

Investing: What Should the Development Professional Know?

Philadelphia Planned Giving Day
Reflecting on Tomorrow
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Investment Foundations

- Asset Classes
- Risk & Expected Returns
- Importance of Asset Allocation
- Responsible Investing

Multi-Dimensional Considerations for Investing CGA Assets

- Health of Your Program
- Key Characteristics and Potential Impact on Investing
- State Regulations

Charitable Remainder Trusts and Considerations

- CRAT vs CRUT
- Time Horizon and Payout
- Donor Considerations

Investment Foundations

Compounding

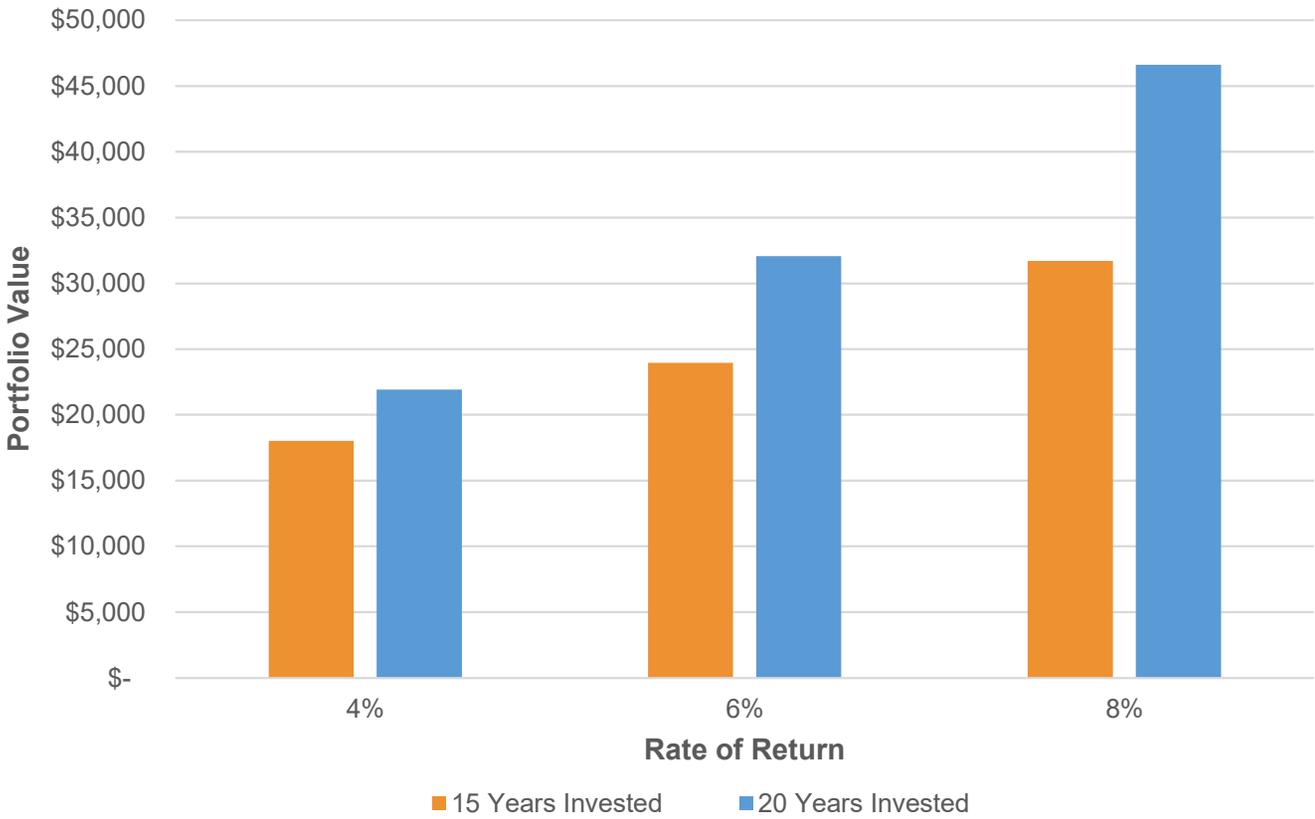
Understanding the Basics of Investing



An early start can make a difference:

Consider the difference in portfolio value from 5 less years of investing:

Value of \$10,000 Portfolio After 15 and 20 Years Invested



This example is for illustrative purposes only. The results in this example are based on the stated assumptions, and do not account for taxes, fees, transaction costs or withdrawals and assume reinvestment of dividends. Results have inherent limitations because they are not based on actual transactions, and hypothetical results may under or over compensate for the impact of certain economic and market factors, all of which can adversely affect results. Past performance is no guarantee of future results.

