THE PAF REPORT – RECORD FUND NUMBERS AND DISTRIBUTIONS

JBWere

By John McLeod

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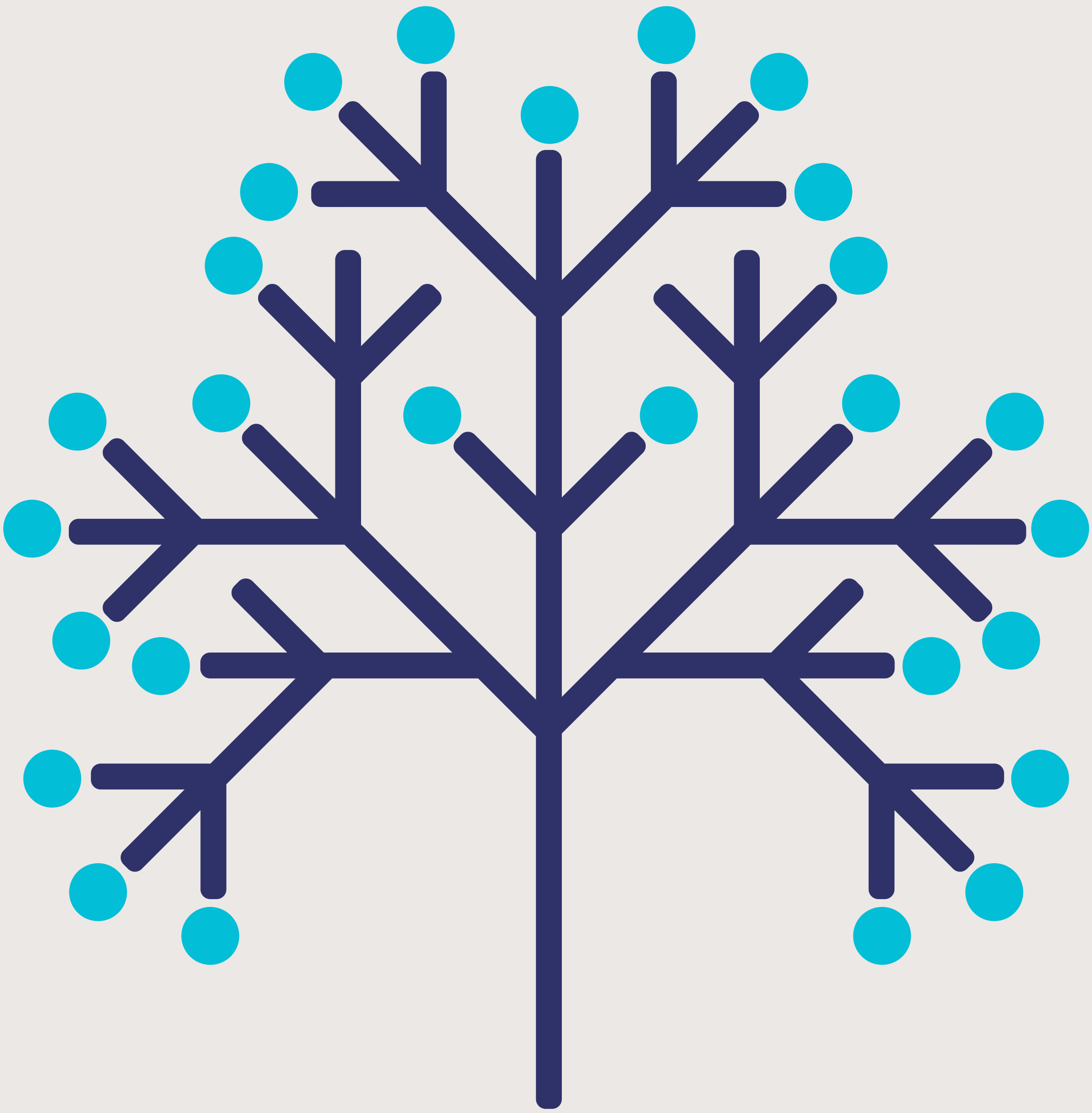


We are pleased to again provide our annual report on Private Ancillary Funds (PAFs) detailing their history, scale, growing use as a multi-generational family philanthropy vehicle and more importantly, the contribution they are making to Australia's charitable sector. Their introduction over 13 years ago, combined with the more recent jump in large and public gifts, has provided philanthropy in Australia its biggest leap forward in many decades.

JBWere has had a long and close association with PAFs with many of the firm's clients and staff establishing them after learning about and discussing their potential with the Philanthropic Services team. We have actively participated in Government submissions around suitable and sensible rules and guidelines governing their operation. We have also more broadly promoted PAFs along with other structured and non structured giving alternatives to provide the best solutions for individuals, family and corporate support of the non profit (for purpose) sector.

This report examines the evolution of the PAF to its current role as the vehicle of choice for larger structured philanthropic giving. It highlights the growth in numbers established and their locations, donations into and distributions from PAFs plus the issues that have led to changes in these measures over time. The report details moves in cause areas supported and payout ratios and makes predictions about the corpus size, distributions and the shifting balance of donations into versus distributions from PAFs. It also looks at a number of innovative ways in which PAFs are being operated to enhance both social returns achieved and satisfaction gained by founders/trustees as well as some of the pitfalls in their operation. In addition, the report compares PAFs to the also large and previously unreported pool of public ancillary funds. Finally it looks at the likely future of PAFs over the next few decades.

We hope you will enjoy reading this report, whether from a current PAF, interested sector supporter or potential recipient perspective and would encourage further discussion on any aspects with the JBWere Philanthropic Services team.

Highlights

- There are now 1,240 PAFs operating across Australia with a post GFC record number established in 2014. New South Wales saw its highest ever year of new PAFs and now has 42% of all PAFs.
- Family involvement and particularly the engagement of children is proving an important driver for the use of structured giving such as PAFs. This extends to all areas of their operations including distribution and investment decisions and it provides an ideal broad learning environment, often for both generations.
- Distributions from PAFs have grown to record levels reaching $251million in 2012 and estimated to exceed a cumulative $1.7billion in 2014. The strong and consistent growth in distributions has highlighted the value of having a dedicated philanthropic corpus through variable financial market conditions.
- PAFs continue to distribute around 9% of assets annually, well in excess of the minimum 5% required, with the average PAF distributing around $250,000 each year.
- Welfare still dominates as the most popular cause for distributions with a 28% share in 2012 and an estimated total to date of $500m since PAFs began. Health and research enjoyed good gains in 2012 while culture slipped although it still sees support from PAFs well above the proportion seen in broader giving measures.
- The overall PAF corpus jumped to $2.9billion in 2012 and with an increase in new PAFs established since, plus financial market gains, is estimated to be currently around $4billion.
- Many PAFs are doing more than simply making annual distributions from the returns of a traditional financial portfolio in an effort to maximise their social return. This can involve their choice and use of asset types such as impact investments, ethical or social screening or making PAF assets available for use by eligible DGRs such as low or no cost rental property, providing support beyond just dollars to their chosen causes.
- Public ancillary fund data has been recorded and released for the first time showing an even larger distribution to DGRs than PAFs although from a smaller corpus. This is due to many being 'flow through' funds operated as the fundraising vehicle of charities.
- As the overall PAF structure gradually matures we are seeing the gap between new donations into PAFs and distributions from PAFs narrow. We expect this balance to reach equilibrium in around 10 years. We also estimate that annual distributions will top $1billion over the next 20 years when the cumulative total of distributions should have reached $15billion.
- While very well regulated, there are a few areas where PAFs have encountered operating problems including distributing to other ancillary funds and not also including an audit of PAF guideline compliance when having a financial audit completed.

