INFLUENCE, AFFLUENCE & OPPORTUNITY:

Donor-advised Funds in Canada

KCI

CAGP FOUNDATION

MAY 2023

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in·flu·ence

the capacity to have an effect, or the effect itself.

af·flu·ence

the state of having an abundance of money; wealth.

op·por·tu·ni·ty

a set of circumstances that makes it possible to do something.

Introduction

Donor-advised funds in Canada have a seventy-year history, and their use as a tool for charitable giving has become more popular in the past decade. Along with that rise in popularity among donors, they have attracted attention from a range of participants in the charitable sector including community foundations and operating charities, as well as others who interact with the charitable sector, such as philanthropic advisors, lawyers, regulators, and academics.

Alongside this growing popularity and attention, there is significant interest in understanding the scope and scale of donor-advised funds in Canada, as well as how they are becoming an integral part of the charitable giving landscape. A first comprehensive report on donor-advised funds (DAFs) in Canada was published in 2018 by Investor Economics. This was followed by a second report published in 2021.

KCI and the CAGP Foundation decided to partner together to build on the existing body of knowledge and previous analyses. In keeping with the missions of both organizations, this report examines DAFs through multiple lenses and pays particular attention to the relationship between operating charities and holders of DAFs, and the foundations that act as intermediaries between donors and the charities that serve the needs of Canadians on a day-to-day basis. This collaborative report seeks to accomplish a number of objectives, including:

- Quantifying the scope and growth of DAFs in Canada, as well as the increasing contribution of DAF donors to the charitable sector in Canada
- Examining challenges, criticisms and misconceptions around DAFs
- Identifying key areas for improvement in how DAF foundations can support donors, as well as work with operating charities
- Raising issues that may merit regulatory consideration
- Suggesting strategies or approaches for operating charities to ensure they are maximizing engagement and stewardship of donors who choose to use this giving vehicle.

The assistance and guidance of many in, and associated with, the charitable sector was critical to the production of this report, and we extend our sincere thanks to all those that contributed their time and wisdom.

The objective of this research initiative is to add to the growing body of knowledge and literature about DAFs in Canada and help strengthen relationships and understanding between donors, DAF organizations, and operating charities to continue to strengthen communities across Canada.

in·flu·ence

the capacity to have an effect, or the effect itself.

INFLUENCE... DONOR-ADVISED FUNDS IN CANADA

do·nor... *a person who gives money or something else of value*

ad·vised... *to recommend a specific direction; thought-out, considered*

fund... *a sum of money whose principal or interest is set apart for a specific objective*

in·flu·ence

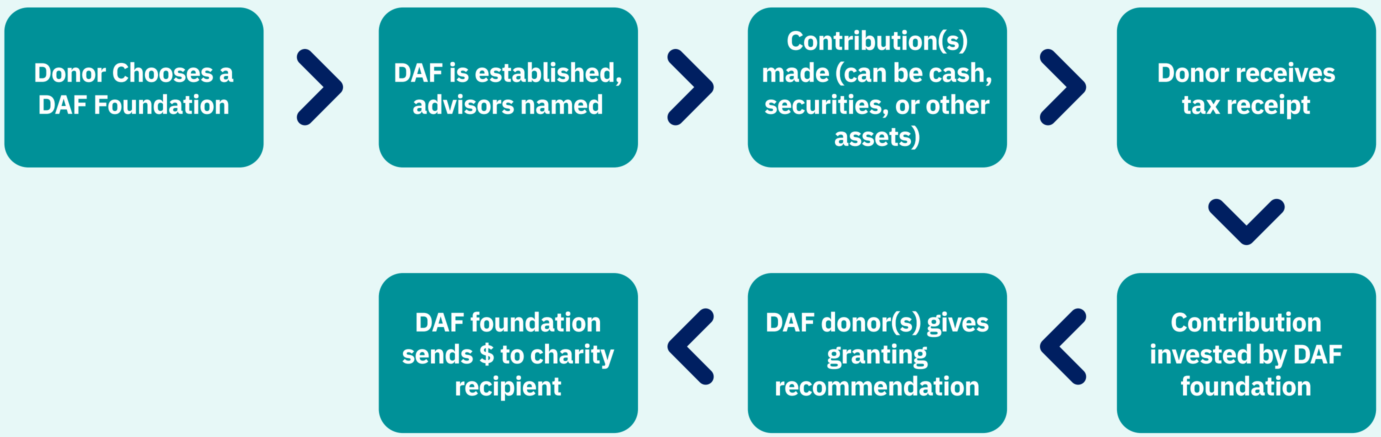
Overview

ESSENTIAL ELEMENTS

A donor-advised fund (DAF) is a fund established within a foundation or operating charity. DAFs can be established at a foundation set up exclusively for the purpose of administering DAFs, at a community foundation that manages and administers DAFs in addition to other funds, or at an operating charity that offers supporters a donor-advised fund as a giving option. In every case, the charity maintains a notional segregated fund for the donated assets.

In order to establish a fund, the donor makes an irrevocable gift to the foundation or charity and based on the transfer of ownership receives a receipt for tax purposes. Donations to DAFs, like all charities, can be in a variety of forms including cash, securities, life insurance proceeds and other types of approved financial assets, or through a bequest in a will.

DAFs can be opened by an individual, a family, a group of unrelated people, a partnership, corporation, or association. The donor(s) select the name of the fund, such as “Our Family Legacy Fund”. Since a DAF can remain in effect beyond the life of the original donor, fund donors – often referred to as the fund advisors – can establish successor advisors in order to pass the disbursement responsibilities to other family members or individuals. In addition to the founding donor(s), other people, such as relatives and friends, may make gifts to the DAF at the time it is established or during its lifetime.



CHARITABLE DISBURSEMENTS

The fund assets are granted out, generally over time, to support any registered charity or qualified donee as defined by the Canada Revenue Agency. DAF donors are able to make non-binding recommendations to the host foundation to make specific gifts to charities or pay eligible expenses from the assets in the fund, which could include residual donated capital, earned income and capital gains. The recommendation from the donor can cover the identity of the recipient donee as well as the timing and amount of the gift(s).

Legally, given the fact that the donor has made an irrevocable gift, the foundation/charity where the fund is maintained has final decision-making authority and responsibility; however, the donor's wishes are typically respected and ratified by the foundation/charity at which the fund is maintained. The donor can elect whether to be identified to the receiving charity or to remain anonymous.

For some DAFs, staff associated with or employed by the foundation are able to provide philanthropic advisory services to support the donor in identifying the charities they wish to support and in monitoring the impact of their gifts.

RESPONSIBILITIES

DAFs create an ongoing exchange of responsibilities between the donor and the sponsoring foundation. The sponsoring foundation provides account-level reporting back to the donor that includes both investment performance and disbursement information, and the donor relinquishes any regulatory obligations. In some cases, donors are able to participate in the determination of the ongoing investment strategy for the assets held in the DAF.

Since DAFs are not standardized across the sector through regulation, each foundation/charity has the ability to establish its own terms and conditions with respect to minimum contributions, minimum balances to be maintained, and investment options, among other parameters. The foundation/charity retains all legal rights and responsibilities for foundation assets and for making disbursements.

It is the responsibility of the foundation/charity to comply with all regulatory requirements and to undertake all administrative matters to ensure that the account is managed in compliance with the agreement between the foundation and the donor, as well as with all federal and provincial regulations associated with the foundation itself, the specific fund, and any underlying investments.

The required annual disbursement to qualified donees for both private and public foundations, currently set at 5% for foundations with investment assets over $1 million (3.5% for charities with applicable assets below $1 million), is applicable at the foundation level not at the individual DAF level. However, for compliance purposes, some sponsoring foundations choose to apply the annual disbursement quota at the individual fund level irrespective of the level of DAF assets.

TYPES OF FUNDS

DAFs fall into three primary categories: endowed, spend down, and flow through.

- **Endowed Funds** operate much like most private family foundations. The investment income and gains from the donated assets are distributed to qualified donees with the donated capital being maintained for either an agreed period of time or in perpetuity. However, unlike with a foundation, there is no regulatory requirement on the rate of disbursement.
- **Spend-Down Funds** distribute both income and capital at no prescribed rate unless such a rate is agreed to by the donor and the foundation. The donated capital is invested with the intent to grant the entire amount until it is fully depleted. These types of DAFs are often used by individuals or families that wish to distribute the assets in the fund during their lifetime(s).
- **A Flow-Through DAF** is a temporary, non-endowed fund that is established by one or more principals in order to distribute all of a fund's capital to one or more qualified donees within a fixed time period. Assets held by a foundation in such funds do not form part of the foundation's permanent capital and may not be invested by the foundation in the same manner as assets held in either endowed or spend-down DAFs.

It is important not to confuse DAFs with donor-designated funds or field of interest funds which are commonly available at community foundations. In both cases, the causes to be supported are identified at the time the fund is established and, in the case of a donor-designated fund, the regular distributions to specific charities are managed by the foundation without reference to the donor.

DAFs By The Numbers

A key goal of this report was to provide updated data and analysis regarding the size, scope and emerging trends around DAFs in Canada. To address this, data was drawn from multiple sources including:

1. A survey of DAF foundations undertaken by KCI in late 2022.
2. Analysis of charitable tax returns (T3010s) of identified DAF organizations published by Canada Revenue Agency (CRA).
3. Financial statements accessed through websites maintained by various foundations.
4. Annual reports of various Canadian foundations and charities.
5. Foundation grants for the 2019 to 2021 tax years including sector of recipient charity from Imagine Canada's Grant Connect platform.
6. DAF reports published by National Philanthropic Trust in the UK and the US.
7. Research articles and survey-based reports published in Canada and other jurisdictions.

SUMMARY OF KEY FINDINGS

- Excluding the 100,000+ DAFs in place at Charitable Impact[1], there are approximately **20,500 DAFs in Canada**. Over half have been established with independent foundations or those linked to financial institutions. Approximately 3,800 new DAFs were opened in the period 2019 – 2021.
- **Total assets held in DAFs at the end of 2021 were $8.5 billion.** In 2021, the mean average size of a DAF was $406,000. It is estimated that 10% of DAFs in Canada hold assets in excess of $1 million.
- **Growth in assets** is attributable to growing awareness of DAFs as an efficient giving vehicle, the increased participation of financial advisors, the frequency of liquidity events, such as the sale of a family business, and the transfer of wealth between generations.
- The analysis of DAF assets suggests, despite claims that only modest capital is needed to establish a fund, that the use of this giving vehicle, even at community foundations, is dominated by individuals and families with **significant levels of accumulated wealth**.
- **Donation flows into DAFs in 2021 were $2.2 billion,** representing 9.8% of all donations claimed for tax purposes. This is lower than the 12.5% share reported in the US, but almost double the amount reported for 2019.
- **The top six foundations,** in terms of donation flows, received two-thirds of all DAF donations in 2021, a share similar to that recorded in 2019.
- **The average granting rate in 2021 was 9.8% of assets,** almost three times the CRA disbursement quota for private foundations in that year. For contrast, the DAF granting rate in the US in 2021 was 15%; if this had been the case in Canada an additional $500 million would have been available to operating charities.
- Community foundations and foundations linked to investment management firms were the least likely to impose a **Disbursement Quota** at the DAF level.
- **88,838 grants were made by DAFs in 2021,** an average annual increase of 15.2% from 2019, while the value of total grants increased 18.7%. In absolute terms, grants rose from $654.1 million to $922.0 million. This increase may reflect the positive investment climate as well as a response to the pandemic-related needs of operating charities.
- Approximately 17% of total grants by dollar value came from endowed DAFs with 83% from either flow-through or spend-down DAFs. **The average individual grant was $10,379 in 2021,** slightly higher than the 2019 figure of $9,778.

