanthropy in very different ways actually. And a lot of that depends on the specific family dynamic. But I was just going to say that where I've seen that done quite well, again, in a family foundation setting, is where you draw in your relevant family members and everybody is given an equal say, and equal voice around the table regarding how the funds are deployed. And where there is, say, the person who is a source of wealth does not necessarily look to imprint their worldview on what causes should be supported and how those causes should be supported.

And indeed, because that approach can actually have quite a disharmonious effect particularly when you've got different generations who might have – where their world views are not always totally aligned. So, I think where there's genuine equity around the table in terms of family philanthropy and foundations, you can see that it does tend to facilitate these really quite healthy positive discussions. And as Russell was saying, it provides this great opportunity for the next gens to acquire expertise in governance and investment matters. The type James was talking about and actually managing an operation.

And corporate foundations, I think, or corporate philanthropy, I think is increasingly common. We see business owners generally tending to try to demonstrate the social aspects, or the social values of their business and are using corporate foundations almost as an extension or as an amplification of describing the business's own values, especially where there's synergy between what the business does and the social issues which the foundation has been established to address. And that can crystallise a little bit like with the family foundation, sort of a common purpose and good company culture amongst employees and stakeholders. And it obviously can have wider reputational benefits for the business. And even if you take it to the absolute extreme, we saw Patagonia, the business actually being gifted outright to a charity structure, which in turn will utilise the profits to support environmental causes. But I'm not saying that's for everybody.

Andra Ilie

Thank you very much, Jonathan. I guess we keep talking about this piece around how the values and motivations for philanthropy can permeate between the boundaries between corporate and personal. How families are also involving family members and trying to build into that shared purpose and view for philanthropy, but also philanthropy can be used to bring in other generations and different views. So we had a case where that the family had gathered all of their next generation and current generation around the table, and everybody allocated a percentage to a particular cause that they wish to support, and that's how they divided the budget. And then everybody had to bring in, make a case for the various, organisations to be supported. So really interesting thing that you can do around this space.

But I guess, James, if we move over to you. From an investment perspective, do you see clients' philanthropic interests and motivations actually flowing over to the mainstream investments and perhaps leading to impact investment or investments with the social outcome, as Jonathan was referring to earlier?

James Henderson

It's an interesting question. So, as the sustainable investment landscape evolves, the number of opportunities for deploying capital directly into impact investments that align with philanthropic endeavours are growing. So, impact private equity raises have become part of our annual runway for private equity launches within PB here. And this is important because it not only means that clients can get exposure to this type of investing, but it allows them to build up a multi-year exposure which promotes diversification within their private equity portfolios.

But back to my book, however, as you mentioned earlier, so I work most closely with charities and endowments. So, they have an interest in philanthropy, but they often exist with a specific purpose. So, they give grants in line with specific strategies. And these kinds of charitable trusts or endowments have often been founded through capital left on an individual's death, which often means that fairly specific instructions have been left by the settler on their death. But in these cases, it's common that given the specific nature of the charitable objectives and the lack of opportunities to invest directly in line with their specific charitable or philanthropic endeavours, they tend to invest in more traditional strategies. And then the grants that they make are considered to be separate from their investment.

However, I can imagine that the trust with less specific giving strategies where the aim is to have a broad measurable impact alongside a competitive financial return and impact investing could meet these requirements really well. More broadly across clients in the Private Bank, we have seen a shift from our traditional core discretionary investment portfolio to our sustainable discretionary investment portfolio. Which I think demonstrates a general desire to do some good with their investment, even if this does not directly relate to or impact upon their philanthropic or charitable aims.

Andra Ilie
So once again, we're saying that the motivations are indeed permeating not only through families' individual giving but also through their investments, which is great to see. Now you've touched upon giving on death, which I know is one of the roots. If I come over to you, Jonathan. Now I know there are several tax reliefs in the UK for what we call qualifying charitable donations, which include things like cash but also shares in property, which I think we're seeing a bit more. Can you shed some light on how these work? Some of these tax reliefs, and perhaps some examples, if you have.

Jonathan Brinsden
Okay, tax. Right, here we go. Buckle up, everybody. I should probably first start by highlighting that the UK does, I think, benefit from one of the most generous tax regimes when it comes to charity and charity donations. And just on the charity side, just a quick recap. So charities themselves are exempt from income tax, capital gains tax, legacies, and stamp duty. So that's they benefit from 100% exemptions in relation to that. But on the donor side of the equation, as you've touched on, the largest tax relief is inheritance tax. Because any of the gifts left to a charity will be exempt, and that actually costs HMRC about a billion pounds a year.