A brief history of PAFs

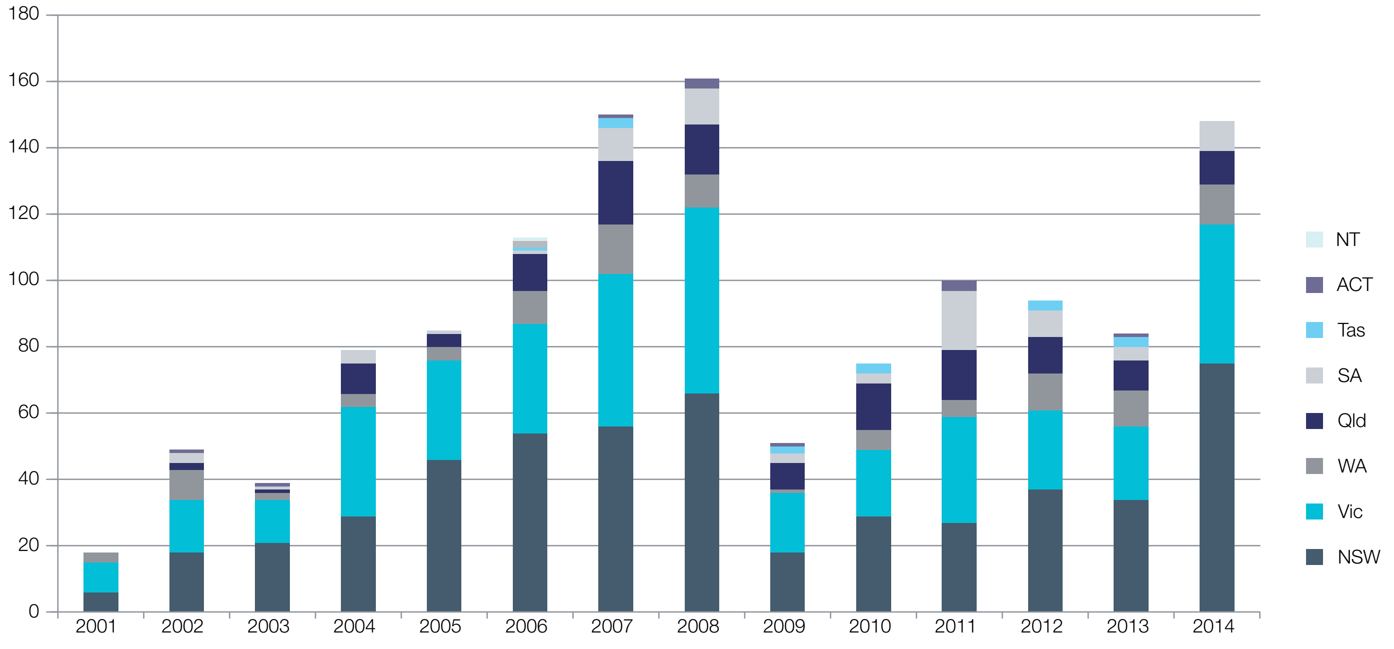
PAFs started life as part of the Howard Government's response to a March 1999 report by the Business and Community Partnerships Working Group on Taxation Reform to improve philanthropy in Australia. This led to the introduction of the Prescribed Private Fund (PPF) vehicle being available as a philanthropic structure from March 2001 and the first funds being established in June 2001. The number of funds grew strongly reaching 769 by June 2008 with a peak of 170 established in that year alone. Another addition to the list of philanthropic options was the introduction of workplace giving programs in July 2002. Interestingly the Prime Minister's *Community Business Partnership* was re-established in October 2014 after operating from 1999 to 2007 and is currently receiving submissions including the extension of portability to PAFs to allow their assets to be transferred to other ancillary funds in the event of their winding up. This is currently only legislated for public ancillary funds.

The attraction of PPFs included tax deductions for donations into them, exemptions from income tax and no public fundraising requirements (unlike public ancillary funds) while they were required to grant income to eligible deductible gift recipient (DGR) organisations. They also had to complete an annual audit and provide an annual return to the ATO while also having at least one external trustee/director of the fund.

In November 2008, the Rudd Government released a discussion paper on 'Improving the Integrity of PPFs'. After over 130 public submissions (including from JBWere Philanthropic Services) and after consultations, new legislation and guidelines were released converting PPFs to PAFs from 1 October 2009. Changes included replacing minimum annual distributions from an income measure to the simpler 5% of assets and requiring trustees be a corporation while also adding an audit of the PAF guidelines compliance be completed annually and the development of a formal investment plan.

The uncertainty around the final form of these changes plus the financial crisis of 2008-2009 saw a slowing in the number of PAFs established in subsequent years. After falling to around 50 in 2009, the number of new PAFs established annually rose to 80-100 over the subsequent 4 years before jumping to around 150 in 2014, almost beating the record 2008 year (chart 1). At Nov 2014 there were 1,240 PAFs operating with a further 70 that had been established but now closed or re-established as Public Ancillary Funds.

Chart 1 – PAFs established annually by State (for currently operating PAFs)