1 See commentary regarding Charitable Impact on page 11.

- **70% of grants, in terms of value, were directed to one of three causes:** health, religion and religious causes, and social services. Only 3% of grants were directed to international causes. On average, each DAF made 3.3 grants in 2021.
- It is estimated that at least **a quarter of operating charities received at least one grant** from a DAF in 2021.
- The **granting rate and flow rate for DAFs in Canada are lower** than those in both the US and UK, which points to additional opportunity for impact from Canadian DAF dollars in the future.

FOUNDATIONS

Foundations offering DAFs are not required to identify themselves in regulatory filings, nor is there an umbrella association for the group as a whole, which does create a challenge in terms of identifying the exact number of Canadian foundations that offer DAFs. Using a variety of techniques, and assuming all Community foundations have the ability to offer DAFs to their supporters, the number of foundations currently offering DAFs to Canadian donors is in a range of 230 – 240.

However, based on our review, only about one in five of the 200 community foundations actively offer DAFs. Others focus on more conventional funds such as donor-designated funds, field-of-interest funds, and scholarship funds. If only active foundations are considered (72), the distribution of DAF foundations among the four categories would be (Figure 1),

Figure 1: Adjusted Distribution of DAF Foundations by Category

Community	55%
Financial Institutions	22%
Independent	14%
Faith-based	9%

RECENT ENTRANTS

An increasing number of banking and investment institutions have established in-house foundations to serve the philanthropic needs of their wealth management clients. In the last three years, for example, Burgundy Asset Management and National Bank of Canada have each introduced DAF programs using in-house foundations. At the same time at least two financial institution foundations have ceased operations in the past three years as the result of integration.

There have also been new foundations established within the independent category. Most of these foundations are focused on the provision of online order execution services with only modest availability in terms of advice. The equivalent, in the wealth management business, would be an online brokerage firm, such as Questrade.

OUTLOOK

The number of foundations offering DAF services is expected to increase modestly over the medium term although the relative maturity of the DAF sector and emerging barriers to entry will contain the rate of growth. Based on data from Blumbergs, a law firm, the number of active charities in Canada grew by only 1.3% between 2015 and 2020, and it would be unreasonable to believe that charitable institutions offering DAFs would expand at a significantly faster pace.

The barriers to entry into the DAF sector are becoming formidable as the sector becomes more concentrated among the largest community foundations and bank-associated foundations, and as the cost of technology and professional resources increases. Donors are seeking to consolidate their overall wealth planning and management and are becoming more demanding in terms of access to advice, reporting and communications. Finally, as was evident from the measures announced in the April 2022 federal budget, additional reporting will be imposed on DAF foundations, a task that will add to the administration associated with running a foundation.

Growth, if it happens, will probably come from institutions within the wealth management industry that are seeking to retain and build their share of business with high-net-worth families.

It is worth noting that, despite the recent growth of foundation assets in the DAF sector and their position within the Canadian wealth management industry, two of the most prominent names in the US DAF sector – Fidelity Charitable and Vanguard Charitable – have chosen to avoid expansion into Canada. UBS, a major global bank and DAF service provider in the UK with a Canadian presence, has also elected not to enter the sector to date.

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Deep Dive into DAF Landscape

Based on an extensive survey of foundations, the total number of donor-advised funds (DAFs) in place in Canada at the end of 2021 was approximately 122,275. Of this number, 102,000 were reported by a single foundation, Charitable Impact. Many aspects of the operating model of this foundation are unique, including a willingness to open a fund with very limited capital. The integration of the data provided by this foundation into the overall analysis will skew the output. For that reason, the data provided by Charitable Impact will not be included in the analysis in this sub-section, although their presence and distinct contribution is recognized and will be integrated and/or referenced in various sub-sections.

THE NUMBER OF DAFS

Excluding Charitable Impact, the total number of DAFs at the end of 2021 was approximately 20,450, a net increase of 4,500 from the total at the end of 2019. For comparison purposes, the total number of DAFs in the United States was reported by National Philanthropic Trust to be 1.3 million.

22.2% of these DAFs were endowed, with the balance being either flow-through or spend-down, a similar ratio to 2019.

The distribution of the DAFs for 2021, in terms of numbers of funds, is shown in Figure 2 below:

Figure 2: Distribution of DAFs (numbers) by Category 2021

Community	36.4%
Financial Institutions	28.4%
Independent	25.4%
Faith-based	9.8%

It should be noted that data for the Jewish Community Foundation of Montreal, one of the leading DAF foundations in Canada, at their request, is included in the community foundations category not the faith-based category where it was placed in the prior Investor Economics reports.

Although there is no sector-wide data available that provides guidance on the appeal of DAFs in various regions of Canada, Benefaction Foundation's latest annual report provides a high-level view which indicates that almost half of their DAF clients are located in Ontario and Quebec, 40% in Western Canada and 9% in Atlantic Canada. This is roughly in line with the distribution of personal wealth in Canada.

NEW FUNDS

All categories showed strong growth between 2019 and 2021 in terms of numbers of funds. Combined, those foundations reliant on referrals from either associated or independent financial advisors, represented a total of 3,800 in new funds over the 2019 to 2021 time period, or slightly more than two of every three new funds.

In 2021, approximately 240 DAFs – about 1% of the year-end total – were closed as the result of the funds being fully exhausted, donors opting to establish a private foundation or, in some cases, an advisor moving from one investment firm to another and persuading the client to move the DAF. Of those closed in 2021, just under 50% were DAFs established at community foundations.

In absolute terms, in 2021, there were six foundations that reported establishing more than 100 DAFs in 2021, with the highest number – 412 – being established at Charitable Gift Funds Canada Foundation, a foundation associated with the advisor networks at both RBC and BMO. The six foundations – three of which are in the independent category – accounted for 69.4% of all new DAFs established that year.

COMMUNITY FOUNDATIONS

Despite the emergence of new competitors and the increased involvement of financial institutions, it is evident from the data collected that community foundations have been able to maintain their share of DAFs in the three years under review. This is, in part, due to the emphasis being placed on DAFs by large foundations, such as the Vancouver Foundation. It also reflects the fact that some smaller community foundations are reacting to the changing dynamics within the donor community and adding DAFs to the range of funds offered to their supporters.

ASSETS

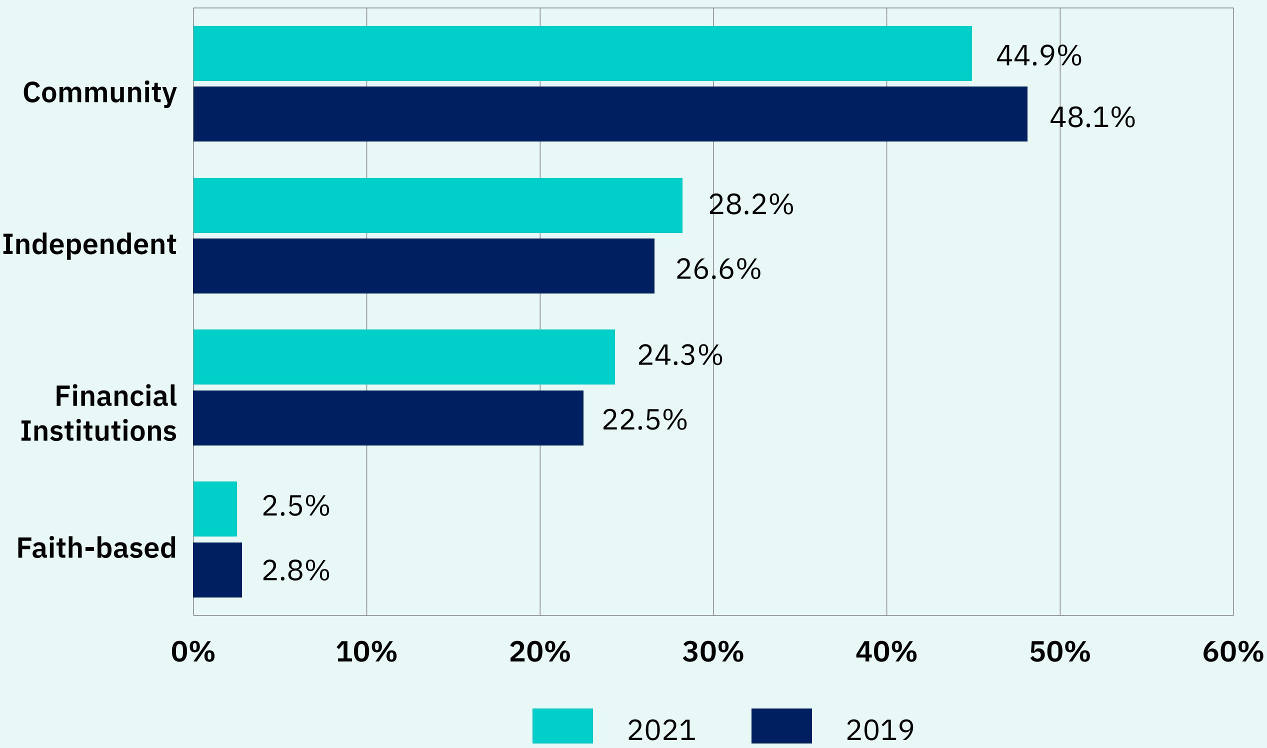
Although judging success by assets held in DAFs is not universally supported, assets do provide a measure of the potential future flows to qualified donees. At the end of 2021, total assets held in DAFs were $8.5 billion, an increase of $3.1 billion over the three-year period under review.

SHARE OF ASSETS

26.6% of assets were held in endowed DAFs at the end of 2021 compared to 27.3% at the end of 2019. Not surprisingly, community foundations had a higher proportion of assets in endowed DAFs at 41.9%. Community foundations accounted for 68.7% of all endowed DAFs. The increase in share of endowed DAFs – which have an average value of about $500,000 – not only supports the earlier comments about the presence of community foundations in the DAF sector, but also the use by donors of DAFs as substitutes for a private foundation. Endowed DAFs have relatively low distribution and flow rates (see sub-section on Grants) which make them more likely to be the subject of criticism than either spend-down or flow-through DAFs. However, they also can provide ongoing and reliable revenue streams supporting the sector, as is the case at many of Canada's largest granting foundations.

The distribution of all DAF assets among the four categories at the end of 2019 and 2021 is shown in Figure 3 on the next page. As seen the independent and financial institution categories gained market share during this period relative to the other categories, although all experienced growth.

Figure 3: Share of DAF Assets per Category



The independent foundation category includes foundations such as the Charitable Gift Funds Canada Foundation (CGFCF), Benefaction and CanadaGives. Charitable Gift Funds Canada recently entered into an arrangement with RBC associated with the donation platform used by CGFCF (EasyDonate) which, in the future, may warrant the transfer of CGFCF to the financial institution category.