Quite a distant second to the inheritance tax relief. Is higher rated tax relief in relation to gift aid donations. So, the way that gift aid works is that a charity is allowed to recover the basic rate of tax on every donation made to it. So we donate a pound, the charity will be able to recover the basic rate of tax which equates to 0.25 pence, so it grosses. t the donation to £1.25. But where you are a higher rate taxpayer, at the rate of 40%, the tax relief is essentially split then between the charity on the one hand, recovering the basic rate of tax at 20%, and the balance of the 20% is available for tax relief for the donor.

So, for example, in relation to a £1,000 pound donation, the charity can recover gift aid worth £250, grossing up the gift to £1,250. But the donor is also going to be able to claim, by way of deduction, £250 for their 20%. And of course, that scales up where you're a top-rate taxpayer at 45%. So there, you make a £1,000 donation, but your tax relief is then £312-ish. So what that

means is that you can make a donation of say, £600, say the net effect of that is that a donation of £687, once you've worked out the tax relief, will generate a donation of £1,250 in the hands of the charity. I know it's early in the morning. So, you can see you can utilise the tax system to amplify your donations,
but moving away from cash and gift aid onto lands and shares, as you mentioned.

It's quite an under-utilised tax exemption, surprisingly because it is one of the most generous ones. So, first principle, whenever you gift a non-cash asset through a charity, so that can be shares, jewellery, fine art, whatever it is, there's no capital gains tax to pay, there's no capital gains tax charge on that donation. But however, with gifts of land and quoted shares, so those are typically shares which are listed on a stock exchange, a donation of that sort, land and quoted shares, will allow you to deduct the market value of the land or those shares as well as any incidental costs. So, any legal costs associated with disposing of the property or the or a broker's fees in relation to the disposal of the shares. You can add all of that up to get a value which you can then deduct from your income when calculating your income tax.

So, the point being, unlike with gift aid where I said that relief is essentially split between the charity and the donor, here all of the tax relief actually sits on the donor's side of the equation. But I should just flag in terms of the small print on that, the tax relief in relation to gifts of shares and gifts of land, that tax relief can't be carried forward or backward into any other tax years. It only applies in the tax year in question. And so, stuff like jewellery and fine art, whilst that's capital gains tax exempt if you were to donate that to a charity, as things currently stand, there’s no other tax, there's no income tax relief for those kinds of donations. Hopefully, that's enough tax for this morning.

Andra Ilie
Thank you. I mean, you clearly got very excited about this question, which I was expecting. So, I mean, I guess what you're saying is the UK is rather generous with the relief it's giving in terms of tax. So, I really want to explore the outcome of these incentives. And I want to come to you, Russell. Again, I want to just dive deeper into the motivation piece that you just mentioned. Do you think that people are really motivated by these reliefs when they set up philanthropic structures or get involved in philanthropy?

Russell Prior
It is a really interesting question. I must admit I have been asked this on many, many occasions. And I guess what my answer to this is I've rarely seen anybody who started their philanthropy purely because of the tax. What I do see on the other hand is, and Jonathan's highlighted that, is people who are being philanthropic are, to be honest with you, incentivised by the government

through these reliefs, actually to be able to amplify the value of the relief or the value of the gifts in the hands of the charities. So, I think that's the way around how I see it, is people want to do something philanthropic, and then there are reliefs that can, as it were, make that more efficient in the hands of the charity as well as some released back to the donor.

And I guess actually, to almost as a proof point, I think of this is Jonathan's words, I think some of these reliefs are – they do feel underutilised and they're not that well known. So, I think there is – that's evidence of the fact that people don't do it specifically for the tax relief, they do it because they want to be generous, and the tax reliefs are there if they want to avail themselves of them. So, I think that that's definitely the way around that I see it.

Andra Ilie
Thank you, Russell. Now, I guess if we are to pretend that I've just sold my business and I decide that the best thing for me is to set up my own philanthropic vehicle. So, I've looked at the three options that Russell has mentioned before, and I've decided I want to set up my own. Jonathan, I know you're going to get very excited about this question, but what are the legal options and roots for the setup of my philanthropic vehicle in the UK? And another question that we get very frequently is, how long does it take to get that entity up and running? And how costly are they?