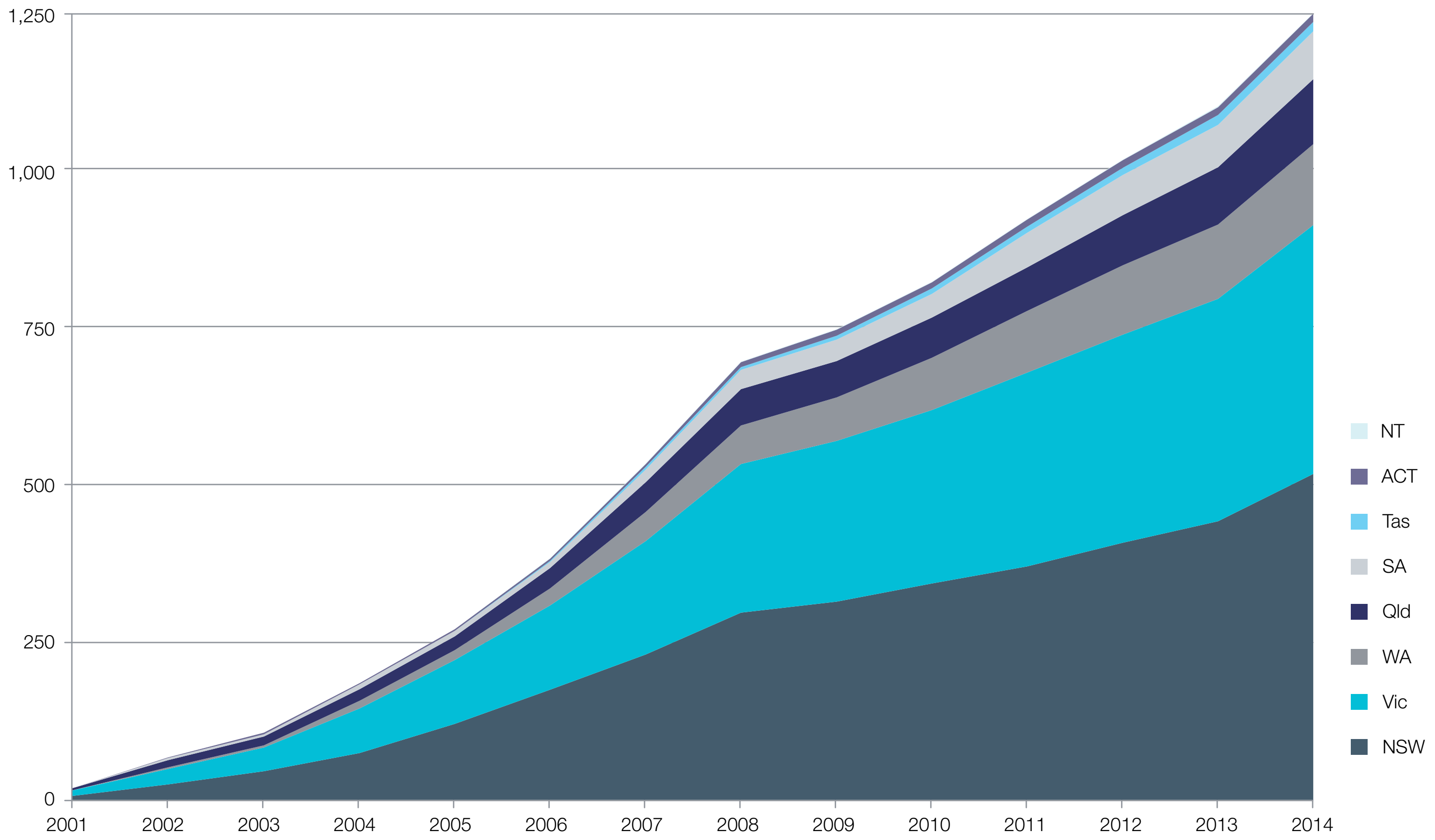
Source - ATO, JBWere Philanthropic Services

In terms of the overall location of currently operating PAFs, chart 2 shows cumulative totals established by State. The establishment State will usually be a good guide to the location of the founder, however as PAFs also operate under Relevant State Trustee Acts which can differ, some have chosen to be established in a different State. The strong early years of acceptance of (then) PPFs in Victoria, despite a larger and wealthier New South Wales, shows the advantage of that State's philanthropic history, although in more recent years establishment has followed the more predictable population and wealth measures with New South Wales seeing a record number established in 2014 and now having 42% of all PAFs.

While there are some issues around privacy (see the 'Common PAF pitfalls' section later), any effect on existing PAFs or the potential for new PAF establishment from the introduction of the ACNC is yet to be seen.

Other reports providing more detailed legal and operating information on PAFs are available from JBWere Philanthropic Services, Philanthropy Australia, the ACNC and the ATO.

Chart 2 – Number of currently operating PAFs by year and State of establishment



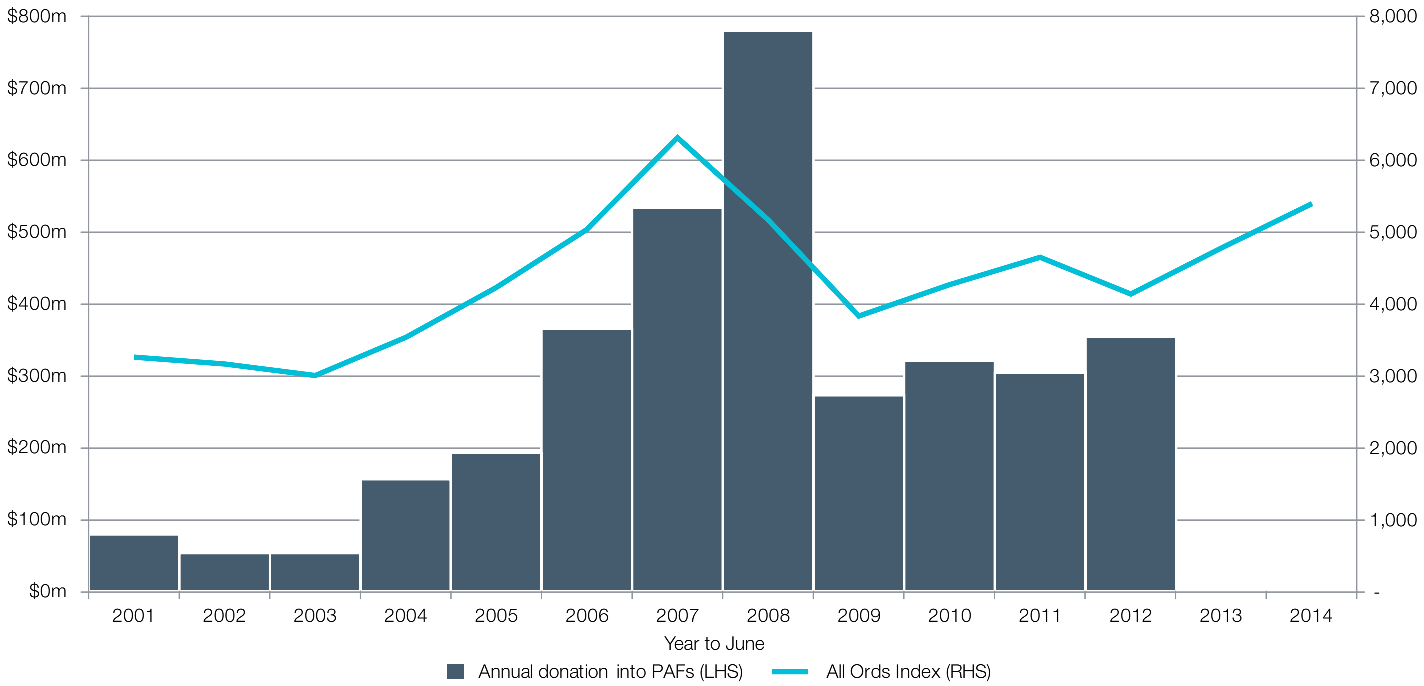
Source - ATO, JBWere Philanthropic Services

Donations made to PAFs are rising again

Donations into PAFs have begun to rise again after the GFC and regulatory uncertainty of 2009 (chart 3). The strong correlation with both financial markets and the number of newly established PAFs suggests further rises in donations into PAFs will be seen when ATO data is released for 2013 and 2014. In addition a proportion of the continually growing pool of existing PAFs are using the vehicle to aid annual tax planning and adding further donations to the, usually, larger initial sum contributed at establishment. Also while it has been rare so far, the addition of bequests will also form a part of future growth to many existing PAFs.