Even with the decline, the share of DAF assets held by community foundations in Canada dwarfs the share held in the US (27%) and in the UK (10%). It is also worth noting that, despite this high share of DAFs in Canada, the importance of DAFs in relation to total community foundation assets is reversed. In the US, Grand Valley State University reported in 2021 that DAFs represented 45% of all community fund assets; the comparable share for Canada is 25%.

AVERAGE ASSETS

Based on the data provided, and making some estimates where gaps exist, average assets for DAFs by category are shown below. However, there are a wide range of DAF models and sizes that averages tend to obscure. For example, Canada Gives has an average DAF size of $1.2 million. In the Financial institution category, Charitable Impact's average DAF size is $2,166, an amount well below the entry point of most DAF programs.

Regardless, the growth in the average for community and independent foundations is notable, reflecting the nature of the target donors as well as some specific cases of sizeable new DAFs with initial balances well above the norm.

Figure 4: Average Assets per DAF by Year and Category

	2019	2021
All DAF Foundations	$60,171	$69,711
All DAF Foundations excl. Charitable Impact[2]	$344,994	$406,000
Community Foundations	$500,490	$514,562
Faith-based Foundations	$100,166	$105,370
Financial Institutions	$307,226	$356,938
Independent	$15,487	$22,476
Independent excl. Charitable Impact	$280,409	$421,100

WHY THIS GROWTH?

This increase likely reflects the more active participation of investment counselling firms which have chosen to make referrals rather than establish their own foundations, and the heightened flow of referrals from associated and/or independent financial and philanthropic advisors that are dedicated to meeting the needs of HNW individuals. Based on discussions with both donors and DAF foundation executives, as well as from a blog posted by Canadian Charity Law in April 2022, it is apparent that some private foundations have also moved assets to DAFs to take advantage of administrative services and the ability to make grants anonymously.

Calculations of average values can be influenced by single data points, and the seemingly high average assets per DAF in the financial institutions category is influenced by one foundation, Aqueduct, with an average DAF size for the 2019 – 2021 period of $968,000, more than twice the overall average. A recent article published on a Carleton University website dedicated to research into the charitable sector, indicated that, based on a sample, approximately 10% of all DAFs in Canada may carry balances in excess of $1 million. This is in line with a report published by the Donor-advised Fund Research Collaborative in 2022 which reported 11% of US DAFs had assets of $1 million or more.

2 See commentary regarding Charitable Impact on page 11.

SERVING THE NEEDS OF A FEW

The analysis of DAF assets suggests, despite claims that DAFs have "democratized" charitable giving and the ability to establish a DAF with little initial capital, that the use of this giving vehicle, even at community foundations, is dominated by individuals and families with significant levels of accumulated wealth. This pattern of usage is in line with overall giving which is also becoming concentrated among affluent and high-net-worth (HNW) households.

Reasons for this concentration are many. The majority of small and infrequent donors are unaware of DAFs and unlikely to use financial advisors who are linked to or promote structured giving programs and continue to give directly to favoured charities. Secondly, liquidity events, such as the sale of a family business or real estate holdings, or the receipt of a large inheritance, all of which are concentrated among the top 1 million households, can create immediate tax liabilities which need to be addressed. Finally, most donors are dissuaded by relatively high minimum fund requirements (the average minimum entry point is $25,000) as well as the level of annual fees paid to DAF foundations. From a resource perspective, the cost of providing DAF services and the associated need for reliable revenue argue in favour of a focus on the most affluent donors.

WHAT CAN BE DONE?

Unless the organizational positioning of many DAF foundations within larger institutional structures, such as banks, and the relatively high entry requirements are changed, the modest donor will be denied the DAF opportunity unless they discover the few foundations, such as Charitable Impact, GiveWise and some community foundations, such as the Toronto Foundation, that have no or low limits for initial funding and seek out younger, less affluent donors.

The rapid growth and acceptance of the online brokerage and online asset management sectors within the wealth management industry are proof positive that technology, access to information, low costs and access to other economies of scale spur financial activity among all wealth segments, much of which is associated with taking advantage of tax-advantaged programs developed by the federal government (RRSPs, RESPs etc.). Other than the size of the revenue opportunity compared to other financial services, there should be only limited barriers to the further development of platforms designed to encourage and facilitate charitable giving.

Figure 5: Distribution of DAF Donations ($ millions)

		2019	%	2021	%
Foundation Type	**Community**	$245.8	21.3%	$507.6	23.6%
	Independent	$555.6	48.1%	$957.5	44.5%
	Financial Institutions	$318.7	27.4%	$616.4	28.6%
	Faith-Based	$37.2	3.2%	$71.1	3.3%
	Overall	$1,157.3	100.0%	$2,152.7	100.0%
Fund Type	**Endowed**	$152.6	13.2%	$308.0	14.3%
	Spend-Down + Flow-Through	$1,004.7	86.8%	$1,844.7	85.7%
	Overall	$1,157.3	100.0%	$2,152.7	100.0%

Donations to DAFs

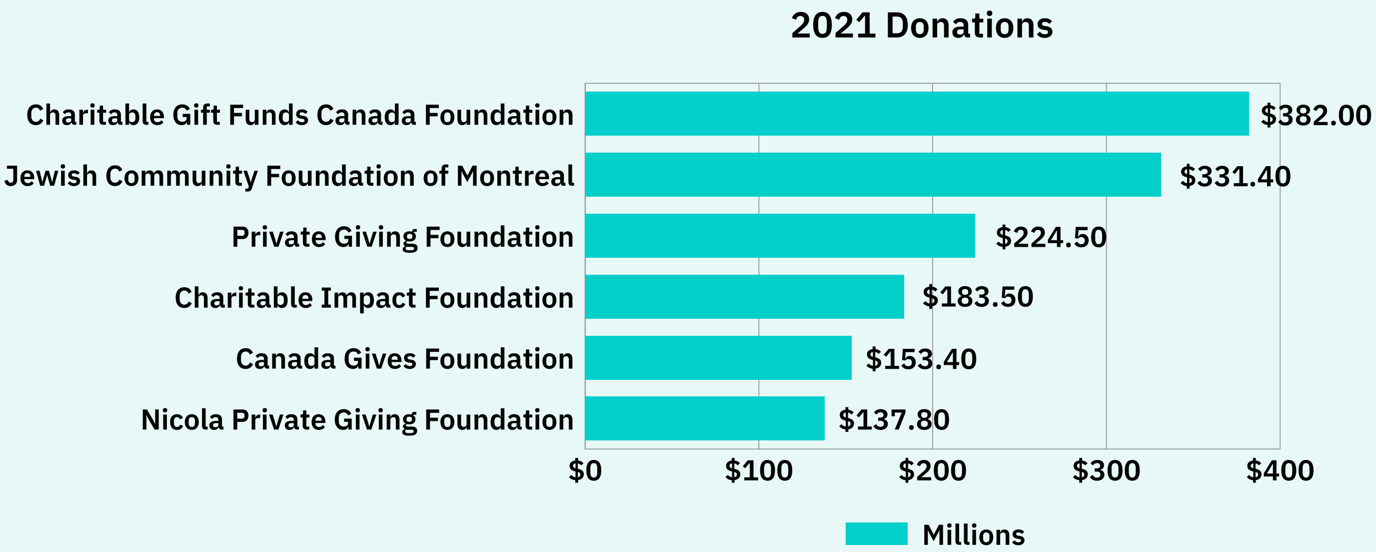
At the end of 2021, annual donations flowing into both new and established DAFs reached a record total of $2.2 billion, a number almost double the donation total recorded in 2019. Despite the significant increase in flows (which, itself, reflected the growing popularity of the giving vehicle), the distribution of donations remained virtually unchanged (Figure 5).

Donations into endowed DAFs (one third of which flowed to community foundations) increased from $152.6 billion in 2019 to $308.0 billion in 2021. However, the share of donations to endowed DAFs at community foundations declined marginally from 20.0% of total donations to 19.8% over the period under review. This is in line with broader trends in the sector as many donors find endowments less appealing than more flexible structures.

CONCENTRATION

At the end of 2021, the top six DAF foundations, three of which benefit from flows through major financial advisor networks, represented 65.6% of all donations. In 2019, the concentration was marginally lower at 64.2%. In both years, the foundation attracting the highest donation flow was Charitable Gift Funds Canada with a share of 18.7% at the end of 2019 and 17.7% in 2021. Any implications of this concentration of funds within a select few foundations remains to be seen, but merits close attention.

Figure 6: Top 6 DAF Foundations by Donations ($ millions)



RELATIVE GROWTH

On a relative basis, over the three-year period under review, three of the five fastest growing DAF foundations were associated with independent investment counselling firms. Of those firms, one was a new entrant, one grew as the result of a merger with another foundation, and the third, as the result of steady growth in the number of investment clients at the firm who established DAFs. Rounding off the top five in terms of Compound Annual Growth Rates (CAGR) were two recently established foundations; Philantra, the foundation established by National Bank (which formerly used Charitable Gift Funds Canada) and GiveWise Foundation.

ADDITIONAL DONATIONS

DAF foundations were asked in the survey to indicate whether or not DAF donors added to existing funds on an annual basis. On average, 47% of DAFs receive additional donations each year, a proportion higher than the 37% reported in the US by the Donor-advised Fund Research Collaborative.

WORTH NOTING

The flows mentioned in this sub-section include transfers from private foundations to DAFs. Every year, there are sizeable transfers. For example, based on research published by Blumbergs in 2022, two foundations that operate within the wealth management structures of major banks received transfers in 2019 from two different private foundations that totaled $41 million. In 2018, according to the October 2020 edition of the Chronicles of Philanthropy, 379 private foundations in the US transferred $740 million USD to various DAFs.

These transfers may reflect a decision to conduct charitable giving through a DAF for reasons of administrative ease, or the private foundations may wish to keep certain gifts away from public scrutiny. One of the criticisms of this practice is that private foundations are allowed to count these transfers as part of their required disbursements although, in theory, there is no subsequent requirement that they pass the amounts on to operating charities within a specified period of time.

The growing importance of DAFs in various jurisdictions can be measured by the share of total donations (as opposed to total inflows) in any year represented by donations to DAFs. The latest data available indicates a share in Canada of 9.8%, a level behind the US share of 12.5%, but well ahead of the 5.9% and 3.3% for the UK and Australia respectively.

OUTLOOK

The donation flows suggest that, while there has been a modest growth in the number of DAF foundations receiving donations, the dominance of a small number of foundations, 80% of which operate on a national basis, has continued. There is no reason to believe, given the level of maturity of the DAF sector, that this donation concentration will be subject to any material change over the medium term and the future of small, regional foundations outside the community foundations network cannot be assured.

At the same time, as noted earlier, 9.8% of total receipted donations is estimated to have been directed to DAFs, reflecting their increasing appeal for donors. This proportion is only likely to grow as advisors and others in the wealth management industry promote DAFs as giving vehicles.

Grants from DAFs to Other Charities

One of the most frequent concerns raised about DAFs is that they are a vehicle for hoarding assets that should be in the hands of operating charities. Our detailed review of the data suggests otherwise.

GRANT VALUES

In 2021, DAFs granted a total of $922 million to charities, an increase of $268 million over the amount granted in 2019. Of the total amount granted in 2021, 16.8% flowed from endowed DAFs compared to 13.1% two years prior.