Jonathan Brinsden
Okay. So, we've gone through Russell's sequencing of, I've started donating to charity, maybe I've had a donor-advised fund, and then you've arrived at this point where you're looking to set up your vehicle. And I think for the purposes of philanthropy, there are really only two choices. There are charitable trusts on the one hand, and there are corporate charities on the other. And I'll maybe talk a bit more about corporate charities in a second. But charitable trusts are actually very easy to establish and administer. You essentially make a declaration of trust for a charitable purpose which actually brings the thing to life. You open a bank account in the name of that trust so you then have a charitable trust with a sort of regulated bank account through which you can make donations. But to obviously to complete the exercise, you then need to register that trust with the Charity Commission. So, even though you've got a vehicle which you can use, you won't get the full obviously the benefit of having a charity until it's registered with the Charity Commission. And that can take several months to achieve.

But charitable trusts have in recent times fallen out of favour as the philanthropy vehicle of choice. And that's because they come with two no, so whilst they are flexible and easy to use, easy to establish, easy to understand, they come with two distinct disadvantages. And those are they don't have the benefit of limited liability and they don't have the benefit of legal personality. Now, I would say generally, the question of liability is maybe over-egged in the context of philanthropy where you are essentially giving money away. There's very little scope for incurring personal liability, but nonetheless, it's a concern.

And legal personality is obviously very useful. So, in terms of, because a charitable trust is unincorporated, it runs through the actual individuals who make up the trustees. So, if a charitable trust is to own property, it's in the name of the individual trustees. If you are going to engage an employee, that's going to be in the name of the individual trustees. And so, once you start getting into those types of arrangements, then a charitable trust is not the optimal solution.

So, that takes us in the direction of corporate charities, and they come now in two flavours. You have charitable incorporated organisations. That's quite a mouthful so we call them CIOs. And we have charitable companies and those are companies limited by guarantee as opposed to companies limited by shares, which you then subsequently register with the Charity Commission to get charitable status. Both of these corporate options offer obviously the benefit of legal personality and limited liability. They both have pluses and minuses. But the most obvious distinction, for the plusses of this conversation, is that a CIO is exclusively a creature of the Charity Commission whereas a charitable company has two masters in the sense it's subject to company law and a company's house, as well as charity law and the Charity Commission.

And what that means is that over time, the administration of a company is going to be more expensive than the administration of a CIO. However, on the other side of that coin is still currently more straightforward to bespoke and personalise, dare I say, the constitution of a charitable company relative to a CIO. Because CIO constitutions are increasingly standardised and template so it's more difficult to make significant alterations to it.

In terms of costs, well, obviously that's an embarrassing conversation for a lawyer to talk about, but in terms of costs, there is a start-up investment required, whatever structure you are doing. So, in terms of creating the constitution and maybe incorporating it with the company's house, applying to the Charity Commission, subsequently applying to HMRC to get a tax number. So, you're going to be investing several thousand pounds in that exercise alone. And then pursuant to that, as Russell was talking about earlier, you have created a vehicle and that will require attention. So, you will have ongoing administration costs in the form of annual returns and accounts from – and which may require external scrutiny in the form of an audit, which again, will give rise to ongoing costs. And again, you could be talking several thousands of pounds just in terms of bone-dry administration.

How long it takes, well, that is the proverbial piece of string question. We still have charity applications that go in and within a week we will get a response from the commission. An affirmative response from the commission with a registration number. With a similar application, however, we may not hear from the commission for nine months. So, take that as you find it, a week on the one hand, nine months on the other. No real difference in application for that, I think is the spirit of bureaucracy in action.

Andra Ilie
Thank you very much. That's very insightful, Jonathan. And I mean, if we put the corporate side of the equation to one side, because I suspect that will be a little bit more known to our audience, I think if we look at the charitable trust, because we see quite a lot of them. Russell, can I ask you a question that I know I've actually asked you in the past, and I know a few of our clients have? Is it okay when you have a charitable philanthropic trust to have only family trustees, or should externals be brought in? And if so, why?

Russell Prior
Good question. And you answered it, but probably by not doing so fully directly. I guess for me, more important than precisely where they come from, i.e., family or external, is actually what are the people who are going to serve as trustees bringing to the party. I think trustee knowledge of the law, all of the issues that Jonathan talked about. Understanding the regulation of the charitable sector, whether you've had any experience of that is important.