Compounding

Understanding the Basics of Investing

Timing the market is not only difficult, trying to do so can be costly to investors. The following table illustrates how missing the “best” days in the market over the past 20 years impacts the average annual return of an initial \$10,000 investment. “Best” is defined as the highest one-day return of the S&P 500®.

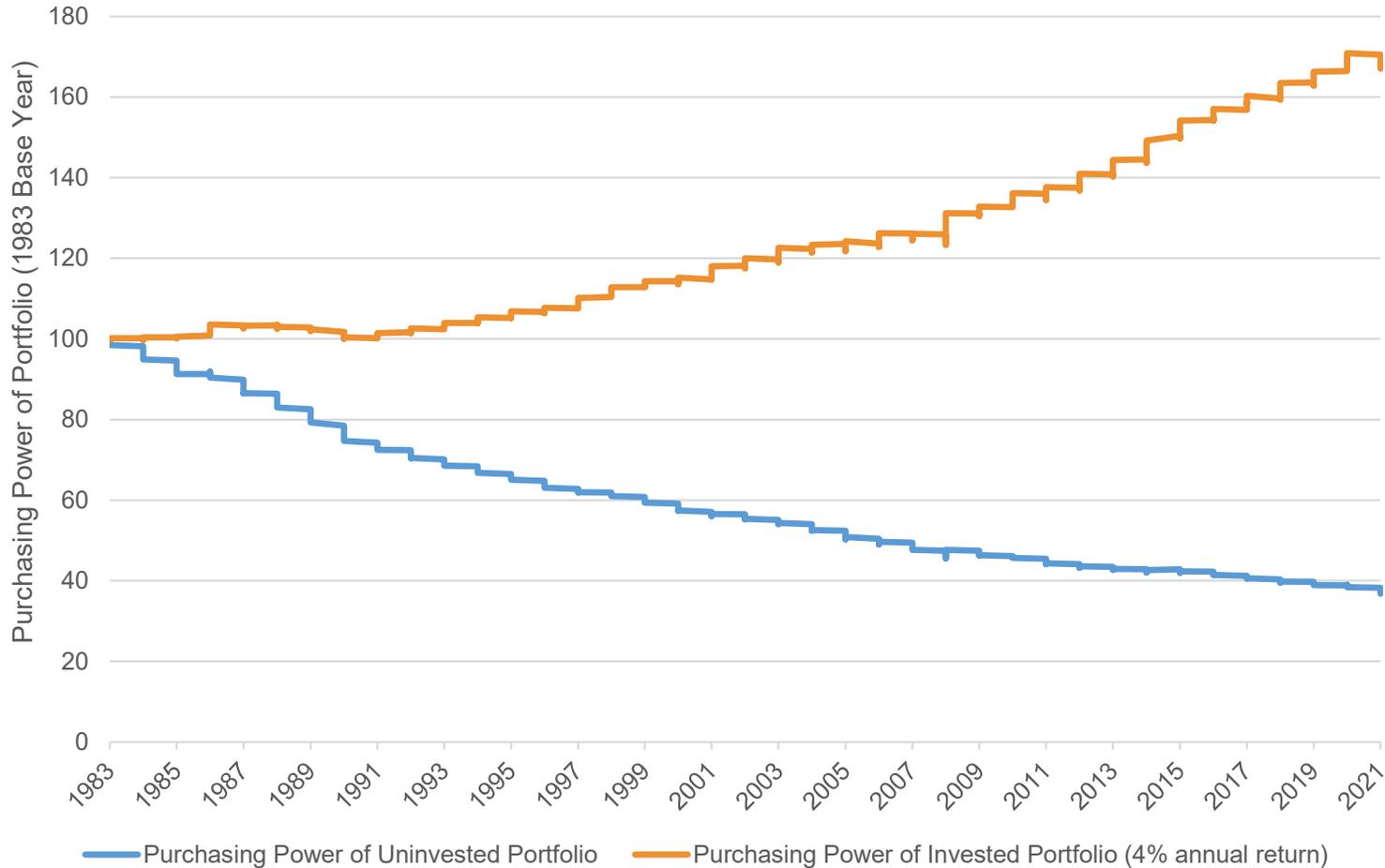
20-Year Daily Returns Ending 8/31/2022		
Period of Investment	Average Annual Return	Value of Initial Investment of \$10,000
Fully Invested	7.9%	\$45,399
Miss the 10 Best Days	3.7%	\$20,821
Miss the 20 Best Days	1.2%	\$12,595
Miss the 30 Best Days	-0.9%	\$8,276
Miss the 40 Best Days	-2.8%	\$5,654