Examining the numbers through the foundation category lens, the breakdown of grants for 2021 and 2019 is (Figure 7):

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Figure 7: Total Grants and Share by DAF Category ($ millions)

	2019	%	2021	%
Community	$237.5	36.3%	$327.9	35.6%
Independent	$215.1	32.9%	$315.9	34.3%
Financial Institutions	$164.4	25.1%	$230.7	25.0%
Faith-Based	$37.2	5.7%	$47.6	5.2%
Overall	$654.1	100.0%	$922.0	100.0%
Endowed	$87.4	13.4%	$154.9	16.8%
Spend-Down + Flow-Through	$566.8	86.6%	$767.2	83.2%
Overall	$654.1	100.0%	$922.0	100.0%

Overall, the average annual grant from non-endowed DAFs moved up from $9,298 in 2019 to $9,744 in 2021, a modest increase of $445. Over the same period, endowed DAF annual grants moved up by a greater amount, with average grants shifting from $14,042 to $15,329 over the period, potentially reflecting greater investment returns during the later period.

Average annual grants from DAFs within the foundation categories are shown in Figure 8 below. Data provided by faith-based foundations was limited and, accordingly, no averages have been calculated.

Figure 8: Average Annual Grants per DAF by DAF Category

	2019	2021
Community	$13,062	$12,890
Financial Institutions	$15,855	$17,044
Independent	$7,401	$10,343

The lower average value of grants in the independent section reflects the inclusion of Charitable Impact in the analysis. That said, excluding this foundation, while increasing the average in 2021 to $11,365 does not alter the fact that average grants from independent foundations are well below the average of those reported by foundations operating within the structure of a financial services institution.

For the sake of comparison, a report published by BNY Mellon in 2022, showed annual average grants by DAFs in their program to be US$10,600 in 2019 and US$7,400 in 2021. In other words, the overall trend in Canada is opposite to that in the US.

GRANT NUMBERS

In terms of numbers, as opposed to value, total grants made by DAFs increased from approximately 66,900 in 2019 to 88,838 in 2021, an average annual increase of 15.2%, a far slower rate than the increase in the total amount granted.

Given that many charities receive multiple grants from DAFs within a year, we estimate that at least a quarter of operating charities in Canada will have received at least one contribution from a DAF in 2021, but some will have received many more.

CAUSES SUPPORTED BY DAF DONORS

To help support this research, Imagine Canada provided data from its Grant Connect platform regarding sector of grant designation for DAF foundations for the 2019 to 2021 tax years, where available and known. This information provides insight into the priorities of DAF donors and how they may be impacted by events or social conditions, such as the global pandemic.

According to the analysis of the Grant Connect data, the leading causes supported by DAFs over the three-year period are indicated in Figure 9 below. The exhibit shows both the distribution in terms of grant value as well as the distribution of the number of grants.

As can be seen, the largest proportion of grants are directed to health-related charities, including hospital foundations, followed by religion and religious causes, while international causes receive the smallest proportion

Figure 9: Causes Supported by DAFs (2019 to 2021)

	Value of Grants	Number of Grants
Health	27%	23%
Religion & Religious Causes	22%	21%
Social Services	21%	26%
Education	14%	9%
Community	5%	7%
Environmental & Climate Change	5%	4%
Arts & Culture	4%	7%
International	3%	3%

Numbers may not total 100% due to rounding of values.

Figure 10: Granting Rates by DAF Category 2019 and 2021

	2019	2021
All DAFs	10.8%	9.8%
Endowed DAFs	5.6%	6.4%
Spend-Down + Flow-Through DAFs	12.6%	12.6%

in·flu·ence

GRANTING METRICS

The DAF community in North America has not yet arrived at a standard approach to calculating the granting rate for DAFs. There are five formulas that have been used by analysts, each of which gives a different result.

The formula that has become the most recognized is Grants/End-of-Year Assets + Grants. This is the formula that was used in the two previous reports on DAFs in Canada, and the same formula will be applied in this report. This formula produces the most conservative results.

For 2019, the overall granting rate for all DAFs was 10.8%, a rate more than three times the required distribution rate for private foundations that year. By 2021, the rate had slipped to 9.8%, a decrease which, to a great extent, reflected the growth in new DAFs and the subsequent inflow of donations. Most DAF foundations do not require new DAFs to make a grant in the initial year.

Endowed DAFs have been separated for the purpose of comparison; in 2019 endowed DAFs, similar in many ways to private foundations, recorded a granting rate of 5.6%. In 2021, the rate had moved up slightly to 6.4%. This rate is slightly higher than the newly established CRA disbursement quota for 2023 of 5.0%, although the calculation is different than the granting rate.

As has been the case for the past five years, DAFs in Canada have been granting at a rate that is lower than the comparable sectors in both the UK and the US. For example, in 2021, DAFs in the UK reported an average granting rate of 17.0%. For the US, the comparable rate was 16.3%.

The other metric used by DAF analysts is the flow rate which measures the relationship between donations received and grants made in any one period. A declining flow rate will lead to a growth in assets through the retention of donations. Conversely, an increasing flow rate suggests a slowing flow of donations and/or an increase in grants.

Figure 11 on next page suggests that DAFs in Canada have not established any pattern or level and that flows of both grants and donations are reactive to a number of influences. The data also underlines the fact that the lowest flow rates tend to be reported by DAFs that are managed by, or associated with, financial institutions and/or financial advisor networks that may have an interest in building DAF assets.

Figure 11: Flow Rates by DAF Category 2019 and 2021

	2019	2021
Community	96.6%	64.6%
Financial Institutions	51.0%	37.4%
Independent	38.7%	37.5%
Faith-based	100.0%	66.9%
Overall	56.5%	42.8%

As with the granting rates, Canadian flow rates for both years are below the rates in the UK and US. For 2021, the flow rate for the UK was 72.1% and for the US 62.9%. In both countries, the average annual rate of growth of donations to DAFs was slower than the rate in Canada. In the US, this is likely a reflection of a maturing sector that has been in place for 90 years. In the UK, the number of participants, in terms of DAF foundations, is far less than in Canada and the level of awareness among donors and their advisors is at a lower level despite the overall size of the charitable sector.

It is the case, however, that both the granting rates and the flow rates suggest that DAFs have the capacity to grant at a higher rate. By, collectively, moving the granting rate up to an average of 15%, flows to operating charities – using 2021 data – would have moved up from $922 million to $1.425 billion, an increase of $500 million.

Granting frequency per individual DAF averaged 3.3 grantees per DAF with the highest rates being reported by independent foundations (4.4) and the lowest by the financial institution foundations (2.3). Overall, Canadian DAFs distribute more frequently than those in the US which reported a mean average of 2.7 grantees per DAF for the period 2017 – 2020.

Obviously granting metrics are influenced by the willingness (or lack of willingness) by the foundation to allow individual DAFs to not make a grant in one or more years. The survey responses indicated that half of the DAF foundations rigidly impose a disbursement quota on individual DAFs at the rate prescribed for private foundations by CRA. Community foundations and foundations linked to investment management firms were the least likely to impose a DQ at the DAF level.

Fees & Investments

FEES CHARGED

In the previous DAF reports, there were observations about the level of fees charged to DAFs by foundations. The survey supporting this report examined the frequency and nature of fees. The majority of foundations do not or have discontinued charging a set-up fee at the time the DAF is established. One responding foundation (out of 20) continues to charge an opening fee of $300.

On the other hand, 90% of responding foundations charge an annual administration fee with the rate being on a sliding scale reflecting the asset base of the DAF as opposed to the activity. Those foundations that do not charge an annual administration fee are those that elect to recover operating costs through an investment management fee. 75% of foundations directly charge an investment management fee, also driven by the level of assets under management. These fees range from as low as 0.3% to a high of 1.5%. Among those foundations not charging an investment management fee, there are some instances where an affiliated investment management firm charges a fee to the pooled fund in which DAF assets are invested.

Only two foundations in the sample charge a fee at the time a grant is made; one is a mid-sized community foundation and the other is a well-established independent foundation. None of the foundations surveyed charge a fee at the time a DAF is closed even if the assets are transferred to another DAF foundation.

Overall, as with other wealth management fees, there is a move by foundations to simplify fees, to keep fees as low as possible and to ensure that fees are clearly presented in all material. Fees charged by Canadian foundations are above those charged to US DAFs at foundations such as Fidelity Charitable and as economies of scale are reflected in fee levels it is possible that a fee "gap" will emerge between large foundations and those with limited assets.

INVESTMENT CHOICES

Foundations were asked to identify investment choices offered to DAFs. Most foundations offered more than one option – in some cases asset size dependent – while a few offered little or no choice. 28% of respondents provided DAFs with an option to invest in a single fund exclusively linked to the giving program. Other foundations offered a limited selection of mutual or pooled funds usually managed by an affiliated company.

The most frequently mentioned investment choices were to have assets managed by an external manager selected by the foundation (71%) or to have the DAF donor's investment advisor act as the manager on behalf of the foundation (57%). In some cases, this latter option, which has governance implications, was limited to DAFs with substantial assets.

One of the emerging issues discussed in a later section of this report is the interest expressed by a number of donors to have assets held in a DAF being invested in socially responsible or impact investment funds. Despite this interest, only a quarter of foundations indicated that this type of fund was available to their DAFs although it was a choice not a requirement.

af·flu·ence

the state of having an abundance of money; wealth.

Although this report is focused on developments within the donor-advised fund (DAF) sector in Canada, the topic cannot be viewed in isolation from the overall trends in personal charitable giving.

This section of the report provides an overview of the giving environment based on publicly available data for recent years, and the collective experience of KCI and the CAGP Foundation.

