



## **IMAP Independent Thought Podcast Episode 25: The investment objectives & needs of HNW clients are different.**

Susan Chenoweth, PMESA - Head of Philanthropic Services and Lynda McKie, CFA Senior Private Wealth advisor from Elston (one of Australia's largest privately owned and operated financial services companies) talk about the reasons for Philanthropy increasingly being a topic of interest to clients :

- the reasons for the growing demand for assistance with Philanthropy
- identifying clients with interest in this area
- how and when to discuss Philanthropy with clients
- what are options to present to clients

**Moderated by David McDonald, CFA IMAP**

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### **David McDonald - IMAP (00:17):**

Welcome to this podcast in the IMAP Independent Thought series. Today I'm joined by Susan Chenoweth, PMESA and Lynda McKie, CFA. They are both from Elston which is one of Australia's largest privately owned and operated financial services companies.

Susan is the Head of Philanthropic Services at Elston, and Lynda is a Senior Private Wealth advisor and a director of Elston.

Today we're going to talk about why it's important for advisors to speak to clients about philanthropy and how they should go about it.

Philanthropy is increasingly a topic of interest to clients, it seems, from some of the work you've done. Why do you think that is? Why is it becoming something that's becoming more front and center in conversations?

### **Susan Chenoweth - Elston (00:59):**

Thanks David. Yes, it absolutely is.

I think there's definitely growing demand for assistance with philanthropy, and I think there are a few reasons for that. I mean, we know wealth is escalating in Australia and you know, of course, that will only continue with this unprecedented wealth transfer that will be happening over the next 40 years. But we actually, in Australia, have the fastest growing affluent bracket in, in the world.

And so with more affluence, with more wealth it gives individuals and families the greater capacity to engage in philanthropy. Once they know that they have sufficient capital to take care of their own needs and the needs of their families, then often they will turn their mind to the community sector, and who else they can support.

**Susan Chenoweth - Elston (00:59):**

What is their legacy?...What is the purpose of their wealth? And Australia is a generous nation. 80% of Australians give.

So for an advisor who has high net worth clients it's very likely that many of them have thought about charitable giving or setting up a tax effective foundation. And it's quite possible that they are already actively giving back to areas that they care about. I think the other factor is that there are a growing range of tax effective giving structures in available in Australia.

Around 20 years ago we had the onset of private ancillary funds, and they have grown in popularity, and we see hundreds of these being set up every year in Australia.

But there are other ways to give through public ancillary funds with as little as \$20,000. So structured giving is accessible to more people than ever before.

**David McDonald - IMAP (03:06):**

That's interesting. I mean, we could probably talk a little bit about the structures later, initially though as you mentioned, peoples' wealth is growing in Australia, We're becoming more affluent, so people do think about giving, and yet I know the work you've done suggests that it's something advisors seem to find difficult to raise with their clients, or they don't talk about it.

Why do you think that's the case? Why are advisors reluctant given, as you've said, they know a lot of high net worth clients are probably are thinking about it?

**Susan Chenoweth - Elston (03:38):**

Yes, I think that that can be quite complex. I think we do know from a lot of research that's been done, not just in Australia, but around the world, that advisors sort of state two reasons why they don't always engage in those conversations.

Firstly, they say they lack the knowledge of the philanthropic structures and the philanthropy landscape in Australia. So they don't want to understandably embark on giving advice or initiating conversations in areas that they don't know a lot about or feel comfortable talking about.

But the second reason that they state is that they often feel quite unsure about how to approach the conversation with their clients. We at Elston have done some preliminary research with our own advisors, and soon we're actually broadening out this research to the broader advice sector in Australia.

**Susan Chenoweth - Elston (04:42):**

And one thing that seems to be standing out for us too is actually the role that the advisor sees that they play for their clients.

I think advisors who are very technical may focus very much on their technical expertise as a financial advisor, they focus on wealth creation and investments, and don't always sort of look beyond that sort of role.

But then there are other advisors who would probably see themselves as their client's trusted advisor, who probably approach those relationships a bit more holistically. They may not have deep expertise in philanthropy, or for that matter, estate planning, or business tax law, but they see themselves as the director of those broader relationships for their clients so that they can more broadly look after their client's needs.

And I think it's those advisors that do tend to have those philanthropy conversations with their clients.