The above information is for illustrative purposes only.

Source: Bloomberg L.P., PNC. The above data reflects the performance returns of the S&P 500, an unmanaged index of 500 common stocks, heavily weighted toward stocks with large market capitalization. Returns on the S&P 500 are price returns; no expenses have been deducted. Past Performance is no guarantee of future results. Indices are unmanaged, not available for direct investment, and not subject to management fees, transaction costs or other types of expenses that an account may incur.

How does it impact your investments?

Portfolio Purchasing Power

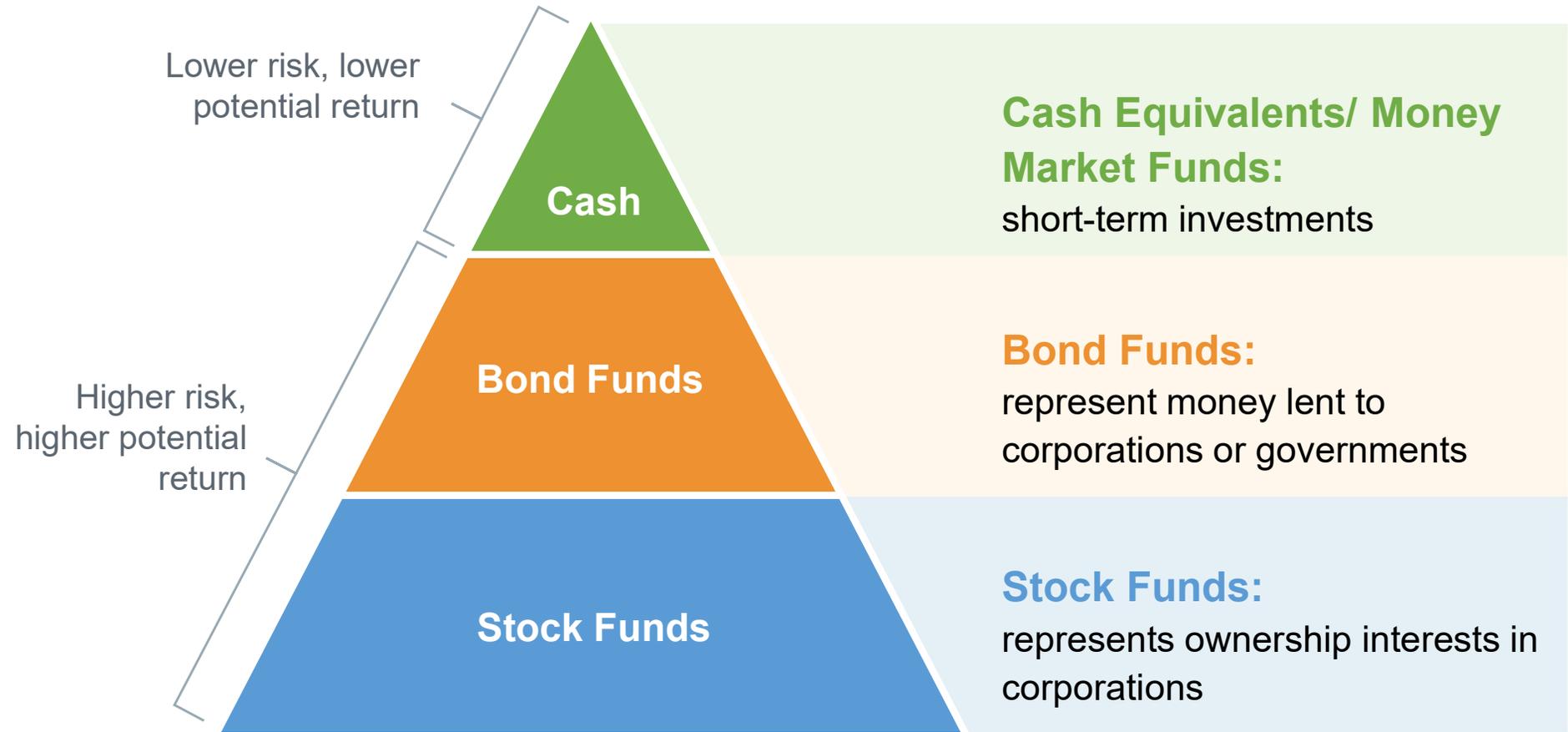


Source: FactSet®. FactSet® is a registered trademark of FactSet Research Systems, Inc., and its affiliates.

Chart reflects actual inflation rate for each year, and purchasing power does not account for taxes, fees, transaction costs or withdrawals and assumes reinvestment of dividends. This example is for illustrative purposes only. The results in this example are based on the stated assumptions. Results have inherent limitations because they are not based on actual transactions, and hypothetical results may under or over compensate for the impact of certain economic and market factors, all of which can adversely affect results. Past performance is no guarantee of future results.

Asset Classes