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Overview

KEY TAKEAWAYS

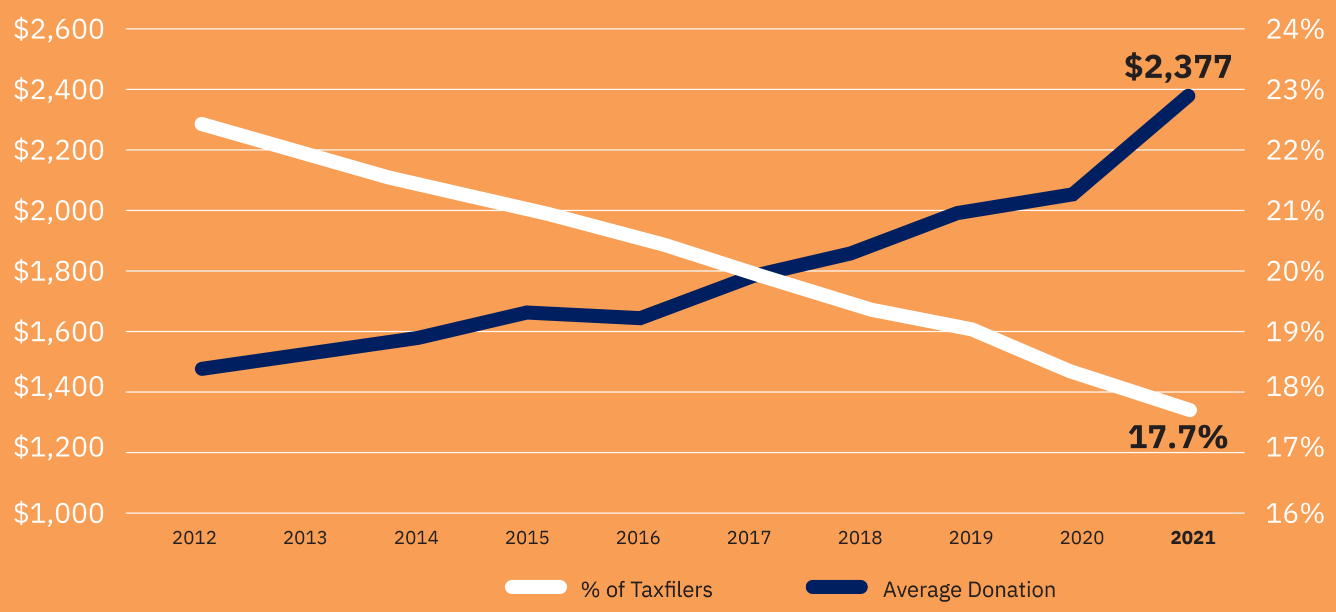
- Overall giving by Canadians, as measured by receipted donations, increased significantly in 2021, up 11.3% from 2020 to reach $11.8B.
- The number of Canadians claiming a donation tax credit has fallen steadily over the past five years, however, to 17.7% in 2021.
- The increase in the amount donated reflects the impact of higher levels of giving by of affluent donors, older Canadians, and women of all ages.
- The level of donations has been negatively affected by lower levels of trust in the charitable sector and the economic impact of the pandemic, as well as a shift in personal financial priorities in favour of debt servicing, housing costs and retirement funding.
- The charitable sector will likely benefit from continued growth in the number of affluent households and the transfer of wealth currently underway, although there is no evidence of a material increase in planned giving.
- Going forward, it is expected that these trends are likely to continue in the near term with modest increases in overall level of giving contrasted with declines in donor rates.

DWINDLING DONORS

The number of Canadians claiming a tax credit for a charitable donation has been declining in both absolute and relative terms in recent years. Over the five-year period ending in 2021 (the latest available data at the time of writing), the number of individual donors declined from approximately 5.4 million in 2017 to 5.0 million in 2021, a decrease of approximately 8.0% over the period.[i] As the population has grown over the same period, this has resulted in a significant decline in the proportion of tax filers claiming donations, moving from 20.0% in 2017 to 17.7% in 2021.

Based on Statistics Canada data, the largest segment of departing donors was represented by men between the ages of 35 years and 65 years who reported annual income between $20,000 and $80,000, an age/income cohort that has likely borne the brunt of the economic impact of the pandemic.

Figure 12: Share of Tax Filers Claiming a Donation Tax Credit & Average Total Claim



Source: Canada Revenue Agency Table 11-10-0130-01 Summary of Charitable Donors

RISING DONATIONS

In terms of the total amount given to charities the news has a more positive tone. In 2017, Statistics Canada reported that individual Canadians claimed approximately $9.6 billion in donations, an average of $1,790 per donor. By 2021, the total amount claimed had increased to approximately $11.8 billion, with the average annual individual donation total rising to $2,377.

However, not all forms of charitable contributions receive a tax receipt, and not all donors take advantage of the availability of a tax credit. It has been estimated by Statistics Canada that up to $2 billion in donations were not captured in the individual tax-filer data for the 2020 year. Further, according to KCI analysis of tax returns filed by charities, Canadian donor (all types) gave over $2.6B in non-tax-receipted fundraising revenue in 2020 alone. In support of this point, survey data released by the Association of Fundraising Professionals (AFP) in late 2021 indicated that 65% of those polled indicated that they had made a financial contribution to a charity in the 12-month period ended June 2021.

And of key importance to this report inter-charity revenue, which includes gifts directed by individuals through donor-advised funds and private foundations, increased from $6.4 billion in 2015 to $8.7 billion in 2020. The increase in charity-to-charity revenue was one of the fastest growing of any category over the period.

CORPORATE GIVING

At a time of rising total individual donations, it is disquieting to note that total gifts to charities by Canadian corporations in 2020 were approximately $3.7 billion[ii], an amount some $330 million below that reported in 2019.

On a relative basis, the donation total, which may not include charitable event sponsorships, represented 0.80% of corporate taxable income, a decline of 10 basis points from a year earlier, and a rate well below the Imagine Canada 1.00% goal for “caring companies”. For individual donors, the comparable average donation rate is 0.83% of taxable income.

The tax deduction available to corporations and trusts was claimed in 2018 by 98,400 corporations and 3,000 trusts at a cost, in terms of lost revenue to the federal government, of an estimated $745 million[iii].

GIVING BY THE AFFLUENT

Statistics Canada has released data on donations by amount for the four-year period 2017–2020. In 2017, claims over $1,000 represented 27.6% of total claims compared to a roughly similar share of 28.7% in 2020. However, the total number of claims greater than $100,000 increased from 4,710 in 2017 to 5,530 three years later, further emphasizing the concentration of giving among the most financially able. To view this through another lens, a mere 5,530 donors represented 23.4% of personal giving in Canada in 2020.[iv]

Figure 13: Number of Claims by Amount 2020

Total Claims	# of Donors (2020)	% Change (2017 to 2020)
Less than $100	1,234,640	-12.1%
$100 to $249	989,400	-2.8%
$250 to $499	742,370	-4.8%
$500 to $999	687,990	-2.3%
$1,000 to $4,999	1,074,150	0.9%
$5,000 to $24,999	367,960	7.0%
$25,000 to $49,000	23,040	8.3%
$50,000 to $99,999	7,300	9.3%
$100,000 to $499,999	4,690	15.2%
$500,000 and over	840	31.3%
Total	5,132,380	-4.0%

Source: Statistics Canada, April 2022

Given their importance to the charitable sector, and their use of donor-advised funds, it is worthwhile to focus on individuals with reported annual income in excess of $150,000, a segment with income well above the median income of all donors which was reported by Statistics Canada as $64,850.[v]

The trends reflected by this cohort of donors, which numbered 519,000 in 2020, are the opposite of the overall trend towards annual declines in the number of donors overall. Donors in this sub-group represented 10.1% of all donors at the end of 2020 compared to 8.9% in 2015. In terms of donations, this sub-group contributed 40.7% of total donations in 2015, a share that marginally decreased to 40.5% by 2020.

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GIFTS OF SECURITIES

The increased use of appreciated securities by affluent Canadians to fund charitable gifts is supported by aggregated data regarding non-cash gifts published by CRA.[vi] These data show that the number of charities that received gifts of publicly traded securities increased from 2,150 in 2015 to 2,221 in 2020.

The trend in the use of appreciated securities as donations, fueled by generally positive capital markets in five-year period, is further supported by an increase of $527 million in the total value of non-cash gifts, including insurance policies and private company shares, over the same period.

FACTORS RELATED TO GIVING

If, how and when people choose to donate is influenced by many factors, including but not limited to age and stage of life, personal income and wealth levels, economic conditions, tax incentives, degree of trust in charities, religious and cultural influences, and many others.

A MATTER OF TRUST

Measuring trust in an institution or a sector is a complex task with output that can vary widely depending on how trust is measured.

Every year Proof Strategies, a public relations agency, issues the CanTrust Index, a survey-based assessment of the level of trust Canadians place in various institutions and sectors. The 2022 edition of the index gave NGOs (a proxy for the charitable sector) a rating of 47%, a sharp fall from the rating of 56% five years before. Despite the decline, the NGO rating was well ahead of large corporations (27%) and governments (22%). It is worth noting that other surveys find that the level of trust in charities declines with age.

Figure 14: Trust in Canadian Charities by Generation

Generation Z (born 1997 - 2012)	71.0%
Millennials (born 1981 - 1996)	65.8%
Generation X (born 1965 - 1980)	63.9%
Baby Boomers (born 1946 - 1964)	62.9%

Source: Canada Helps, The Giving Report 2022

INCOME AND WEALTH

Although trust may be on the decline, and despite the impact of the global pandemic, the after-tax income and wealth of Canadians – in other words, the financial sources of charitable giving – have been increasing. For the period 2015 – 2020, Statistics Canada reported that median after-tax income of Canadian households increased from $60,400 to $66,800, an average annual increase of 2.1%. Some of the increase in 2020 may have been influenced by pandemic-related government initiatives such as the CERB program, but the overall trend still speaks to modest increase.

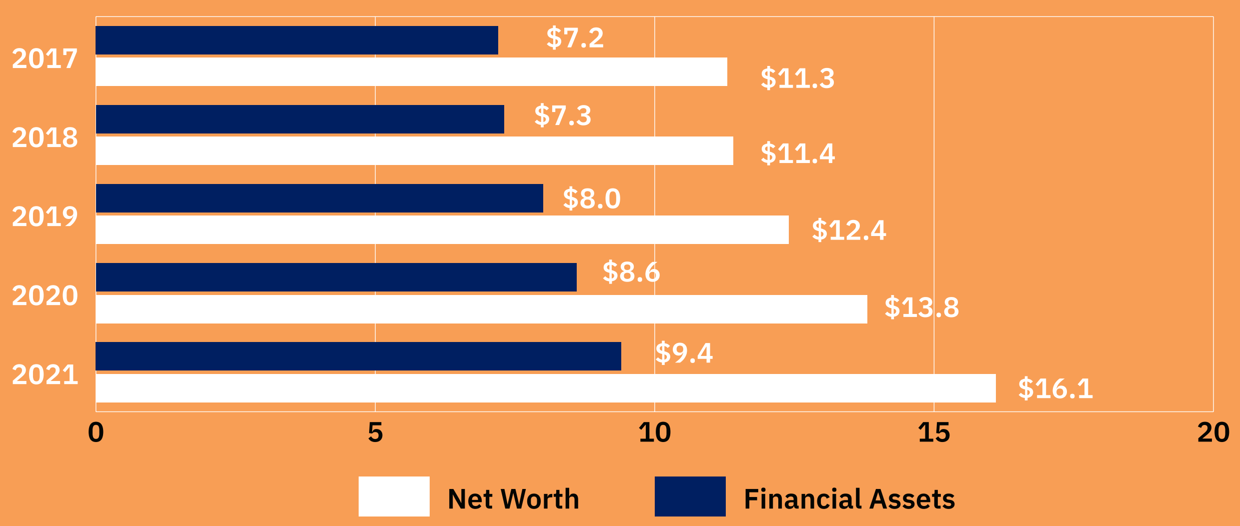
Figure 15: Median After-tax Income

2016	$60,400
2017	$61,900
2018	$62,100
2019	$62,400
2020	$66,800

Source: Canadian Income Survey, 2020. Statistics Canada 2022.

Furthermore, and notwithstanding an increase of almost $500 billion in household debt, the net worth of Canadian households, as reported by Statistics Canada, increased from $11.2 trillion at the end of 2017 to $16.1 trillion by the end of 2021, an annual average increase of 9.3%. Although recent economic and financial market events have taken their toll on asset values, total net worth at the end of the second quarter 2022 had reached $15.2 trillion. On average, financial assets represent 62.4% of household net worth.

Figure 16: Financial Assets and Net Worth of Canadian Households ($ trillions)



Source: Statistics Canada October 2022.