**David McDonald - IMAP (05:57):**

Yes, that's interesting. I know IMAP has done a survey on firms that work with high net worth clients, and we're going to put out a white paper soon that that came from that. And certainly a lot of the feedback we got in that was that the high net worth, and certainly the ultra high net worth clients are looking for full service, as you've said. You know, it's not just "should I be conservative or growth with my investments?"), but looking after family matters, philanthropy estate planning, all those different things. That's interesting.

**Susan Chenoweth - Elston (06:30):**

Absolutely. And I know working really closely with Lynda on and with a number of her clients who definitely take that approach, don't you, Lynda?

**Lynda McKie, CFA - Elston (06:42):**

Yes. Well, thank you David for inviting me along today. Susan and I have worked on a couple of my clients quite a few actually. And it really does resonate with me because I've obviously been on this journey of discussing and bringing this topic up with my clients.

And at the beginning I can really sympathise with advisors who are reluctant. I do believe it does come down to those same two areas that Susan has talked about. But once you have a basic understanding, you don't need to know everything because you are obviously going to engage with a specialist.

It comes down to that second point about how do I actually even have this conversation, and how would I bring this up with a client when potentially that's a really awkward conversation because I'm suggesting to my client to give their money away, and potentially they see me as somebody who's trying to make them money.

**Lynda McKie, CFA - Elston (08:01):**

So I think it can be for many advisors, an unusual kind of feeling, am I actually suggesting to someone to give money away when I'm meant to be making the money?

But in reality what you're doing is actually meeting their needs.

I just attended a conference recently, and a leading advisor in New York who deals with high net wealth clients used the phrase we are in the business of “hopes and dreams”. And that was something that really resonated with me, because once you are working with clients with ultra high and high net wealth positions, it does come down to what, what is the purpose of all of this? How do I actually bring meaning to my life, my children's life? What legacy am I leaving?

**David McDonald - IMAP (09:03):**

So Lynda, what do you think, I mean, as you said, you've done this successfully with a lot of your clients. What do you think you do differently then to these other advisors? Or is it just you've been doing it and you've slowly built up experience and know how to raise the conversation or a different approach?

**Lynda McKie, CFA - Elston (09:22):**

Well, I think you learn as you are as you're going along. And I tried a few things at the beginning, and I went, oh, that just doesn't feel right. It doesn't sit well with me. And it's not resonating. The client is kind of sitting there looking at me blankly. So from that I learned some ways of bringing it up when I saw that the couple or the person sitting in front of me clearly had the means to give.

And I'll say one of the easiest discussion points or way to weave it in is in an estate planning discussion, because you are already in the space about talking about legacy.

You are already in the mindset of transitioning your wealth and what it's for and where is it going and how do you want to see that used. And so I find that for an easy way in when you are talking about estate planning, that's quite a simple way of actually exploring areas of impact and leaving a legacy. I find that probably a quite a simple discussion.

**David McDonald - IMAP (10:45):**

Yes, that makes sense. This reminds me a little bit of something we heard as well about ESG where the feedback we got from a lot of the people we talked to was that clients are all keen on ESG, but advisors are not raising it with them.

And it seems like we're hearing the similar sort of thing here that advisors are almost reluctant, as you said, I'm not going to tell them to give away money, but perhaps it's something they're already thinking about. That's interesting.

**Lynda McKie, CFA - Elston (11:12):**

Yes, often they are already giving, but in a different way. So some of the key indicators, when I look at my client, (and I know their history), an advisor is in the absolute prime seat to know the journey of their client, their life history and their experiences is things like do I know that my client has experienced a personally troublesome time, for example, that one of their family has had a particular disease, or they themselves have suffered some kind of health setback and talk.

Just exploring that a little more about what that journey was like for them. Would it, was there anything that they would like to see done differently? Those types of things can lead to conversation about making an impact. And if they had the means, how would they change somebody in a similar circumstances journey? And then again, it starts to broaden out, well, actually you could do that.

And they're like, really? I could do that? Yes, you could. So yes, it's quite enlightening for many people,

**David McDonald - IMAP (12:33):**

And I think that's interesting. I was going to say Susan, you know we talked earlier about how much money clients need, because we've talked to you about high net worth, and very ultra high net worth people. But Susan, I think as you mentioned earlier, you don't necessarily have to have millions of dollars to be talking about giving in this way.