Understanding the Basics of Investing



Funds: pooled investments

- Also known as Equities
- Partial ownership of the company
- Long-term appreciation is the primary objective
- Higher long-term earning potential
 - Price appreciation
 - Dividends
- Variety of categories of stocks
 - Size of company
 - Type of investments
 - Fundamental approach
- Stock prices can be volatile
- Fees: \$\$\$

Growth

Value

Blend

Large Cap

Mid Cap

Small Cap

Global / International

Specialty

Asset Classes - Bonds

Understanding the Basics of Investing

Bonds:

- Also known as Fixed Income
- Lending money to the company
- Earnings from:
 - Periodic interest payments
 - Capital gain
- A bond's interest rate and life span are fixed
- More stability than stocks, but less earning potential
- Fees: \$\$

U.S. Treasury

Government

Municipal

Corporate

Mortgage-backed

Foreign

Short-term

Intermediate-term

Long-term

Cash Equivalents:

- Includes Money Market Funds and Stable Value
- Minimal price fluctuations (\$1.00 for \$1.00)
- Short-term and generally very liquid investments
- Pays periodic interest income
- Low risk but lower potential for reward
- Susceptible to inflation risk
- Fees: \$

Money Market

Treasury Bills

CDs

Savings Deposits

Section 4: Risk and Return of Asset Classes

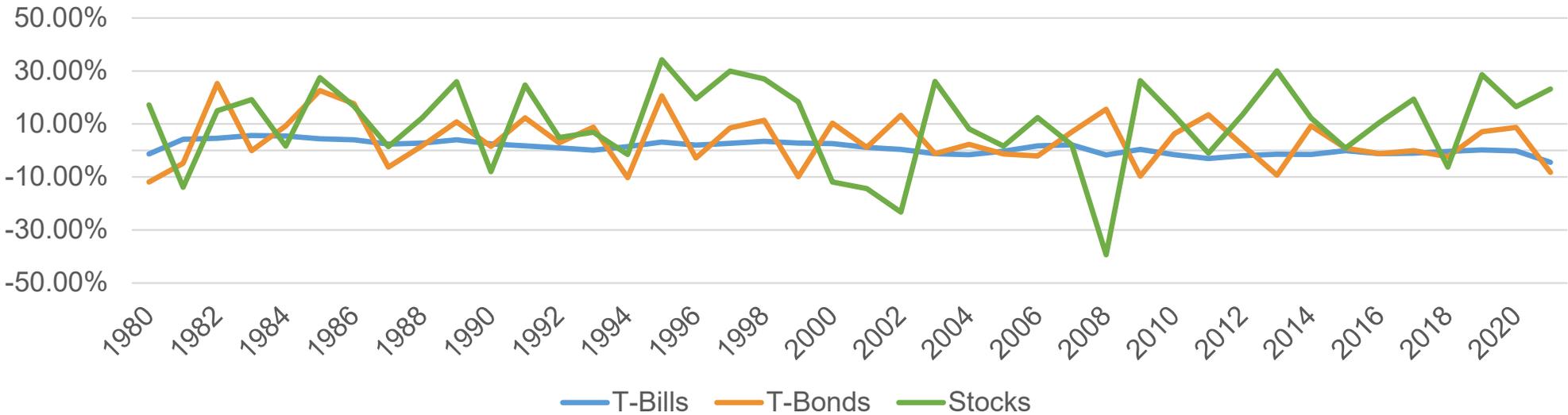
Historical Real Returns (1980-2021)