AGE

Income is only one part of the equation, however, as financial obligations impact the degree of available resources Canadians have to donate. This is significantly influenced by stage of life, and not surprisingly, the most generous age bands in terms of donor participation rates are 55 - 64 years of age and over 65 years, with participation rates in 2021 of 20% and 34%, respectively. Although these rates are above the overall average of 17.54%, both age cohorts recorded declining participation rates in recent years.

The most recent statistics published by Statistics Canada indicate that individuals over the age of 65 were responsible for 42% of total donations; one third was donated by individuals aged 80 or older.

As with the population as a whole, the affluent segment in Canada is aging, a demographic certainty which may herald an increase in charitable giving. At the end of 2020, 406,000 of the most affluent households (those with $1 million in investible assets) had at least one member at or over the age of 65[vii]. By 2030, this number is expected to have increased to 778,000, with the amount of financial wealth controlled by this group increasing from $1.7 trillion to $3.4 trillion.

GENDER

In terms of gender, a recent release by Statistics Canada provided evidence to support the claim that women are an increasingly influential force in charitable giving. Although the number of Canadian women donors who claim a tax credit is still lower than the number of men (48% versus 52%), there has been a shift towards gender parity in the decade ended 2020; in 2010 the ratio was 46% women versus 54% men. This share is not a true reflection of the generosity of women given the ability of couples to combine tax receipts under the name of the highest income earner in a household.

In late 2022, Statistics Canada reported that women made up 25.4% of the top 1% of tax filers with those women reporting average annual income from employment of $225,300. At the end of 2021, accumulated financial wealth controlled by affluent women – those with over $500,000 in investible assets – was estimated to be $2.4 trillion[viii].

These impressive numbers reflect a higher rate of participation in the workplace at managerial and executive levels; a rise in the number of female professionals and entrepreneurs; and, significantly, the fact that women are benefiting disproportionately from the significant transfer of wealth underway in Canada. Furthermore, thanks in most part to estate planning decisions taken by women, it has been further estimated that approximately $7 billion will flow to charities from the estates of Canadians in the decade ending 2030.

CLOUDS ON THE HORIZON

While many signs point to a better future in terms of the relationship between Canadians, particularly those with above-average incomes and wealth, and the charitable sector, there remain some hard-to-dislodge barriers.

Recent research[ix] reports point to some common objections by members of the affluent segment to giving to charity. Other than outright refusal on the grounds that sufficient support to the sector is provided via government funding, the objections fall into two primary areas: firstly, giving to charity is prevented by the immediate and future financial needs of family and/or other financial obligations; and, secondly, the affluent do not trust charities to use donated capital effectively, and charities may limit the ability of donors to determine how a major gift will be used.

Many Canadians are understandably concerned with other financial priorities, and recent polls indicate that paying down debt, investing for retirement or meeting regular obligations are key financial priorities which may harm efforts to increase the number of active donors. Specifically, 45% of those polled in Generation Z (under 25 years) and 38% of Generation X (40 – 55 years) indicated that their financial circumstances prevented them from giving[x].

As further evidence of the challenge facing charities, a study by Ipsos released in November 2022 , indicated that 22% do not give to charity in any way and approximately a quarter of Canadians donors expect to give less to charity in 2022 than they did in 2021. The financial impact of the pandemic and, more specifically, the negative influence of the current levels of inflation and interest rates were identified as the causes of this expectation by all age groups of donors.

Figure 17: Why a Quarter of Canadian Donors are Giving Less to Charity in 2022

Year	18-24 years	25-54 years	Over 55
Financial impact of inflation	56%	77%	81%
Impact of pandemic on financial wellbeing	41%	31%	24%
Not a priority this year	23%	7%	6%
Other reasons	14%	5%	8%

Note: Multiple answers allowed

Source: CanadaHelps survey undertaken by Ipsos 2022.

THE OUTLOOK

Despite concern about the state of giving, the current economic outlook for Canada and the unpredictability of asset values, Canadians remain generous and caring, and it is expected that they will continue to support the charitable sector. It is also reasonable to believe that growth in both the number and assets of affluent Canadians will continue to drive current trends of higher total giving levels, albeit from a smaller share of the population.

Affluent Canadians, of all ages, will continue to seek out solutions that enable them to integrate their philanthropy with other aspects of their wealth management activities. This search for convenience and efficiency will support the further growth of DAFs, particularly at foundations that recognize and react to these demands.

i Charitable donors, 2020. Statistics Canada. April 2022.

ii Balance sheet, income statement and taxation statistics with selected financial ratios, by total all industries. Statistics Canada. March 2022.

iii Tax expenditures give an idea of the cost to the Federal government of donations by Canadian individuals, corporations, and trusts. Canadian Charity Law. February 2022.

iv https://www150.statcan.gc.ca/n1/daily-quotidien/220412/dq220412d-eng.htm

v Statistics Canada. Table 11-10-0130-01 Summary of charitable donors

vi Blumbergs' Snapshot of the Canadian Charity Sector 2019. Canadian Charity Law. September 2021

vii Investor Economics Household Balance Sheet 2021. Investor Economics, July 2021.

viii Analysis by Investor Economics. 2021

ix Giving Back. The Generosity of High-net-worth Canadians. Mackenzie Investments. 2021.

x Giving at a Crossroads. Figure 5. The Giving Report 2022. CanadaHelps. 2022

xi Ipsos news release and associated data tables. November 15, 2022.

op·por·tu·ni·ty

a set of circumstances that makes it possible to do something.

OPPORTUNITY… DAFS AT THE INTERSECTION OF DONORS AND CAUSES

To go beyond the numbers, we conducted extensive consultations with donors, DAF foundation executives, representatives from charities that receive DAFs, thought leaders and advisors. These consultations sought to understand better the motivations and hopes of donors, why they are increasingly interested in DAFs as a giving vehicle, and how both charities and those in the DAF industry can work better with donors to help maximize impact.

op·por·tu·ni·ty

8 Key Themes

1/8 DAFS ARE INCREASINGLY POPULAR WITH DONORS, AS EVIDENCED BY THE GROWTH IN ASSETS, DONATIONS AND GRANTS TO CHARITIES IN RECENT YEARS.

"I love my DAF!"

– Donor

All donors who were interviewed (albeit a small and presumed positive group) unanimously identified DAFs as effective giving vehicles and a catalyst for their philanthropic planning and giving. Benefits mentioned included how their DAF "simplified" their giving, how it supported their efforts to build a culture of philanthropy in their children or grandchildren, and how it enabled them to set giving goals and track progress against those objectives. In terms of growth drivers, DAF foundation executives pointed to the global pandemic as a period of realization by many households of the urgent need for community engagement.

Interviewees agreed that the recent growth of DAFs – both in numbers of funds and assets held within them – had both positive and negative elements. On balance, the sense was that new dollars and new donors had flowed into the sector. Factors cited for this growth included an increase in household wealth; an aging population; the transfer of wealth between spouses and generations; the access to and promotion of DAFs by financial advisors; and greater awareness among donors of how DAFs can be used in terms of legacy and tax planning.

"You cannot underestimate the influence of thousands of trained advisors talking about DAFs day in and day out."

– Thought Leader

In the same way that mutual funds allowed retail investors to benefit from asset management skills and techniques generally reserved for institutional investors, such as pension funds and large public foundations, DAFs are viewed as having enabled donors to take advantage of services and tax regulations normally available to only a handful of wealthy philanthropists.

2/8 DONORS WHO GIVE TO DAFS TEND TO BE FUTURE-FOCUSED, AND CONCERNED ABOUT SUSTAINABLE, STRATEGIC GIVING AS PART OF A FAMILY LEGACY.

Donors who have established personal or family DAFs indicated that their giving has become more strategic and sustainable and less spontaneous as a result. They valued the ability to plan for future giving, and to involve younger generations in charitable decision-making. However, all noted that they continue to give via a variety of means, with smaller and more spontaneous gifts typically made outside of their DAF.

As was often noted in conversations about DAFs, the state of capital markets and competing financial priorities influenced the frequency and level of donations. Some initial and subsequent contributions were sourced from liquidity events. Such as the sale of a business or real estate, although most interviewees mentioned employment income (bonuses), investment gains and inheritances.

While most DAFs have been established by individuals or couples over the age of 55, many in the sector noted the emergence of businesses as well as, importantly, younger donors either starting their own funds or becoming more active in family DAFs. Since many DAF donors spoke of their own interest in engaging their children in active philanthropy, this is a positive sign in the face of declining donor numbers.

3/8 ANONYMITY NOT A KEY CONCERN FOR DONORS, BUT VERY MUCH "ON THE RADAR" FOR CHARITIES AND OBSERVERS

Donors stated that they generally view anonymity as unimportant relative to other factors in choosing to use DAFs, and almost all stated that they are very interested in building relationships with the organizations they support. However, financial advisors see it as an attractive feature when comparing DAFs to private foundations for their clients. A key nuance may be the difference to being known to a cause once you choose to support it, as opposed to being publicly linked to a foundation.

The frequent mention by financial advisors of the appeal of anonymity runs counter to comments made by advisors about the interest that donors have in being made aware of the impact of their gifts on the work of recipient charities. This also raises the issue of the need for a direct relationship between the donor and the charities they support, and the importance of clarifying the role of the financial advisor.

Recipient charities view anonymity, and the fact that they are dealing with an intermediary, as issues that can impede proper acknowledgement and management of gifts as well as developing deeper relationships with donors. Thought leaders, such as lawyers, policy makers, and academics raised concerns that any lack of transparency may encourage the inappropriate use of DAFs and, consequently, regulation.

4/8 OPPORTUNITIES FOR EDUCATION ABOUT CAUSES AND NEEDS, AND BUILDING CONNECTIONS TO CHARITIES, REPRESENT A KEY GAP FOR DAF DONORS

Donors who are more experienced with DAFs have a strong desire to learn more about needs in the sector, and charities they can potentially support. The sheer number of charities operating in Canada in any given area or sector was cited as a challenge by donors, although views were decidedly mixed regarding the desirability of DAF foundations stepping in to offer a charity selection service given experience with some external charity information sources.

Interviewees did, however, call for better communications, the creation of syndicates of like-minded donors, and access to news and information about giving opportunities and the sector as a whole. This desire represents an opportunity for DAF foundations to add to their "donor value proposition", as well as a call for recipient charities to ensure they are persistent in communicating with and stewarding donors who give through DAFs.

Although many donors appreciated the access they had to executives at the DAF foundations they deal with, they also recognized that not all donors have similar privileges. As the DAF community expands, there were concerns expressed about the availability of expert counsel to all DAF donors, whether in person or online. Some donors gave positive mention to efforts made by local community foundations:

> *"Community foundations can be a good option for clients looking for grassroots opportunities to work with smaller organizations."*
>
> **– Donor**

Also, there were comments made about the level of expertise within the financial advisor community – other than about investment matters – and the problem of an advisor providing incorrect information and advice on tax and other matters outside their area of competence.

Many donors expressed concern that using a DAF distanced them from charities they supported, and from understanding the impact of their gifts. As noted earlier in this report, the average DAF grant to operating charities is around $10,000 which, coupled with challenges in building relationships, may limit enthusiasm for investing focus and allocating resources to DAFs specifically. Given these donors' characteristics and charitable interests, charities would be well served to ensure they are investing in proactive engagement and stewardship.