Then also, bearing in mind your trustees of a charitable entity, actually the breadth of views for the work of the foundation, thinking then about sort of representation of the various interests that there might be, potentially interest of the beneficiaries or the causes you're going to serve, is actually a very broad range of factors that need to be taken into account when thinking about the establishment of your trustee body. Whereas if you just say, can it be family members or not? Then I think the risk is you miss a number of these things. On the face of it, yeah, no problem with the constitution of the body. But I think it's really important to step back from this and say, actually, what experience do we need? What knowledge do we need to run this charitable entity properly and responsibly to deliver the philanthropic outcomes that we're looking to build?

Andra Ilie
Thank you. And I guess linked to that, when it comes to the strategy and operations of the charity, I suppose if I'm just starting on that journey, I don't know what, I don't know. How do I figure out what sort of support and advice I need and perhaps where can I find it? Russell, what do you think?

Russell Prior

Look, this is a hugely important area. And if you are going to be running a charitable legal structure, it does come with all of the responsibilities. And Jonathan, I'm sure, will cover off better than I some of those legal and regulatory aspects, but he's already highlighted a number of those. So, look, let me just highlight perhaps one or two issues that are on a more practical level. So, look, as I said, there are issues here that arise from this entity being quite frankly, similar to, say, running a business. So, the issues of financial management, issues of employment, all of those, they are just as they would be in any business setting. There's no, you're not let off lightly just because it's a charity. You need to be as rigorous. If you are, going, to serve as a trustee then you need to understand the responsibilities that come with that role. And again, clearly if it is a corporate entity, a charitable company limited by guarantee, then you are also a director of the company as well as a trustee under sort of the Charity Commission regulation.

But I think there's also another set of things that are becoming increasingly important now for people who serve as trustees of charitable foundations. There's a lot more focus now on meeting appropriate standards of good governance, transparency, and accountability. If you are making charitable grants from your charitable entity, how do you manage the process of finding and selecting recipients? You might think you want to give away money, but if you are a registered charity, you will be on the receiving end of a lot of inquiries from people seeking money from you. A lot of people don't realise that they are going to get a seriously large number of requests, so how do you handle those? That is not only an admin issue, it's also a reputational issue. So, having a really sort of good sense of responsibility about how you manage that is really important.

How do you do the due diligence on the beneficiaries? How do you document the grants you make? And then the reporting that you want some of those grants to come back to you? How do you make sure that you do this in an equitable and fair way? How do you balance the power you have as the donor potentially directing funds with the knowledge and understanding of the beneficiaries and the issues they face and the knowledge they have about the solutions they need?

And again, the whole philanthropy space, increasingly, is really looking at these issues in a much more focused way. So, I could go on but I won't. There are lots and lots of issues at that level around the operation of a charitable entity that need to be taken into account. And I think there is increasing scrutiny on charitable foundations and charitable entities to be acting in a much more responsible, socially equitable way in terms of the way they carry out their philanthropy.

Andra Ilie

And I guess, Russell, this reinforces the point around why it's so important to take advice and ask around and try and educate yourself about what you don't know. And these are some of the conversations that we're having with a lot of business owners thinking about philanthropy. Just getting their ducks in a row in the first place, and understanding the why, what, and how before they carry on. Jonathan, can I turn to you with the same question, please? How about from a regulatory and compliance point of view? How do individuals know where to start, what's important, and again, how can they educate themselves in terms of what's required from running a philanthropic vehicle?

Jonathan Brinsden
Thanks. Yeah. Well, so what I was a bit sniffy earlier on about talking to lawyers in relation to your philanthropy and embarking on that process. I think once you start obviously, once you've gone to the stage where you're thinking about regulation and compliance, your lawyers and your accountants are your best bet to support you. Either because they'll have the expertise themselves or they'll be able to signpost you to an expert in the field who will be able to support you with that exercise.

And dare I say there is also an enormous amount of information already out there. The Charity Commission has a raft of materials which are, dare I say, quite user-friendly regarding what is involved in the compliance and regulation side of running a charity. And as I said earlier, there are also networks out there that you can engage with who'll be happy to talk you through step by step what is involved or can put you in contact with someone who's walked the path before and explain what's involved.

I would just say that this area, the area of regulation compliance is all very well-trodden stuff and I think should be straightforward. And there are lots of resources out there to get the information that you need.

Andra Ilie
Brilliant. Thank you very much, Jonathan. Now James, I appreciate we've kept you in the background for a long time now. So, let's turn the conversation to the area of investment. And I guess when we think about the investment of philanthropic capital, how should someone think about their investment strategy? What are the options available? And again, how or do you find that families embed ESG considerations within their wider strategies?