**Susan Chenoweth - Elston (12:52):**

No, not at all. Giving through structures is really accessible to most people.

We can go into more detail about the structures, but the ancillary fund structures in Australia are the most popular structures that clients set up to give through, primarily because of the really significant tax advantages that can be achieved by giving through an ancillary fund.

But typically, you would need at least a million dollars in donations to set up a private ancillary fund. But most people don't realize that to set up a sub fund in a public ancillary fund, you need often need as little as \$20,000 to set up that sub fund.

And for clients who might want to dip their toe in the water with a thousand dollars or \$5,000 around Australia, there are many different giving circles or community foundations which offer clients the opportunity to give collectively with others, and start to experience that more structured approach to giving with much smaller amounts.

**Susan Chenoweth - Elston (14:10):**

So it's really something that you don't need to be super wealthy to be able to give in a structured way and to access all of those benefits.

Often tax deductions for donations into giving structures, but also of course, that opportunity to give back because in essence giving is always a very personal act and it's always linked to a client's life journey or as Lynda said things that their family or themselves have been affected by or touched by, and it's an opportunity for them to, to give back, to support those kind of things.

I think the other really interesting point that has been uncovered with much of the research around advisors and their role with philanthropic giving thus far is that quite simply, the clients do want you to talk to them about their giving.

When asked high net worth individuals have said that the number one person outside of their spouse that they would look to for advice and guidance around their giving is their trusted advisor, their financial advisor. So your clients want to have that conversation with you, and they do look to their advisor for guidance around what are their options in terms of giving structures and how can they go about setting those up?

**David McDonald - IMAP (15:50):**

So Lynda, maybe it's more a question for you, but do you think it's an education thing that the advisors are not sure how these ancillary funds and the like work? what the tax benefits are et cetera?

Or is it more as you've just been talking about having the conversations about what would you like to do with your money. Yes, <laugh>, do you want to give or is a bit of both or?

**Lynda McKie, CFA - Elston (16:15):**

I think it starts with knowledge because you're not going to be feel confident to even broach the subject if you know nothing about it, <laugh>.

So I think it does start with some knowledge. It doesn't take long to build that knowledge. Susan's run many little workshops at Elston and really in a matter of 30 minutes you can get a very good understanding of the kind of structures that are available and the flexible tax benefits from those as well. So it certainly doesn't take long to upskill yourself if you're talking to the right kind of people.

Yes I do think it starts with the knowledge and then it's about probably also having a bit of training on how to weave this conversation into a client meeting without waiting for a client to bring it up.

Because with all the clients I've got that have actually set up philanthropic structures or sub funds, it wasn't something that most of them actually brought up with me. It was through these couple of different ways of weaving it into a conversation or my knowledge about their personal experiences that it's occurred.

So I definitely think it starts with knowledge, and then a little bit of training and thinking about how you might bring that up.

**Susan Chenoweth - Elston (17:56):**

If I could add it's all about also about understanding the trigger events that a client might be going through, that often will prompt them to want to think about giving back. And I know Lynda, a lot of your clients have been in this position, it might be a significant capital gain or realisation of capital. So there is a liquidity event that means that they might have thought about giving back for many years.

And in fact we often see this clients who've thought they'd love to be able to support a certain thing, or establish a certain structure, but it's not until the trigger event happens and perhaps they sell a business or there's a divorce settlement or an inheritance, that it actually gives them the means to act on that desire.

**Susan Chenoweth - Elston (18:59):**

So for advisors who understand what those trigger events are, that might often prompt a client to think about giving is really helpful.

As Lynda mentioned, just basic training on the fundamentals of philanthropy, the most common structures and the benefits. But then I would say thinking about, well, how do we incorporate this into our advice practice? Do we want to really upskill and have very trained advisors of our own or do we want to look at an alternative solution that involves partnering?

Just like you would partner with an estate planning specialist, you might partner with a philanthropy specialist to be able to call on their guidance and expertise when you do have a client who wants to give. So an advisor doesn't need, they need to know a little bit, they don't need to know everything.

**David McDonald - IMAP (19:59):**

Can I ask, is there a particular type of client that tends to want to get involved in philanthropy more? You know, is it women rather than men, old people versus young people? Or is it an "across the board" thing?