The donation of $354million into PAFs in 2012 raised the cumulative total to $3.5billion and suggests a total to 2014 of around $4.2billion, excluding any unusually large donations or bequests. The power of strong financial markets to encourage large donations is also highlighted by our inability to yet reach the record levels of the 2007 or 2008 years.

Chart 3 – Annual donations into PAFs and Australian equity market performance



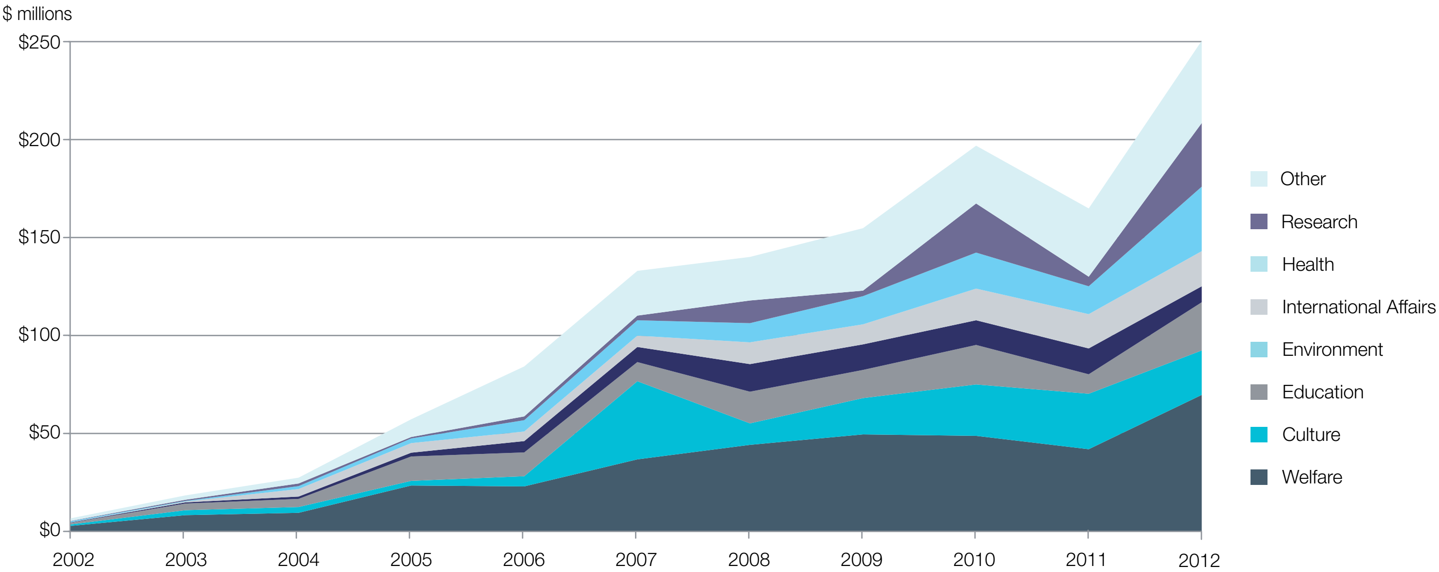
Source - ATO, JBWere Philanthropic Services

Distributions from PAFs jump to record levels

While the size of annual distributions from PAFs set another record level in 2012 (chart 4), two things stand out when looking at PAF distributions. Firstly, power of a growing corpus to deliver consistent and increasing levels of support for the charitable sector and secondly, the diversity of causes chosen by such a large group of individual PAFs. After falling for the first time in 2011 (possibly due to an incomplete set of PAF returns to the ATO at release date), annual distributions reached $251million in 2012 boosting cumulative totals to $1.2billion. We estimate this total will have exceeded $1.7billion in 2014. Given the relatively recent birth of the PAF vehicle, volatility in financial markets over this period and the uncertainty over PAF legislation changes, the continued and smooth rise in distributions is a welcome reward for a worthy sector and an idea championed by a small but influential and determined group of visionaries.

After plateauing in recent years, support for the welfare sector again showed its dominant position in 2012 with 28% of distributions, a similar share to that seen across all non-religious giving in Australia. Welfare has now seen estimated total distributions of over $500million from PAFs. Sectors to see their share of donations fall in 2012 were culture and environment, although the former still enjoys much higher support from PAFs than that seen from the broader population. Both health and research enjoyed a record share of distributions in 2012 with education and international affairs steady. The other notable area is 'other' which includes both legitimate smaller, eligible DGR causes but also includes some areas not allowed to be supported by PAFs. The most common of these is support of other ancillary funds, which, although down from a high of $11.6million in 2011, still saw donations of $6.4million in 2012. This will generally be where a legitimate DGR type 1 cause will have set up their fundraising vehicle as a Public Ancillary Fund. As these are a DGR type 2, the same as a PAF, they can't be funded. This will be covered in more detail in the Common PAF Pitfalls section of the report.

Chart 4 – Annual PAF distributions by sector



Source - ATO, JBWere Philanthropic Services

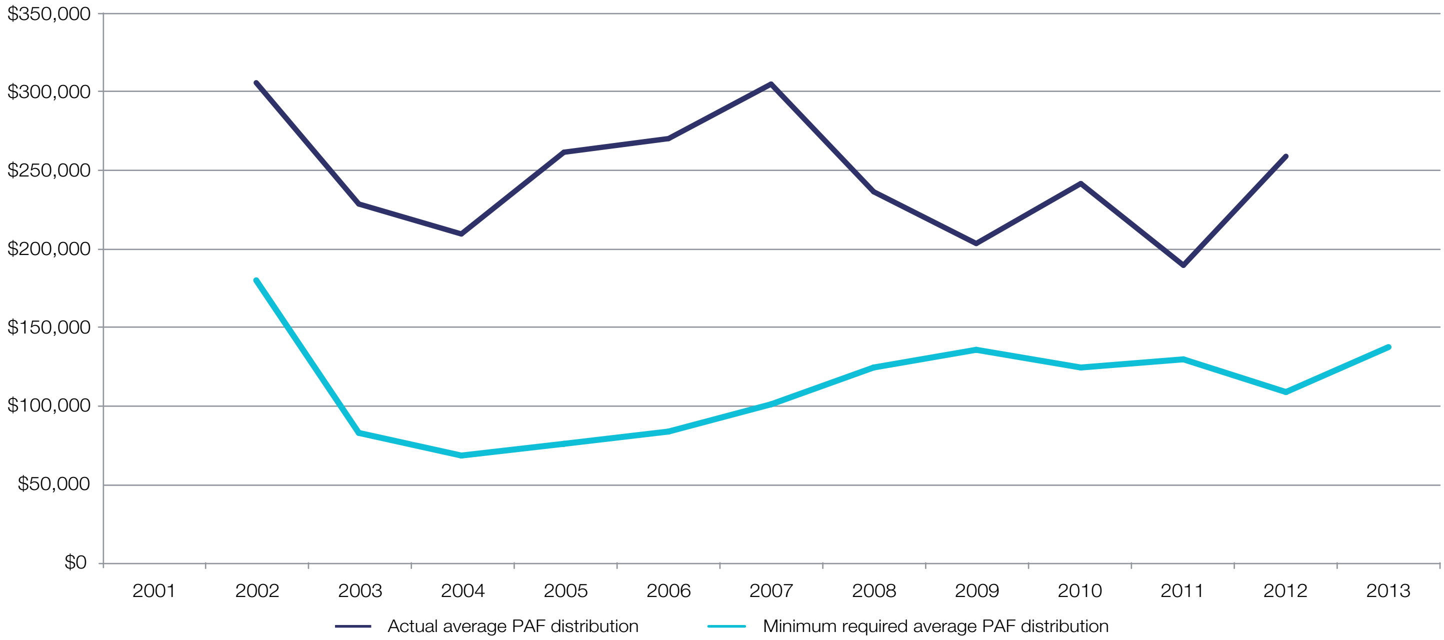
PAF payout ratios continue to exceed minimum requirements