	Average Calendar Year Return	Standard Deviation (Volatility)	Worst Calendar Year	Best Calendar Year
T-Bills	1.01%	2.42%	-4.48%	5.66%
T-Bonds	3.99%	9.32%	-11.90%	25.28%
Stocks	10.18%	15.99%	-39.32%	34.23%

- The FTSE 3 Month Treasury Bill index is used to represent T-Bills.
- The FTSE 10 Year Treasury Bill index is used to represent T-Bonds.
- The S&P 500 Total Return index is used to represent stocks.
- All actual returns are adjusted for inflation in order to display real returns.

Real Returns by Calendar Year



Source: FactSet and Morningstar

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Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash. The asset allocation will depend largely on your **time horizon** and your **risk tolerance**.

Time Horizon

- Your time horizon is the expected number of months or years you will be investing to achieve a particular financial goal.
 - An organization with a longer time horizon may feel more comfortable taking on a riskier investment because it can wait out slow economic cycles and the inevitable ups and downs of our markets.
 - An organization saving for a project they want to start in 3 years would likely take on less risk because it has a shorter time horizon.

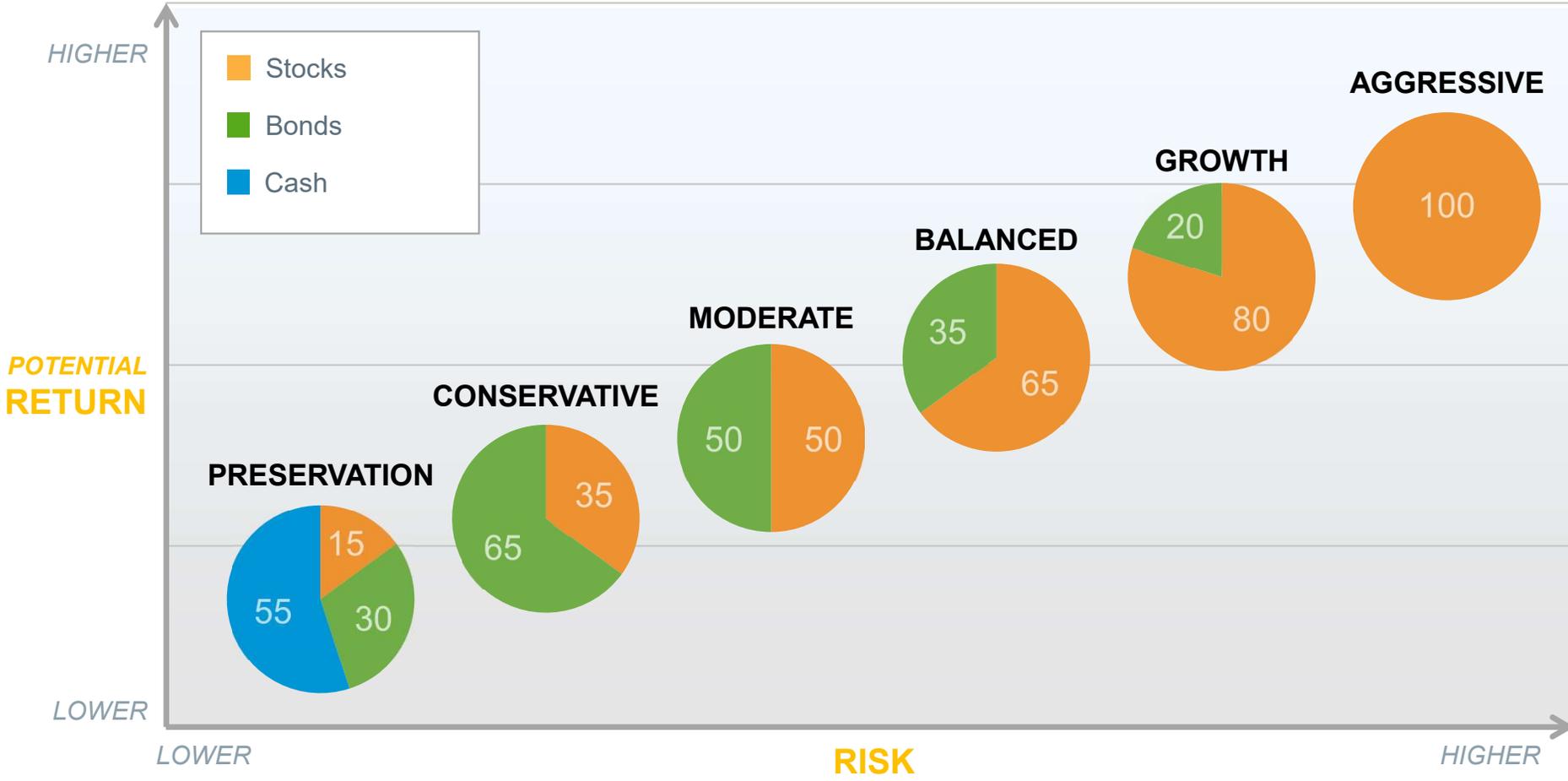
Risk Tolerance

- Risk tolerance is the organization's ability and willingness to risk losing some or all of the original investment in exchange for greater potential returns.
 - An aggressive organization, or one with a high-risk tolerance, is more likely to risk losing money in order to get better results.
 - A conservative organization, or one with a low-risk tolerance, tends to favor investments that will preserve the original investment.

Asset Allocation

Understanding the Basics of Investing

Examples of Asset Allocation Profiles



For illustrative purposes only.

Asset Allocation

Active vs Passive Investments

Active Investments