James Henderson
Yeah, thanks, Andra. So, as with any strategic decision, I think it's important to consider the desired outcome. So, in the case of investment to a charitable or philanthropic fund, it's important to consider whether the purpose of the investment is to generate a capital return or

income to support the philanthropic or charitable objectives or if the purpose, in and of itself, is philanthropic in nature.

But whenever I start this conversation with clients, I always begin with what we call the spectrum of capital. So hopefully you can now see this on the screen. The spectrum of capital is essentially a scale with traditional investment on the left-hand side, and philanthropy on the right-hand side. And in between these two extremes, the different categories of investment with varying emphasis on delivering a competitive financial return, mitigating ESG risk, pursuing ESG opportunities, and focusing on measurable high-impact solutions. And I think it's essential that once clients have understood this and the various options, they can then identify an investment strategy that suits their desired outcome.

So, as you can hopefully see, the spectrum of capital has five categories: traditional, responsible, sustainable, impact, and philanthropy. And I'm now going to talk you through each category and how each one implements an extra layer of impact. So, if we start with traditional investments, these have the simple aim of achieving competitive risk-adjusted financial returns. These are the kind of bread-and-butter investments that have existed for a long time. And in this category, investors can be aware of the potential negative impact of not considering ESG, but they don't try to mitigate this in any way.

The second step, responsible investment has the same financial goals but as the name suggests, has an additional element of wishing to behave responsibly. They have an element of responsibility in terms of wanting to mitigate or reduce negative outcomes for the people and for the planet, as well as an element of responsibility in terms of reducing risk within the investment strategy by taking into account ESG risks or non-financial risks. And these two elements are often encapsulated in an asset manager's responsible investment policy.

Onto the third, the middle category, sustainable investment takes it a step further and not only considers non-financial risks but uses progressive ESG practices to affect the ESG score and the carbon intensity of an investment strategy. This could include either positive or negative screening, which in simple terms means tilting towards or away from companies with particularly high or low ESG scores. And it could also include investing in line with sustainable themes such as climate change, for example.

Moving on to impact investing. This type of investing is for investors who want to have a measurable positive impact on an ESG issue and is often directly linked to the UN sustainable development goals. This type of investment is principally available to private equity where finances are provided directly to companies aiming to tackle one or multiple UN SDGs. It's important to note here that achieving a competitive financial return is just as important for impact investing as it is for any of the three previous categories.

And finally, on this spectrum, we have philanthropy. And obviously, as we've been discussing here today, the primary motivation is contributing to solutions. It can have various different financial aims ranging from accepting partial capital preservation to accepting a whole loss of capital.

But to circle back to the beginning of the question, the investment strategy that an investor will go for depends on the point at which they sit on this spectrum of capital. If the investment strategy is combined with their philanthropic endeavour, then it's likely the impact investing will be the most appropriate. Whereas if the investor considers their investment strategy to be independent of the philanthropic endeavours, then it may make more sense that they would fall somewhere further to the left on the spectrum of capital. Ultimately, the final decision will depend on what the investor wishes to achieve, and often a client's optimal portfolio will include investments across the spectrum of capital.

Andra Ilie
Great. Thank you very much, James. And I guess it's great to visualise the spectrum, and what we see in reality is that families do tend to employ a mix of these approaches, all the way from the bilateral giving that Russell was referring to, all the way through to setting up their own charitable vehicle, philanthropic vehicle, as well as infusing their personal investment strategy with the same motivations that drive their philanthropy. So, it's really nice to have the full picture.

Now I want to come to my final question for the day, and of course, I've saved the best for last. It's on a topic that keeps coming up more frequently in conversations, and it's that of measuring philanthropic success. So, Russell, can I start with you on this one, do you see families measuring philanthropic success? And is it important at all?

Russell Prior
Look, it's incredibly important, I think that that's the first thing to say. For people who are going to undertake philanthropy, I sometimes use the phrase, your giving is a – the point you give is a one-time 100% capital loss. You're not getting a financial return on your gift. So, the question then is, well, why are you doing it? What is the return? And I think there are two areas where donors or philanthropic families have looked to that sense of outcome or success.