Lynda, what's been your experience there?

**Lynda McKie, CFA - Elston (20:16):**

In my experience, it is across the board. I do have a specialty in assisting mostly women to negotiate property settlements through divorce. And that journey often is quite a transformational journey in that after a property settlement, they may be feeling a little bit lost in terms of purpose.

Also it might be the first time they've actually got control over some financial decisions and have been wanting to do something with impact, or have felt as though it wasn't really their option to make decisions like that.

I've got clients who have had a significant capital gain event and the subject has come up alongside of... oh gosh, that's a lot of tax to pay. What are my options?

And so we've actually talked about, well I know you went through that cancer journey, have you ever thought about that?

**Lynda McKie, CFA - Elston (21:30):**

And she's like, oh, well we're talking about my cancer journey, and then we're talking about all the different services that she accessed during that time. And she said, you know what, I'd always really wanted to give some money to this particular group that really supported, that I know supports all the women in the community.

And I said, well this is probably a really good opportunity to do that because it's a win for you in that you'll be paying less tax and you'll putting it to really good use that has a lot of personal meaning for you, and you know that you can go and see that money put to good use.

So that's probably two categories. So I've had retiring couples, such as medical specialists who have been very passionate about their particular area of specialty, retired very comfortable and wanting to get involved in the philanthropic kind of community, and see progress in certain medical fields.

Also we do find that younger generations are more interested in impactful giving or making an impact. And that kind of weaves into that ESG kind of conversation as well. It's much more prominent in their thinking.

**David McDonald - IMAP (22:54):**

Okay. Susan, maybe just as we get towards the end of our chat, perhaps a little bit on the structures, and I know particularly you mentioned there about the public ancillary funds that people can access. I mean is that something that a firm like an Elston offers and how does that work and how do you access those?

**Susan Chenoweth - Elston (23:15):**

Yes, we do... we set up the Elston Giving Foundation a couple of years ago now for this very reason to be able to offer a very cost effective well run public ancillary fund, which gives people who do want to give lesser amounts, they don't want to set up their own private ancillary fund, but they might want to for a number of reasons, start with a lower amount.

And as we talked about, sub funds can be set up through the Elton Giving Foundation with as little as \$20,000. But sometimes they just don't want the headache of another structure to run or the governance responsibilities of setting up their own fund. So a public ancillary fund can be a really convenient option for clients who just want to focus on the giving as well.



**Susan Chenoweth - Elston (24:15):**

So they're quite similar to private ancillary funds in that they have a corporate trustee. But you could probably liken the two different structures to say private ancillary fund would be similar to a self-managed super fund. A client would set up their own trust and their own corporate trustee and they would be responsible for all of the compliance and the governance associated with that as opposed to setting up an account within, say an industry fund or a retail superannuation fund. All of the investment, the admin, the compliance and all of those responsibility are taken care of through the existing fund, and the client simply needs to set up an account.

So a sub fund where they can donate in they can see that money grow in a tax-free environment with a long-term growth strategy and they can distribute a smaller amount each year out to charity.

Typically private ancillary funds are required to distribute 5% of their balance of assets each year. And a public ancillary fund is similar with 4% of the assets. So you can see that when those investments within those funds are invested with a long-term growth strategy, and clients are distributing smaller amounts to charity each year, that corpus can actually grow and, and be maintained in perpetuity so that that giving becomes a really key legacy for the family or their client.

**David McDonald - IMAP (25:58):**

Interesting. That's a great description. I like that description with the SMSF versus industry fund. That makes it quite clear actually. Yes, that's good. Alright, look, I think we're coming to the end of our time. I've really enjoyed our chat and it's certainly a very interesting topic and one as you said that maybe advisors should be talking about a bit more. So it just remains for me to thank Susan Chenoweth and Lynda McKee from Elston for joining us today.

And finally, a reminder to keep an eye on the events page on the IMAP website for information on some upcoming webinars we have coming soon, and also information on events we'll be organising next year 2024, which is not that far away.

Thank you for talking with me today

**Susan Chenoweth - Elston**

Thank you very much David. It's a pleasure.

Please visit the IMAP website <https://imap.asn.au> for all the details, and you can register there. Thank you.

<<ENDS>>