- Seeks to add value by deviating from the benchmark through security selection and/or tactical asset allocation
- Benefits of Active Investments Includes:
 - Research driven with strategies utilizing deep analysis and expertise from analysts and portfolio managers
 - Flexibility in assets held by the fund
 - Ability to use hedging strategies
- Downside of Active Investments Includes:
 - Higher Fees

Passive Investments

- Seeks to match both the return and risk profile of an index by mirroring its composition
- Benefits of Passive Investments Includes:
 - Lower management fees
- Downside of Passive Investments Includes:
 - Lack of Flexibility
 - Returns do not seek to outpace the index

Asset Allocation

Understanding the Basics of Investing

After one of the best years in market history, 2022 has experienced a sharp reversal brought on by a number of macro headwinds which continue to impact both stocks and bonds.



- Large-Cap
- Large-Cap Growth
- Large-Cap Value
- Mid-Cap
- Small-Cap
- International Developed
- Emerging Markets
- Core Bond
- High Yield
- Municipal Bonds
- Hedge Funds
- Real Estate
- S&P 500®
- S&P 500 Growth
- S&P 500 Value
- S&P 400®
- Russell 2000®
- MSCI ACWI ex USA
- MSCI EM
- Bloomberg US Aggregate
- Bloomberg US Corporate High Yield
- Bloomberg Municipal Bond
- HFRX Global Hedge Fund
- FTSE NAREIT

60% S&P 500 / 40% Bloomberg US Aggregate

As of 6/30/2022. Source: Morningstar, Inc., PNC.

Indices are unmanaged, not available for direct investment, and not subject to management fees, transaction costs or other types of expenses that an account may incur.

- + Responsible Investing (RI) at PNC is an umbrella term for investment strategies that consider environmental, social, and governance (ESG) issues.
- + We continue to implement RI in to our overall investment approach, including investment strategy, portfolio construction, manager due diligence, and security selection.