Distributions from PAFs jumped to 11.8% of asset value in 2012, well above the minimum required and also above the 9% average seen since the 5% minimum payout rule was legislated in 2009. While part of this extra payout will be due to a small number of 'flow through' funds where all donations in are paid out as distributions and some that were set up with a shorter term sunset clause and have closed during the period paying out all capital, we believe that the full set of PAF information wasn't submitted by the 2011 reporting date and so a lower capital balance was recorded increasing the apparent payout rate. We expect future payouts to average around 8-9% of asset value.

With changes in the number and size of PAFs over time, it is useful to examine what the average payout requirement and actual payout levels have been in dollar terms. Chart 5 shows that the average PAF has distributed between $200-300,000 annually since establishment, about $100,000 over the minimum required. This also doesn't include operating costs which are paid for by the PAF in addition to its distributions. While all PAFs are different, this may be a useful guide to grantseekers when approaching PAFs for support.

Much has changed in the minimum amount PAFs have been asked to distribute annually. The very high payouts seen prior to 2007 were a result of an equity market with cumulative returns of around 25% including dividends where realised capital gains were often distributed as part of income, plus some very large share buy backs with attached franking credits which were eagerly taken up by these non-taxed entities. Clearly this was unsustainable and would have led to much lower payouts during the GFC, compared to the record dollar distributions seen after adoption of the smoother and more predictable 5% rule.

Chart 5 – Average annual PAF distributions and 5% minimum required



Source - ATO, JBWere Philanthropic Services

PAF corpus grows to record levels

We have examined the combined corpus of PAFs each year (chart 6) and looked at the average individual PAF size over that time. Weaker financial markets from 2009 combined with still good distribution levels had seen a flat total corpus to 2011, although it is likely the 2011 values under-reported all PAFs. The strong jump in corpus value to $2.9billion in 2012 reflected an increase in the number of PAFs despite a slightly weaker year in financial markets. However with stronger markets to 2014 and a rebound in the number of new PAFs established, we estimate that the total PAF corpus would be currently around $4billion. This is even more impressive when we consider that they will also have distributed over $1.7billion since establishment.

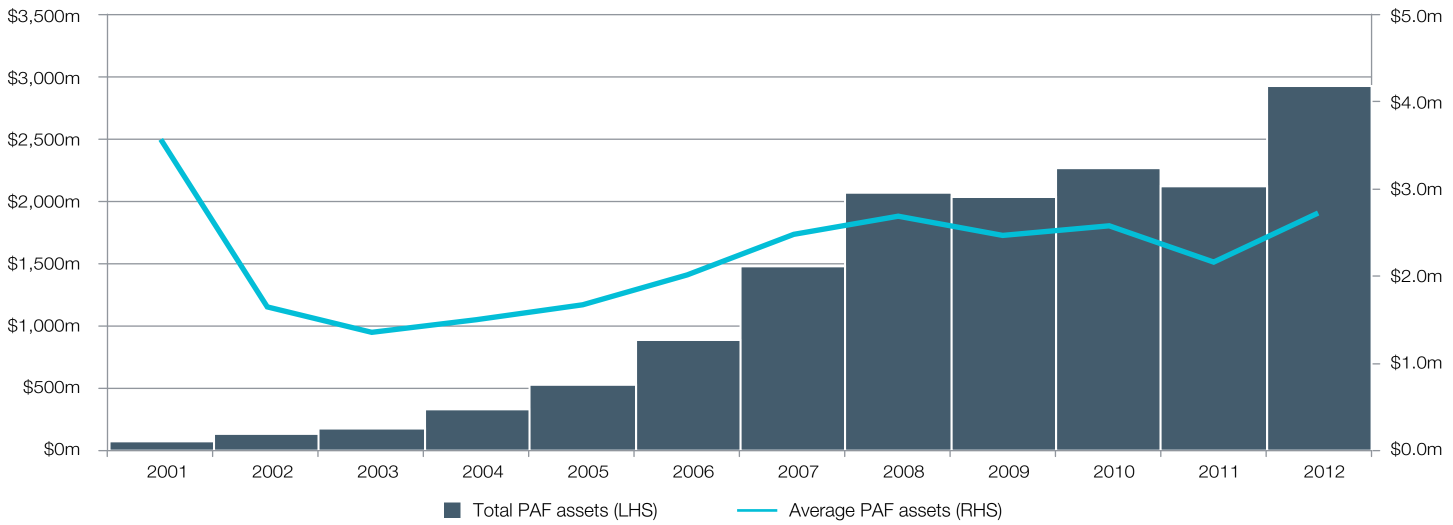
While the primary reason for the existence of PAFs is to provide support for the charitable sector (eligible DGRs), they can't do that without funds and the bigger that pool of funds, the more support they can offer. Although there are a small number of 'flow through' PAFs which distribute most or all donations in the same or following year using the structure more as a discipline, most are building a corpus over time through a combination of new donations into the PAF and financial performance above distributions and costs.

The average PAF has consistently had assets valued in the $2-3million range, well above our suggested $500,000 minimum size to justify use of this philanthropic vehicle. Apart from 2001 when the small sample size influenced PAF corpus averages, 2012 recorded the highest average PAF size to date of $2.7million.

In terms of financial returns, PAFs have performed quite well since inception. While calculations are difficult on an annual basis as tax returns are often incomplete for the full group when reported by the ATO and as many funds are run on a cash basis, the return of franking credits occurs in the following financial year (particularly important for share buy backs), estimates can be made using known donations into and distributions from the funds and opening and closing values of the fund. The resulting implied performance will be after costs associated with running the fund. We calculate that after costs and before distributions, PAFs have seen a little over 9% annual return on corpus investments since inception, well above Australian equities and fixed interest which both saw around 7%. This outperformance will largely be the result of the refund of franking credits which these non taxpaying funds (and other tax concession charities) can take advantage of. An observation on inflation is cautionary however. Although low in recent years, CPI took a little under 3% from nominal returns over the period 2002-2012. It is also sobering to observe other JBWere Philanthropic Services research that shows inflation in many charitable sectors such as health and education, is running well above headline CPI levels as service costs have risen faster than goods.