The first relates to the point I made right at the start of this webinar. Philanthropists do have a strong deep personal motivation for being philanthropic. And the kind of the first level of return, I think, is against that motivation, have their actions fulfilled what motivated them? And the effect of this can't be overestimated, in my view. Where this sense of return is positive, evidence shows that donors are inclined to give more. If they feel as though, the actions they're taking is meeting that source of motivation, then they do tend to be more supportive. And that sense of motivation isn't the same as the outcome. So, some philanthropy is very experimental, and it is good and right that some philanthropy is very experimental. And indeed, I've been involved in some of that myself with some of the charitable organisations I've worked with. And in a sense, if your experiment fails to achieve the impact, that's not necessarily a failure of the effort. If you understand you're being experimental, well, sometimes experiments don't work out quite as you've expected. But as long as you go into that knowing what you're trying to do and how you're going about it, that's really important. So that sense of the return, if you like, the emotional return on your motivation is a huge and probably an under-discussed area.

The second one though, is a subject of a huge amount of discussion and debate, and that is around the impact or the change that is created through the philanthropy. So, what are the results of the philanthropy, the measurable results? Now, there's a huge amount of debate about whether you should be measuring outputs, outcomes, or broader impact. And the truth of it is that all of this comes down to your measurement and your evaluation and also setting those things up at the outset. So, you don't just wait till afterward when the philanthropists say, "Well, how did we do?" Because if you don't, as it were, set a benchmark or an expectation for what, you know, you think was going to happen, or indeed what would've happened if you hadn't done your philanthropy, then it's going to be very hard to evaluate. So, think hard about setting that evaluation up at the beginning. It's really important then to set up your data collection, methodologies, to understand how onerous they are on the beneficiaries or the organisations that have to report back on that. How achievable that measurement is, that it's not disproportionate to what you are giving.

And then the other thing, just when you're thinking about that broader impact piece, is to also think harder about causality and attribution. They are two big words at this time of the morning, I know, but a lot of philanthropists do things and you see an outcome, but it's not to say that that outcome was directly caused or solely caused by your donation or is attributable only to your donation. Actually, these problems that we're tackling, these challenges we're tackling in society, there are multiple causes or multiple issues that underpin them. And often it's not solely an outcome related to one specific philanthropic intervention. So, thinking hard about all of those things is super important because at the end of the day, the philanthropy is there to create social change, and therefore measuring that and understanding that is just a hugely important topic.

Andra Ilie
Brilliant. Thank you very much, Russell. And Jonathan, what are your thoughts on measuring philanthropic success? And is it important in your view?

Jonathan Brinsden
Well, I agree. I mean, Russell's a very sensible person and he said a lot of very sensible things there. And we do, I mean, the world of philanthropy is increasingly a world where everything is measured. And there is this sort of desire, I think, to look at philanthropic for better or for worse, to look at philanthropy performance in the same way as you might look at investment performance in the way that James was talking about. And you just need to be a little bit cautious, I think, because it could, it can, and has sometimes ended up with designing a whole host of quite complicated impact metrics which are then overlaid onto a project. And of course, that kind of performance measurement can be hugely reassuring to funders, that their philanthropy has been optimised. But the danger is, I feel that with a very highly engineered approach, is the tail can sometimes end up wagging the dog and some funding opportunities may be missed because they can't fit within that performance measurement model.

But as we're talking about people embarking on this journey, I think for people getting started, my advice would be not to over-egg the measurement pudding to start with because there isn't a universally understood currency of impact measurement. Which means when it comes to social causes, that you can neatly compare apples and oranges. And often, and I think Russell also said this at the beginning, philanthropy is often identified with the social causes of a person. And if someone identifies with a particular cause, no amount of impact measurement is going to dissuade them that it's not a good thing. And I think funders should often take more comfort than they in fact do, but they're actually doing it at all, and that their donations are almost always pointed at a good thing, and that they are making a difference simply by being involved. And they don't tend to give themselves enough credit for that.

Andra Ilie
So perhaps this goes back to reflecting upon what matters to you and having the clarity of expectations, as Russell was alluding to before. Which is how important is it to me that I measure and what does measurement look like to me? Is it just getting that social return back or is it just being involved, or do I need some hard metrics? And I guess on that note, James, perhaps it's a bit easier dare I say to measure results from your perspective in terms of impact investment. So how do you find, how do you see families measuring success?

James Henderson

Yeah. So, it's obviously really interesting. I think the ability to measure impact is pivotal to the success of the impact investment as an asset class. So, I mean, at this point in time, there are many existing tools that they use different methodologies. And this obviously, as we know makes comparison difficult. The existing tools which aim to measure the impact of companies and portfolios often at this point focus on point-in-time measurements whereas what impact investing actually aims to achieve is a positive change over time. And this really creates an issue in enabling investors to understand whether they're able to create an impact, which obviously will then affect their willingness to invest in this way, especially if they hold the view that the impact investment won't allow them to achieve a competitive financial return as they believe they would with a different asset class.