We view RI as a goals-based investment strategy that employs a lens or filter to help implement a portfolio that aligns with an investor’s goals, intentions, values, or mission that:



Avoids Harm

Excludes or restricts certain portfolio exposures that may conflict with a set of values, and/or one’s organizational mission.



Benefits Stakeholders

Proactively supports certain values or causes by assessing and engaging on ESG-related factors.



Contributes to Solutions

Defines a specific, targeted impact and allocates capital toward that objective.

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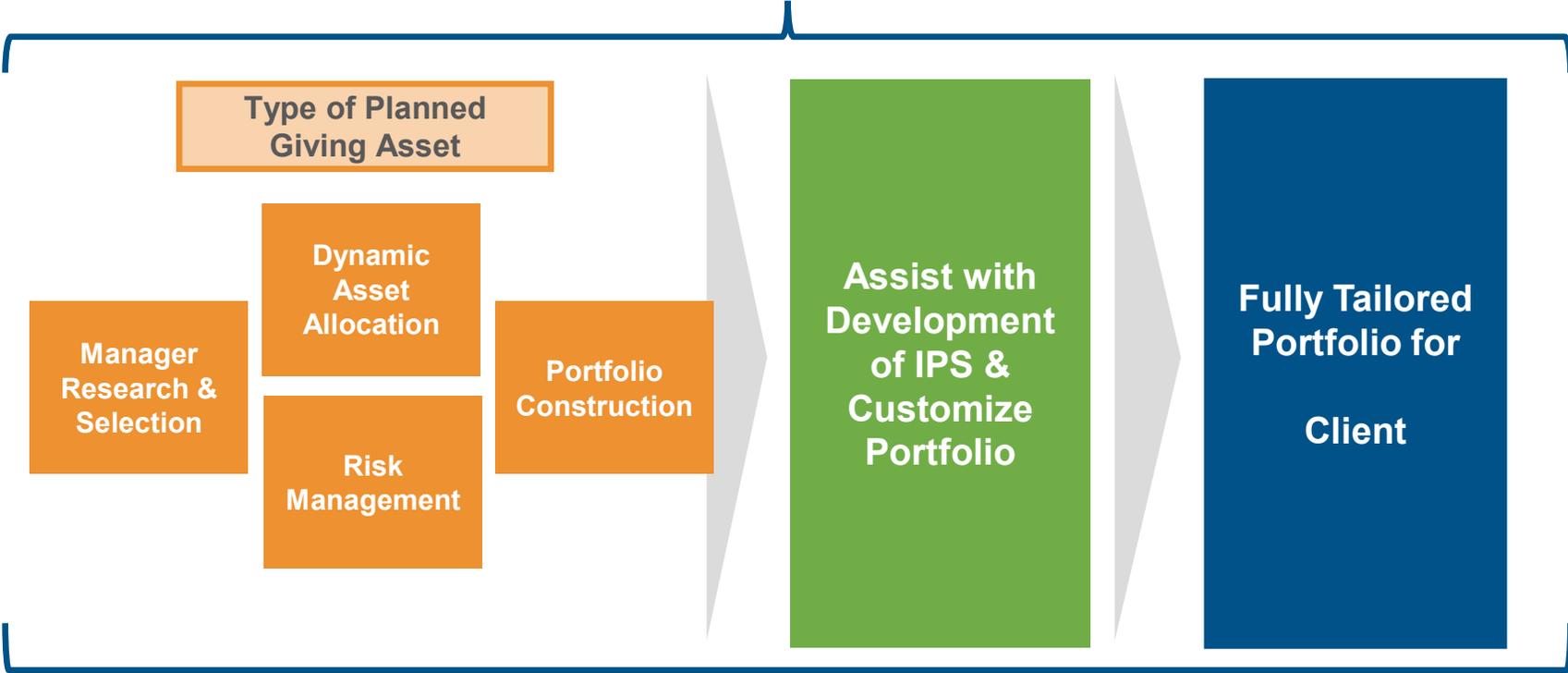
Multi-Dimensional Considerations for Investing Charitable Gift Annuity (CGA) Assets