While collected by the ATO, actual asset allocation for PAFs is not released although research from ***Foundation Source*** shows US Foundations of similar size had asset allocations in 2013 of 56% equities, 29% cash and fixed interest and 15% alternatives and other. In both the US and Australia there is growing interest in investing the corpus in line with the social aims of the Foundation. Often this is done by simply using a negative screen on investments to reject activities that are viewed as detrimental to the social returns sought from their distributions. However increasingly, Foundations are engaging in Impact Investing through their corpus. This is where an investment provides both financial and social returns adding force to the PAFs social mission by more than just the distributions it makes. The most common type of investments globally have been in the microfinance areas but rapid growth is being seen in other fields, such as housing. It is interesting to note the relatively new PAF structures still mostly have their founders actively involved in their operation, unlike in the US where many generations may have passed since their founder's involvement, meaning they now employ professional staff to run the Foundation. One of the implications of this can be a more risk averse position on non traditional investments such as impact investments. We feel the Australian position offers the potential for a greater uptake of impact investment opportunities with founders still actively involved in decision making. More information is available in the joint DEEWR/ JBWere authored ***Impact Australia*** report or from the JBWere Philanthropic Services team.

Chart 6 – Total and average PAF corpus



Source - ATO, JBWere Philanthropic Services

Innovative ways of operating a PAF

While many PAFs are run very simply and successfully, quite a lot are using the structured giving vehicle in more diverse ways. This involves activities that further enhance both the social good being achieved and the personal experiences of founders/trustees through their involvement in the PAF process.

- **Becoming more closely involved with areas of social interest** – This moves the PAF beyond just 'writing the cheque'. It can extend from casual discussions with grantees to sharing skills and knowledge or contacts and joining Boards. It can even extend to arranging research in a particular field to better direct funding or activities or to promote an overlooked problem and potentially, should there be a need, establishing a DGR to directly work in an area of need.
- **Arranging or encouraging leverage of their distributions** – Particularly with Government and/or other donors where matched funding challenges may encourage further support from various sources. While more profile has come from efforts in gaining Government funding, it has extended to other areas such as the Impact 100 programs in Western Australia, Victoria and most recently South Australia and even to crowdfunding events (although care needs to be taken to be sure the recipient organisations are DGR type 1s).
- **Working with other donors, particularly other PAFs** – Having a growing pool of PAFs has inevitably meant a number have combined to collaboratively fund and offer other support/guidance to particular causes. Not only has this greatly aided the causes but it has seen strong, new, friendships develop between families and others not previously linked.
- **Funding evaluation for DGRs** – A number of PAFs have funded the DGRs they support to undertake social return on investment or similar evaluations on their programs. This has allowed both improved and better directed activities by the DGR and can be used as evidence of success in attracting other funders.
- **Using their corpus for both social and financial return** – There is growing momentum from a small but increasing number of PAFs to use part of their corpus to invest in assets that are designed to provide a social as well as financial return. This is commonly known as Impact Investing. Some PAFs are also providing DGRs with other forms of support through allowing use of corpus assets. One of the most common ways has been by providing the use of property at a low or no rent cost. In addition, if the organisation receiving the investment or using the asset is a DGR type 1, there is potential for any returns foregone compared to market returns, to be counted as part of annual distribution calculations. The JBWere Philanthropic Services team can provide further details.
- **Improving the knowledge base of PAFs** – It is recognised that better knowledge will lead to better grantmaking. Many PAFs fund activities which enhance the quality of their grantmaking such as membership of Philanthropy Australia or attending seminars/conferences related to their areas of funding interest.
- **An opportunity to 'reward' their responsible person** – While the vast majority of people acting as the responsible person on a PAF Board do it because of their relationship with the PAF founder/family, a number of PAFs not only have them actively contribute to the decisions on grant recipients but actually allocate a distribution to a DGR of their choice as 'reward' for services.
- **Employing a professional manager** – Depending on a PAFs size and complexity a number employ professional managers to run their PAF, similar to other large Foundations. They may be chosen for their management and/or expertise particularly in specific cause areas. Care needs to be taken that costs are appropriate and in proportion to the annual distribution levels of the PAF (see Common PAF pitfalls).
- **Involving children or extended family in the PAF** – This can be simply achieved by allocating a portion of distributions for children to decide as a learning opportunity, to adding them as trustees as they get older. A high proportion of PAFs who are members of Philanthropy Australia, have their children as members of PA's New Gen program, adding to the skill base and connectivity of the next generation and enhancing the PAFs operation. Management of the PAF can also be shared or alternated between family members to spread skills and workload. Not only does this teach social values but it also provides financial experience in a controlled and audited environment. For extended and multi generational families, often it is their philanthropy that provides the formal 'glue' that holds them together over time.
- **Benefitting from direct experience in the NFP sector** – Often children, extended family or friends may be working or volunteering in the NFP sector and have specific knowledge that is brought into the PAF and informs and influences grantmaking activities.
- **Using donations to a PAF to help in annual tax and estate planning** – Many donations to PAFs occur in years of high income and tax liability that may be irregular or a once off and may not coincide with a longer term desire to continuously support causes or even allow time to identify causes or specific DGRs. The PAF vehicle allows a separation of the timing of the donation to the PAF and tax deduction compared to the distribution to DGRs. This can be particularly important for retirees who find that in a low or no tax superannuation environment, all giving is made out of pretax dollars. While they want to continue to support causes, they are missing the opportunity of leveraging those donations as tax deductions unless they have matched higher income years with their use of structured philanthropy. In addition, many PAFs are now a beneficiary of the estate of founders and other family members.