So, one approach from a prominent impact private equity manager has been to establish an impact assessment standard which helps them to report the impact of their investments within the fund in a similar manner to how they report the financial performance. So, I think should this or something like this become an industry standard, I think it would greatly increase the uptake of impact investing especially amongst family offices in high net worth individuals.

Andra Ilie
That's super interesting and super helpful. Thank you very much, James for that. I know we could be talking about this for forever, but we are reaching the end of the time for today. So I just want to turn to a few questions that we've received on the tool. So, the first one, can I come to you Russell, please? And the question is, very simply, can a charity be profitable?

Russell Prior
That's a good starting question. Profit isn't really a term that's used in the charitable space. It's sort of a dirty word, I think, in the charity space. I think sort of, and it is not really looked at in those terms. I guess if you are a charitable organisation, at the end of the day, you do have to worry about is the amount of incoming resources you have, donations to support your work and clearly, the amount of outgoings that you have as well. Whether that's direct work in support of the cause you are working on or whether that's the payment of salaries of your staff or the cost of buildings and/or any of those other sorts of overheads. So, I guess if you are a trustee, you have got to look at the balance between your incoming and outgoings, and I guess a surplus or a deficit is going to arise each year.

And I guess the final, the balancing factor then is what reserves do you hold, as it were, to support you in the long term? And the amount of reserves is indeed a discussion to be had in its own right. So in a given period of time, a charity might have more incoming resources in a given year than outgoings, and by the same token, it might have more outgoings than incomings. And where it is, it does have a where a deficit of incomings versus outgoings, then clearly that's where the reserves position is very important. And charities do and can use their reserves to tide themselves through that period. But at the end of the day, they do have to have the financial resources, whether that's through incoming sources of funds or through a reserves position to manage themselves going forward. So, I think, yeah, the word profit isn't one that we would see being used, but I think you do ultimately have to finance the charitable activities if you want to sustain it on an ongoing basis.

Andra Ilie
Great. Thank you. Here's one for you, Jonathan. Can you explain in more detail the difference between a charitable vehicle and a community interest company?

Jonathan Brinsden
Yes. Community interest companies, they are a little bit of a source of confusion. They are not charities, they're sort of a Diet Coke version of a charity, in the sense that they are a normal company, but what they have is an entrenched social mission which obliges the company to operate in pursuit of that social mission. And the assets which are contained within a community interest company are subject to what they call an asset lock in the sense that they can only be utilised primarily to advance that, so community purpose as they call it. They're not so constrained as charities in the sense that the people who are running a board of directors of a charitable company have to take that on a voluntary basis. Whereas directors of a community interest company can be paid for their work, they can have shareholders and the like, but they don't benefit from tax exemptions. They just are able to, I suppose, make it clear to the world that their social purpose is something which is integral to the activity of the company.

Andra Ilie
Thank you, Jonathan. Here's another one, which I suppose I'm going to ask you first, James, just to see if you have any thoughts on it, and perhaps if anybody else wants to chip in. And the question is, is there a difference in generational views of philanthropy versus impact investments? So, do you see that difference between different generations in terms of their approach?

James Henderson
Yeah, I think if you think about the way the generations exist and how they've kind of come to be, that the younger generations have grown up in a world where, I mean, climate change is much higher at the agenda than maybe some of the older generations. And so, when we think about the views that they have, they're probably more likely to be interested in impact investing

or philanthropy, which aims to tackle some of the challenges that we see in society at the moment.

I think it's interesting, the point that Jonathan made earlier when he was talking about family offices and how they're generally multi-generational and they can have kind of multiple inputs from different parties within that family office all coming and having their equal say. So, when we think about the views that the younger generation will have, combined with the views that the older generation will have, you may find that generally the family office will have kind of a general interest in impact, but also kind of have a half and half view.

So yeah, I think generationally there's definitely a kind of a divide. But I think if we're thinking about investments in a long-term nature such as in the way the family office will do. That these sorts of challenges are long-term in nature and so really regardless of whether you are kind of from the younger generation or from the older generation, if you're thinking about these investments in a long-term way, then you should be thinking about obviously issues that we face that we'll face with the next century.