5/8 DONORS LESS CONCERNED WITH FEES, MORE CONCERNED ABOUT THEIR MONEY "DOING GOOD" WHILE INVESTED

Donors indicated that the decision where to establish a DAF was influenced by their financial advisor, convenience, governance, and the level of donation at the time of establishment. Of less importance were investment options, the level and type of fees and the quality of reporting.

There was significant discussion, however, in the need to use undistributed assets in as socially responsible a manner as possible. Some foundations offer ESG options, while others are considering providing opportunities for investments with a greater social impact. Overall, the interest of donors in these types of investments was far greater than the willingness or ability of the DAF foundations to explore and introduce them.

It should be noted that fees for administration and investment management services have not increased in recent years and, in some cases, have been eliminated or reduced. These moves recognize the presence of economies of scale, the general direction of investment fees in the wealth management industry, the competitive nature of the sector, and the appreciation by DAF foundations that unreasonable fee levels may attract public and governmental criticism.

6/8 GROWING ROLE OF TECHNOLOGY, AND THE "NEED FOR SPEED"

Donors appreciated access to knowledge and expertise around financial aspects of giving and service, but consistently called for greater access to online information, and the need for faster processing of grants. In some cases it can take up to two weeks from the grant recommendation by the fund holder to when the funds are received by the charity, which in the case of disaster relief or other time-limited appeals (e.g. matching challenges) can be seen as unacceptably long.

Advisors and DAF foundation representatives were keenly aware that their clients (the donors) are seeking the same degree of efficiency and service over their charitable giving as they have with other financial aspects. The application of technology in terms of operating efficiency, grant recommendations, reporting and online access to information was frequently mentioned. In some cases, the expectations of DAF donors were viewed by foundations as being unsympathetic to certain processes, such as the sale of donated securities and the issuance of payments to charities. The application of technology is not expected to be uniform throughout the sector as various DAF foundations have different strategic goals and widely varying access to capital.

7/8 ROOM FOR GREATER TRANSPARENCY, FOCUS ON INDIVIDUAL DAFS

While many foundations shared information with the authors to inform this report, the necessity of conducting a survey of foundations speaks to the lack of data available to the sector. This theme was reinforced through the consultations, with many interviewees pointing to the lack of reliable, consistent, and timely data as preventing analysis of trends and developments in the DAF sector, including the changing makeup of DAF donors. This weakness was acknowledged by all groups, including policy makers and regulators, and it is widely expected that the collection of DAF data by the Canada Revenue Agency will become a priority.

op·por·tu·ni·ty

Similarly, regulation of DAFs was a matter discussed by all participants, with recognition that, in addition to requiring data at the fund level as part of annual filings, other areas of DAF activity might need to be regulated. In particular, there were a number of calls to apply a standard DAF disbursement quota at the fund level to provide transparency and reassurance that donated funds are "put to work" to the benefit of Canadian society.

While DAF executives and advisors did not challenge this hypothetical scenario, they did advocate on behalf of donors who have established DAFs as accumulation funds (as opposed to spend down funds) to allow major gifts in the future and/or gifts at a time when the donor's resources are lower. It will be important that any guidelines or regulations are not excessively rigid as to discourage this type of strategic gift planning.

There was a suggestion that those involved in the DAF sector, particularly DAF foundations, cooperate in terms of the development of a Code of Conduct and operational standards. The role of the financial advisor as an agent of the donor was identified as a matter that should be reviewed and clarified in educational material and regulation. Development of high-quality educational and information materials for financial advisors and donors was also identified as being a necessity to ensure all parties understand their roles, responsibilities, and ethical considerations.

8/8 OPPORTUNITIES FOR FUTURE GROWTH

As noted previously, financial advisors are often a key link, introducing the DAF concept to their clients as part of an overall financial plan. Investors who self-manage their investments through an online brokerage or asset management platform may represent an opportunity for growth in both DAFs and charitable giving, as they may not be benefiting from the same advice and introduction to structured giving.

There may also be a future role for DAFs in helping to facilitate donations of non-traditional assets such as cryptocurrency or works of art, in the same manner as they currently help facilitate gifts of appreciated securities. Based on the interviews conducted for this report, this has not yet become a pressing concern for donors or DAF foundations. However, it will be an interesting trend to monitor as younger generations that own alternative asset classes become more engaged with philanthropy.

> ***"I wish I could tell you that the charities received millions of dollars in donations through cryptocurrency but in some cases, we're talking hundreds of dollars or thousands of dollars of cryptocurrency donations. In fact, sometimes the amounts are so low that they don't even meet the threshold for some cryptocurrency systems to allow you to cash out the cryptocurrency!"***
>
> **– A Thought Leader**

Some executives and thought leaders expressed the view that access to capital needed for development, the limited ability to directly engage donors, and the introduction of regulations may lead to the consolidation or elimination of inefficient or marginal participant foundations.

Overall, there was general consensus that given the popularity of DAFs to date, they will continue to grow in the future with growing net benefit for the charitable sector.

> *"I am positive. So long as we continue to see more diversity and less hierarchy in the sector, then I think we'll continue to see positive growth and impact."*
>
> **– DAF Foundation Executive**

Conclusions

Even though, after a 70-year history, only about 2.5% of Canadian donors have established a donor-advised fund (DAF), the impact of DAFs on the charitable sector has been significant to the point that assets held in DAFs represented almost 5% of sector investment assets at the end of 2021. As pointed out in the report, donations (and transfers) to DAFs accounted for nearly 10% of receipted donations by Canadian tax filers in 2021.

FURTHER GROWTH AHEAD

This position, and the projection that DAF assets will reach $12.5 billion by the end of 2025, is sufficient reason for all stakeholders in the sector to sit up and take notice. Stakeholders, be they community foundations, financial planners or providers of technology, have no option but to consider the implications of this outlook in terms of donor activities, advisor education, regulations, infrastructure and, importantly, how best to ensure that DAFs become a reliable and increasingly accessible source of funding to both large and small charities.

Over the decade 2011 to 2021, the rapid growth of DAFs – whether determined by the numbers of funds, the number of annual grants or the number of charities benefiting from DAF grants – has been driven by a generally positive economic climate, a high number of liquidity events, an interest in taking advantage of some of the most generous tax incentives available to donors around the world, and the dedication of an expanding cadre of advisors and fundraisers.

BARRIERS WILL BE OVERCOME

Although Canada is in a period of slow economic expansion and unusually high inflation, there is evidence that the interest in the use of DAFs has not lessened. The global pandemic and the challenges faced by charities as a result has been a driver of DAF activity as have wars and natural disasters. New foundations are emerging, younger donors are being attracted to DAFs, and cash and appreciated securities are now seen as just two sources of capital that will fuel the growth of DAF assets. Not only that, but there is a sense that capital held in DAFs can be put to better use through investments that have real impact on critical causes.

OVERALL ENTHUSIASM

In some sense, there is competition between foundations and between DAF foundations and operating charities for donor dollars. Also, there remain those that accuse DAF donors of hoarding and delaying the distribution of much-needed capital to operating charities, and others that believe the immediate tax treatment of donations is too generous given the length of time that it takes to spend down a DAF. In the research undertaken in support of this report, these voices were heard and respected but not widely supported by either donors or charities.

MORE TO BE DONE

At the same time, many of those that shared their thoughts with us encouraged more research, more discussion, more data collection, more cooperation and, perhaps most significantly, a wider recognition that foundations cannot focus only on the needs of the donors but, equally, on the needs of the 84,000 charities and the urgent, critical needs of our society.

We believe we are all united in this collective commitment, and we celebrate philanthropists of all kinds.

> **phi•lan•thro•py...** *goodwill to fellow members of the human race; an act or gift done or made for humanitarian purposes*

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APPENDIX 1: OLD THINKING GIVES WAY TO NEW UNDERSTANDING

Old Thinking: DAFs divert capital away from operating charities leading to funding shortfalls at times of need.

New Understanding: Flows from DAFs have been steadily increasing over the past five years at a rate that is faster than the rate of overall donations and gifts from private foundations. DAFs currently provide almost $1 billion in annual grants to charities in Canada.

Old Thinking: DAFs are designed for use by only the wealthiest donors and do not encourage giving at all levels.

New Understanding: Although the average DAF holds about $400,000 in assets, many DAF foundations accept minimum initial donations of $5,000, and some DAF foundations have no establishment limit. While initially adopted by older donors, DAFs are now appealing to a younger demographic of affluent donors and are also being used to develop philanthropic values among children.

Old Thinking: DAFs are unregulated and provide an opportunity for people to use them merely for tax avoidance purposes.

New Understanding: The regulation of DAFs in Canada is no different than that applied to other types of funds, such as donor-designated and field-of-interest funds at community foundations. Currently, there is no disbursement quota imposed through the Income Tax Act although individual DAF foundations impose internal guidance on annual distributions.

Old Thinking: Financial institutions entered the DAF market for reasons of revenue and profit and not to improve the distribution of charitable dollars.

New Understanding: Given the level of DAF assets compared to those in other asset-based services, revenues from DAFs are very small. The provision of DAF services is consistent with the goal of financial institutions to retain clients and provide a range of financial planning and wealth management services. Fees applied to DAF services are low and are aimed at cost recovery and sustainable revenue, not profit maximization.

Old Thinking: As managers of DAF assets, some financial advisors are placed in a conflict of interest as they will benefit from the retention of assets in a DAF.

Reality: This potential conflict exists for those advisors that are not regulated as fiduciaries and who act as the manager of assets held in a client's DAF. Internal audit inspections and supervision provided both internally and through the New Self-Regulatory Organization of Canada limit the ability of advisors to abuse the system. Donors would also resist any attempts by advisors to stall their giving programs.

Old Thinking: DAFs enable donors to gain a financial benefit in terms of tax credits and capital gains relief while the benefit to society can be considerably delayed.

New Understanding: Current DAF granting rates and flows are evidence of the high level of support provided to charities. The same criticism can be made in terms of capital held in endowments at private and public foundations and many operating charities themselves. DAF donors have not objected to the recent increase in the disbursement quota. Other suggestions, including withholding the issuance of a tax receipt until the grants are made and the imposition of a 10 year sunset clause on donated capital, have been rejected by DAF foundations as being unnecessary and expensive to administer.

Old Thinking: DAF grants are primarily focused on large charities in the areas of healthcare, religion and social services which may not always be the areas of greatest need.

New Understanding: There is evidence of gift concentration by DAFs in these areas. However, there has been a noticeable increase in the number of grants and the value of DAF grants to smaller charities in recent years, prompted to some extent by needs associated with the global pandemic. Many small charities have yet to change their fundraising strategies to reflect the opportunity represented by of DAFs and the associated interest in donating appreciated securities.