Common PAF pitfalls

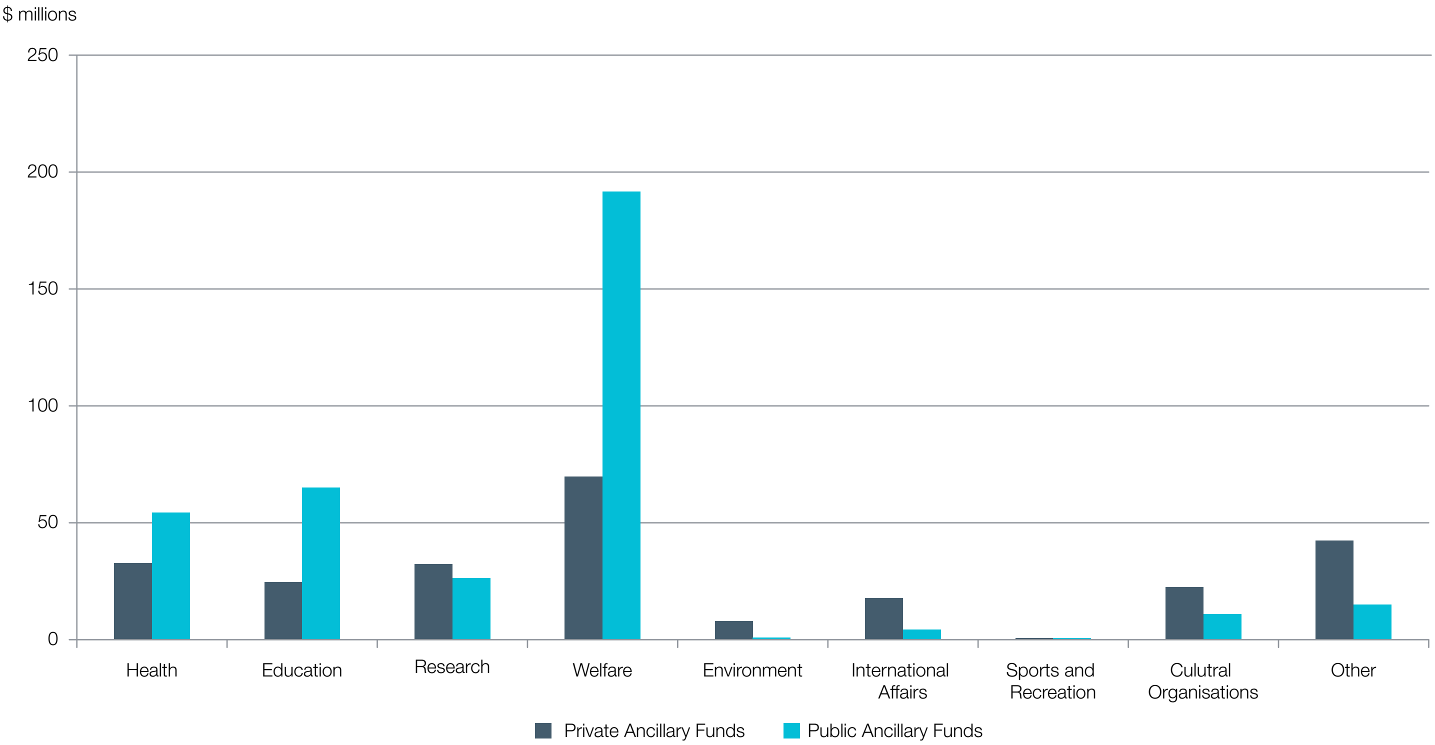
With the requirement for an annual audit, including an audit of compliance to the PAF guidelines plus an information return to the ATO, ancillary funds are more tightly regulated than other trusts and foundations in Australia and there is much confidence in their operations. However with such a relatively new structure and with new regulations in place since 2009, it is not surprising that some areas have caused problems in the running of PAFs. We have listed some of the more common ones and the team at JBWere Philanthropic Services will be more than happy to assist in this area.

- **Distributing to incorrect organisations** – PAFs are only able to distribute to type 1 DGR's. While this comprises around 90% of the almost 30,000 DGR's, many funds also distribute to type 2 DGR's which are either public or private ancillary funds. In many cases this is because charities have chosen to use a public ancillary fund as their fundraising vehicle. PAFs should use the ABN Search website (www.abr.business.gov.au) to check the DGR status of recipients.
- **Not completing an audit and importantly including compliance with the PAF guidelines** – One of the more recent changes to PAF regulation is that their annual audit must now show they have complied with the PAF guidelines as well as auditing their financials. This is still not a well understood area for all auditors. This compliance must then be indicated on the annual ATO information return.
- **Not submitting an information return on time** – These simple returns must be completed and supplied by February 28th for the previous financial year and while the audit is not required to be sent, it must be completed prior to the information return.
- **Not claiming franking credits** – This is now less likely as the ATO reminds and sends the application form to PAFs but post June, each PAF should apply for eligible refunds of franking credits. As there is no tax return to be completed for PAFs, a separate refund form is used.
- **Not having an Investment Policy** – Part of the new PAF guidelines (and their audit) require that a PAF has an annually reviewed Investment Policy which takes into account the objectives of the fund and its method of achieving that. As part of the Investment Policy, diversification of investments will be important. PAFs may have been gifted a single physical asset or one company share holding. This needs to be diversified. Also PAFs aren't allowed to hold 'collectables' and any gifted to the PAF need to be sold. PAFs cannot directly run a business, although owning shares in one is common. Any desire to use ethical screening or impact investments to aid the social mission of the PAF could be detailed in the investment policy.
- **High level of expenses** – PAFs can and would be expected to have costs of operation including in assistance with grantmaking (such as membership of Philanthropy Australia or education/information around social areas of interest). Although there are no legislative limits on these costs, the ATO can query the legitimacy of costs and in cases of high costs relative to distribution levels, will investigate. We would caution costs to distribution levels over 10%.
- **Borrowing within the PAF** – As part of the new legislation, PAFs can no longer borrow except in limited circumstances. Borrowings held by PPFs at Sep 2009 can be maintained and borrowings made to cover distributions can be made for no longer than 90 days and for less than 10% of the fund's assets.
- **Grantmaking** – While choosing where distributions will be made is the enjoyable and ultimately critical part of a PAFs operation, it can present difficulties. There are so many good causes and within each so many more great charities. Research and knowledge of the cause area and organisations is invaluable. While there is no right or wrong way to organise grantmaking, one of the issues we see is making too many small grants to a large number of organisations. From both administrative and effectiveness reasons we would encourage a smaller number of larger grants be made.
- **Privacy considerations for a PAF** – The ACNC will publish individual PAF details on their public register (as they will for all other charities) unless they are requested to withhold those details which many PAFs have done. In addition as PAFs are required to have a corporate trustee, an ASIC search is possible for directors and company address. Some charities and fund raising consultancies are using this and other research to directly contact PAFs for support. At this stage, this is not wide spread or of a large scale due to costs involved. A small number of PAFs have chosen to make themselves public, calling for submissions and having a web presence. This is rare due to the costs and administration involved.
- **Succession planning for a PAF** – Very few PAF founders have died (thankfully), however with many in operation for over a decade now and having children become involved, questions of succession and planning for control and knowledge transfer are becoming more common. Where this is not an option, a PAF can simply be wound up by distributing all of its assets to eligible DGRs and most likely in the future it could transfer its assets to another ancillary fund for ongoing management.
- **Is a PAF still the right philanthropic vehicle for me** – Situations evolve and many have found that a PAF wasn't the correct structure for their needs. About 70 have closed (6%) since establishment and more should possibly again examine their requirements and investigate other alternatives. Others should investigate if a PAF might be the ideal choice for their circumstance. The team at JBWere Philanthropic Services has broad experience in these areas and would be happy to advise.

Public ancillary funds are also a significant source of funding

While the ATO has reported financial details on PAFs since inception, they have now begun to collect and report on public ancillary funds from 2012. This is a welcome addition to the knowledge available on philanthropy in Australia. Public ancillary funds have been in existence for a lot longer than PAFs and are often preferred if fundraising is a desired activity or corpus size doesn't warrant the establishment of a PAF or if the responsibilities of trusteeship are to be avoided (for sub funds of a public ancillary fund). Both ancillary funds are DGR type 2's, must only distribute to DGR type 1's and have similar operating and compliance requirements. There are around 1800 public ancillary funds in Australia including community foundations, fundraising vehicles established by DGR type 1's and a number where sub funds or named endowments are offered such as the JBWere Charitable Endowment Fund. Chart 7 compares the distributions from PAFs and public ancillary funds in 2012. What is most notable is the large scale of distribution from the public funds. This is partly due to their use by many as a fundraising vehicle where all of the funds collected are distributed soon after and explains the 22% payout ratio seen from these public funds, despite only a 4% minimum required. The number of public funds reporting to the ATO in 2012 was 1,437, representing just over 80% of the funds operating. Their combined corpus was $1.7billion meaning an average fund had $1.2million of assets. Total distributions were $370million, above donations into the funds of $337million, again highlighting the 'flow through' nature of many of the public funds. Compared to PAFs, the public funds are much more likely to support welfare and education.