Andra Ilie

Great. Thank you very much, James. That's really helpful. And we'll take one more question if that's okay, which is – perhaps I'll come to you, Russell, on this one first and maybe Jonathan as well. Where should I start if I want to start my philanthropy? I know it's a very big one but let's have a go, Russell.

Russell Prior

Well, I'm going to take Jonathan's advice and just say, don't start with talking to a lawyer. So that's a no. I'm just joking, really. Look, at the end of the day, I do think the point was made earlier is you've got to start talking to people. If it's something that's completely new to you, do start talking to people. If it's something where you've already been giving regularly and you want to take it to the next stage, then I think it is about beginning to build that conversation around what do I do on a more strategic basis? And then you start with those conversations about sort of mission and purpose and action. So back to those three questions of why, what, and how.

And then for people that want to do this more substantially, we often get asked the question, "Look, should I contribute a sort of a chunk of capital into a charitable vehicle at the outset?" And I think our view on this is clearly once a contribution capital is made into a charitable vehicle and it's passed over the charitable threshold, then that money's gone in terms of your personal use. It can only be used for charitable purposes. So think hard about whether you are ready to make that commitment. And I generally say to people, "Look, do a bit of more proof of concept, set yourself an annual budget that you might spend, and test and learn as you go along." Making a very significant long-term commitment before you are sort of up and running and ready to go. And generally speaking, we would say think really hard about whether that's the right thing to do. So, build that pattern of activity, test, and learn. Get some good advice from people who've done this, and then get into it and enjoy it. So, I think get started and really enjoy the philanthropy.

Andra Ilie
Thank you. That's very savvy advice. And Jonathan, what are your thoughts on this?

Jonathan Brinsden: I would just say, come on in, the water's lovely. That's all. I haven't got anything further to add to what Russell said.

Andra Ilie
Brilliant, thank you very much. And I'm probably going to use that one, Jonathan, just so you know. Now just before we close, what I thought I'd do, and for those of you who watched previous webinars this is something that we like to do every time, I'd just like to ask each of our panellists to leave our listeners with a final closing thought. Perhaps for those that are thinking about starting or they've started already and feel a little bit stuck. What is your 30-second closing statement for our audience today? And James, can I come to you first on this?

James Henderson
Yep, sure, no problem. So yes, I mean, obviously the conversation today, thinking about an inflow of a large sum of money, the starting point really needs to be understanding the risk and return objectives of that money. Because if you've just come into this, then I assume that you'll have worked really hard to get it. And so, you want to make sure that however you kind of use it in future it is kind of in line with what you want to achieve. However, as I've said, in addition to risk and return, what I think is equally important is to understand where you sit on the spectrum of capital. So, I mean, any of the main five categories can be appropriate, and as I've said, often a mix of multiple ones is optimal. But I think firstly, understanding what is achievable, and secondly, how it can be achieved, is pivotal to ensuring what your purpose of the capital is and how and what kind of purpose it can serve over and above the financial return.

Andra Ilie: Thank you very much, James. Jonathan, the floor is yours.

Jonathan Brinsden
Well, I just think if you think you've got something to give back in terms of money or skills, and then I would encourage you, yes, to dip your toe in the water. Directly support charities or

programmes that interest you, see where things go from there. I'm sure you'll find it rewarding. And I would just take it slowly, explore the issues you care about and experiment with different ways to engage with those issues, and then reflect and refine what works for you as you go along.

Andra Ilie
Brilliant. Thank you very much, Jonathan. And Russell?

Russell Prior
I'd just say that there's a huge amount of opportunity out there to create real social change with your philanthropy. And I think focusing on that social change that can be made in society is hugely motivating and, clearly, hugely impactful for society as well.

Andra Ilie
Right. Thank you very much. I really wish this session didn't have to end but unfortunately, it does. So, thank you very much Jonathan, Russell, and James for sharing your views and your thoughts and your experience. And I am sure that our viewers have gathered some useful insight. I know I have. For our audience today, I do hope you've enjoyed the session and the discussion. If you have any feedback, please do complete the share feedback tab.

If there is anything from today's conversation in particular that you found interesting or would like to know more about, please reach out to our experts on the panel or take your opportunity to get them in touch with your HSBC Relationship Manager. As I mentioned at the start of the webinar, this is the last one of this year's series, but don't worry, we will come back fresh in the new year with more insights and practical thoughts on business transition. And I guess all that remains for me to say is thank you very much for joining us on the series and from all of us here at HSBC Private Banking, we wish you a restful and happy holiday and very much look forward to seeing you in the new year.

Goodbye.