APPENDIX 2: STRATEGIES FOR CONNECTING WITH DAF DONORS

Engaging DAF Donors: Suggestions for Charities

In discussions, donors who give through DAFs talked about how important charitable giving is to them personally, and their desire to have a deeper understanding of, and connections with, the causes they support. For charities, this represents an opportunity to engage more deeply with committed donors at a time when finding new sources of revenue is increasingly challenging. Based on the research and insights gleaned in this report, charities may wish to consider the following suggestions:

DO:

- Recognize that the usage of DAFs as giving vehicles is growing in Canada. As assets held in DAFs, and grants from these funds grow, they will provide an important source of funds for charities, particularly during periods of limited economic growth.
- As with other forms of gifts, ensure that the organization is clearly welcoming to donors who choose to give this way,. Some simple steps might include:
- Include "I will give through my DAF" as an option on solicitation requests and pledge forms, along with key contact points for direction of the grant.
    - Include DAFs in any listing of "Ways to Give" on websites or other materials to ensure DAF donors feel welcome. Further information can be included as warranted.
    - Recognize DAF donors in donor reports, recognition levels, etc., as you would donors who give through any other means.
    - Highlight DAF donors as part of ongoing storytelling alongside donors who give through other structured means.
- Follow up immediately upon receiving a DAF grant with acknowledgement to the DAF foundation, and the donor directing the grant. Even though a tax receipt is not required, timely notes of appreciation are always a good idea. If the fundholders' name is not provided by the DAF foundation, follow up with the foundation to request the contact information, or forward your materials and request that the DAF foundation pass them along to the donor.
- Ensure that your donor database and other systems are structured to link the fund holder with the contribution as well as the DAF foundation (i.e. "soft credit" or other mechanism).
- Include both direct gifts and DAF-directed gifts in any cumulative giving totals or recognition opportunities at equal value.
- Be aware that DAFs donors tend to be financially successful individuals and/or families who are highly philanthropic. Regardless of gift size, these donors may be prospective higher-level donors in future if well-stewarded.
- Recognize that some donors choose to use DAFs to simplify the process of gifting securities. These donors are cognizant of the challenge involved for smaller organizations in receiving these gifts, and may contribute to many charities after one initial contribution to the fund.
- Ensure that all individuals who may be involved in soliciting, receiving, acknowledging or stewarding DAF donors understand the basics of these giving vehicles, and the reasons why donors may choose to use DAFs.

- Consider having at least one staff role engage in further training around structured giving vehicles, including DAFs, by participating in CAGP or other professional association training courses and annual conferences.
- Search for and include reference to any prospective donors' DAF in briefing notes, profiles or other materials for staff who will engage with them.
- Recognize the important role financial advisors often play in establishment of DAFs, and their clients' giving plans. Where possible, identify DAF advisors in your community and ensure that they are aware of your interest in building strong relationships with DAF donors.
- Look for opportunities or projects that may appeal to groups or circles of DAF donors. It may be helpful to work with community foundations, or other relevant DAF foundations to share information or possibly find other aligned charities for specific projects.

DO NOT:

- Provide a charitable tax receipt for DAF grants.
- Assume that DAF donors want to be anonymous or arms-length from your organization unless specifically indicated.
- Ask only for standard gifts of cash or cheque on your pledge forms or other materials.
- Inadvertently exclude DAF donors from time-limited appeals or challenges (such as Giving Days) by not including commitments made for which the cheque will follow.
- Fail to acknowledge DAF gifts in a timely fashion.

A 2020 study undertaken by the Lilly Family School of Philanthropy at Indiana University reported that 87% of nonprofit organizations that solicited DAF gifts received a gift in the past three years compared with 42% of nonprofits who received a DAF gift over the same time period without soliciting for DAF gifts.

Talking to Donors: Recommendations for Advisors

In 2018 it was estimated that approximately 30,000 financial advisors of one type or another had direct access to a donor-advised fund (DAF) program. In 2023, the number may be slightly higher although dealers and investment counsellors have not been on a hiring spree thanks to COVID-19 and challenging capital markets. Although only a third of advisors have direct access, others have the ability to refer their clients to local or national foundations that provide DAF services.

As mentioned in this report, advisors focused on high-net-worth (HNW) households have been a growth engine for donor-advised funds over the past decade. But, based on our interviews, the number of advisors that engage in conversations with clients about philanthropy in general and DAFs in particular would likely number no more than 6,000 – 7,000.

Research in Canada and the United States has confirmed that around 70% of HNW clients view discussing charitable giving with their advisor(s) as important. Advisors cite a variety of reasons about avoiding such conversations:

1. Business model is focused on investments.
2. Lack knowledge of charitable giving vehicles.
3. Reluctant to provide tax advice.
4. Clients are not philanthropic.
5. Asset leakage.

In 2018, less than half of investors indicated satisfaction with the quality and outcome of philanthropic discussions with advisors. Donors interviewed for this report also indicated that they would like to see more knowledgeable advisors. In order to significantly increase the number of and quality of philanthropic conversations, there are some steps that can be taken by advisors.

BUILDING KNOWLEDGE

- Become familiar with giving programs used by colleagues, particularly those that are integrated into the wealth management offering of the firm or financial institution.
- Take advantage of educational courses offered by local community foundations, charity sector associations, such as the CAGP, and local colleges and universities.
- Become familiar with the Income Tax Act, at least the part that deals with charitable giving and the donation of securities and other assets.
- Volunteer at a charity and/or channel personal donations to local/national charities so clients know you are an active supporter of charities.
- Sign up for blogs and research reports from reliable sources, such as CanadaHelps, Imagine Canada and Carleton University's PANL.

TALKING TO CLIENTS

- At the time of client portfolio, financial or estate plan review, ask questions about charitable giving by the client. Assess the client's level of knowledge of giving vehicles.
- With new clients, unless prompted, avoid discussion of philanthropy until the relationship is well established and there has been an opportunity to review the client's balance sheet, income/cash flow statements, tax filings and will.
- Hold an information session with clients about giving vehicles, how they work, and the features and benefits of each vehicle. Involve an internal, third-party expert or representative of a local charity.
- Recognize that tax benefits are not a primary driver of generosity and avoid focusing discussions with clients on technical/tax issues. Take steps to discuss personal and family values and circumstances that may influence charitable giving.
- Along with in-house experts, or other advisors used by the client, develop a family giving plan that has a mission, a set of objectives and a modus operandi.

DISCUSSING DAFS

- When discussing DAFs, confirm that the client understands that any donation to a DAF is an irrevocable gift to a foundation; that the funds can only be used for charitable purposes; and that the client cannot give instructions but only make recommendations as to how the funds are distributed.
- Ensure, when discussing DAFs, that clients understand the differences between:
  - Endowed DAFs
  - Legacy DAFs (funded by bequest or life insurance proceeds)
  - Accumulation DAFs
  - Spend-down DAFs
  - Flow-through DAFs
- Provide material on DAF programs and terms and conditions so that clients are aware of all fees, constraints on the usage of donated funds, investment choices, and limitations on the ability of the advisor to be directly engaged in the implementation of a giving plan.
- Go over the process for giving grant instructions and how recommendations are implemented.
- DAF discussions should generally extend to all members of a household and, where possible, individuals who may be identified as successor advisors (those people able to give instructions to the host foundation when the founding donor(s) pass away).
- Review the activity within the DAF – both donations, grants and investment performance – at the time of quarterly or annual reviews.

Advisors play a critical role in supporting their client's charitable activities. Working with clients in this area has proven to strengthen and deepen relationships and moves the relationship from the individual to the household and, ultimately, the family.

ACKNOWLEDGMENTS, RESOURCES & METHODOLOGY

The assistance and guidance of many in the charitable sector was critical to the production of this report, and we extend our sincere thanks to all those that volunteered their time and wisdom.

We would also like to extend our sincere thanks to the Private Giving Foundation, who through their ongoing support of the CAGP Foundation have helped to fund the production of this report.

KCI and CAGP Foundation are solely responsible for the content, analysis and conclusions of this report.

Data, information, and opinions used in this report have been gathered through:

1. Proprietary databases developed and maintained by KCI.
2. Databases maintained by Canada Revenue Agency and Statistics Canada.
3. Foundation grants for the 2019 to 2021 tax years including sector of recipient charity from Imagine Canada's Grant Connect platform
4. Databases of historic information from T3010 returns maintained by third parties, such as Blumberg Segal LLP.
5. Reports dealing with charitable giving in general, and donor-advised funds (DAFs) in particular, published in Australia, Canada, the UK, and the US.
6. Annual reports published by public foundations, including community foundations and foundations established by financial institutions.
7. Articles published in various academic and trade journals.
8. Surveys undertaken by reputable research firms and organizations into attitudes, activities, and expectations of personal donors.
9. Focus groups and interviews conducted by KCI with donors and individuals directly and indirectly involved in the provision of advice to donors and the management of foundations.
10. Interviews with lawyers focused on the provision of legal services to the charitable sector and officials of the federal government.

Information From Government Sources

Charitable taxfilings (T3010 forms) from the Canada Revenue Agency were used as a key information source on registered charities and foundations that offer DAFs. In most cases the most recent tax year available was 2020 or 2021.

Statistics Canada data on individual taxfilers' claimed donations published by Statistics Canada was also used, but at the time of writing of this report the most recent data available was for the 2021 tax year.

Despite this discrepancy, every effort has been made to ensure there is consistency and clarity across this research study. In earlier reports, the absence of comprehensive and timely data was identified as a weakness that needs to be addressed by both government sources and the sector.

Standardization of Fiscal Years

In developing the database which supports this report, KCI recognized that the calendar year-end and the fiscal year end used by some foundations were different. Following a review of these instances, it was determined that using calendar year notation would be most straightforward. Accordingly, where fiscal years span calendar years, they were aligned with the “best fit” calendar year. For example, a fiscal year ending March 31, 2022 is included with, and referred to as, 2021 in this report. In our view, given the number and size of the institutions involved, the accuracy of the data has not been materially impacted.

Estimates

As with the original report, KCI has been required to estimate certain items. All estimates have been rigorously tested and are based on available data published on institutional websites and in annual filings, annual reports or audited financial statements, as well as data derived from survey responses. In all cases, we view our estimates as conservative.

Proprietary Survey

In order to collect as much relevant data and information as possible, and in order to ensure that estimates would be based on reliable data, KCI undertook a survey of foundations that offer DAFs. The survey was distributed in October 2022 to approximately 60 foundations The results of the survey, to which 24 foundations responded. have been integrated into this report.

Focus Groups and Interviews

All focus groups and interviews were conducted by KCI professionals using a discussion guide developed for the explicit purpose of seeking information for this project. Discussion guides were provided to participants prior to the interview or focus group. Focus groups and interviews were conducted over the telephone and through video conferencing platforms.

Each interview or focus group was limited in time to one hour and a common set of questions was asked of participants in each group. In some areas, questions were similar for each group while other questions reflected the specific role of the group in the DAF ecosystem.

Recognition

Throughout the report, published information sources have been recognized using references within the text of the report or through endnotes.

Data Accuracy

Every effort has been made to ensure the accuracy of the data. At the same time, it is recognized that the absence of a common year end for all foundations; different accounting protocols and terminology; the occasional absence of segmented data; and the need, in a few cases, to make estimates has complicated the task. In all cases where estimates have been necessary, care has been taken to be conservative and to test assumptions against verifiable data.

Segmentation of DAFs

As was done in reports previously published by Investor Economics, DAF organizations have been segmented into four major categories for the purposes of the data analysis. The response to the project survey by Faith-based foundations was limited. As a result, in some areas, the data for this category was combined with the community foundation data. In other areas, estimates have been made although, in a few areas, a decision was taken not to include faith-based data as even reasonable estimates could be challenged. Inclusion or exclusion of Faith-based data is noted in the narrative where applicable.

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