Chart 7 – Private and public ancillary fund distributions in 2012



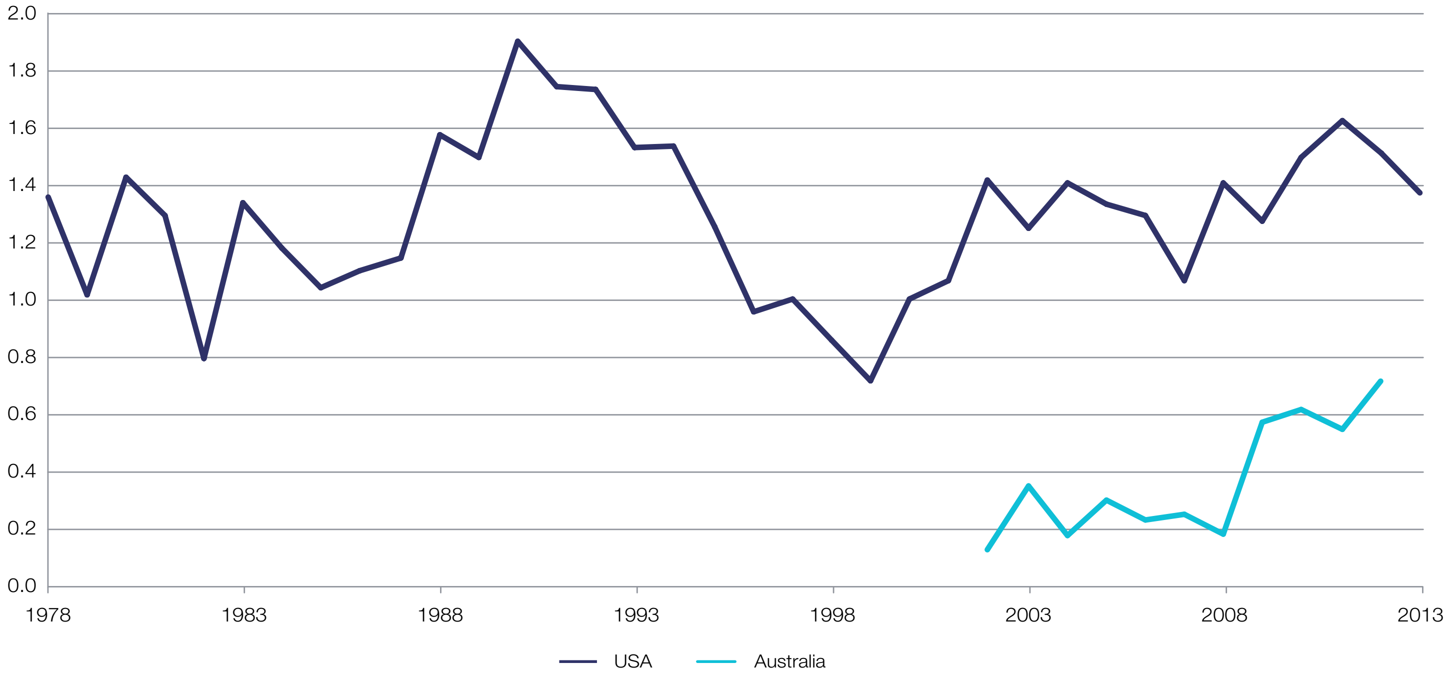
Source - ATO, JBWere Philanthropic Services

The future of PAFs

While the emergence of PAFs has reinvigorated philanthropy in Australia, they are still a relatively young vehicle. It is interesting to compare their level of maturity to that seen in Foundations in the USA which have been operating for much longer. Although many new and large Foundations are still being established in the USA, the existing pool of capital they are joining is much more significant and despite large financial market volatility in recent decades they have reached a point where distributions from Foundations in the US are larger than donations into them in nearly all years (ratios above 1 in chart 8). PAFs are yet to reach this level of maturity although are fast moving to this point.

We estimate that PAFs will reach this equilibrium point within 10 years and in a further 15 years reach the 1.2 times average seen in the USA. Over the next 20 years we would expect annual distributions from PAFs to have reached around $1billion, 4 times the record seen in 2012 and to see total cumulative distributions of almost $15billion. This would come from over 3,000 PAFs which although 2.5 times the current number would only represent 10% of the number of people who earned over $500,000 in 2012 or one third of those earning over $1million. Clearly there is much potential for structured giving to grow in Australia beyond even todays impressive position.

Chart 8 – Ratio of distribution from and donations into Foundations



Source - ATO, Giving USA, JBWere Philanthropic Services

THE JBWERE PHILANTHROPIC SERVICES TEAM

Shamal Dass

Shamal joined the Philanthropic Services team in November 2012. His responsibilities include the provision of specialist strategic advice to both non-profit organisations and private clients in areas ranging from the structuring of philanthropic giving, governance, capacity building, sustainability, donor relations and organisational strategy. Shamal also works in partnership with JBWere advisers to develop tailored investment management solutions that allow clients and non-profit organisations to fulfil their mission. Prior to joining JBWere, Shamal worked within the financial services and trustee industries where he has significant experience in advising high net worth individuals on their philanthropic structures, managing trusts and foundations (including PAFs), and constructing charitable foundation investment portfolios. Shamal is a member of the Cure Cancer Australia Foundation Youth Advisory Committee.

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John McLeod

John joined Goldman Sachs JBWere's Philanthropic Services team on its establishment in 2001 after 16 years in resource equity markets. His primary responsibilities were researching and analysing trends in the philanthropic sector; interpreting the findings to provide valuable insights for clients; and forging relationships between clients with a philanthropic interest and the not-for-profit sector. After retiring as a Principal and Executive Director of Goldman Sachs JBWere, John has been able to devote more time to both his family's interests in private philanthropy through a Private Ancillary Fund (PAF) established in 2004 and broader education through independent consultancy in the sector while still undertaking research and client advisory work for the Philanthropic Services team at JBWere. John is also the co-author of IMPACT – Australia: Investment for social and economic benefit.

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Josephine Paino

Josephine joined JBWere in 2008, managing a number of teams within the Client Services department before moving into Private Wealth Management. In 2012, she joined the Philanthropic Services team to provide specialist advice including strategic reviews for non-profit organisations, philanthropic and private clients. Josephine works closely with JBWere advisers to develop investment management solutions, enabling clients and non-profit organisations to achieve their mission. In addition, Josephine co-ordinates all of the wider Philanthropic Services teams insights and activities giving her a broad coverage and understanding of the sector. Josephine is the Secretary of the Investment Committee of the JBWere Charitable Endowment Fund and also a member of the JBWere Diversity Council.

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