Our Process

Designed to Create a Sound, Resilient, Precisely Tailored Portfolio



Execution and Oversight by Your IAM Planned Giving Relationship Team

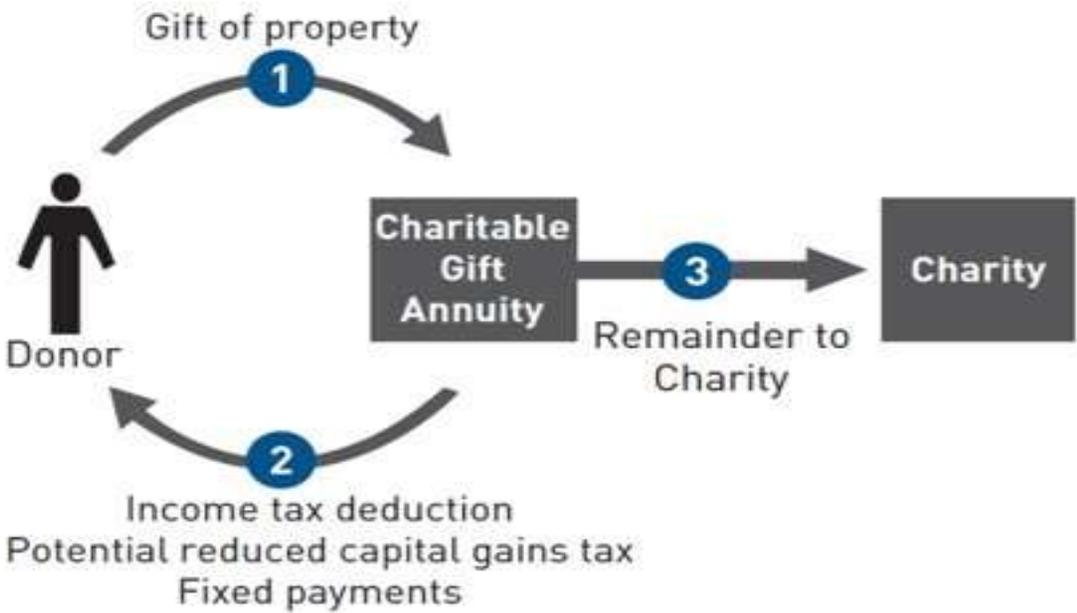


Considerations

- Charitable Gift Annuities – ACGA Assumptions, Payout Rate and State Regulations
- Charitable Remainder Trusts – Gift Expectancies (time horizon) and Annual Payments

- Portfolio Analysis
- Compliance with IPS
- Monitoring

What is a charitable gift annuity (CGA)? A simple contract between a donor and the charity



When administering a CGA program, there are two types of liability reports:

- 1** State gift annuity reserve reports, used in complying with regulated states
- 2** FASB (Financial Accounting Standards Board) liability reports, provided to auditors

Charitable Gift Annuity Services



PNC IAM understands the importance of a successful gift annuity program:

- Working with the organization to structure reserve portfolio allocations and holdings to meet the organization’s obligations under applicable state law.
- Gift Annuities can be “highly” regulated in certain states, such as: AR, CA, FL, HI, MD, NJ, NY, TN, WA

	CA	NJ	NY	WA	
Reserve Requirement	Segregated CA only account	Reserve + greater of \$100,000 or 10%	Reserve + 26.5%	Reserve + 10%	
Investment Restrictions	Maximum of 50% equity, corporate bonds, mutual funds	Trustees are subject to prudent investor standard of care	Trustees are subject to prudent investor standard of care; 10% diversification recommendation for NY based charities	Trustees are subject to prudent investor standard of care	
	AR	FL	HI	MD	TN
Reserve Requirement	Greater of \$50,000 or reserve + 10%	Reserve + 10%	Reserve + greater of \$100,000 or 10%	Segregated account	Reserve + 10% or 100% of contribution
Investment Restrictions	Trustees are subject to prudent investor standard of care or AR specific restrictions	Maximum 50% in equity, equity mutual funds; 10% diversification standard	Trustees are subject to prudent investor standard of care	Trustees are subject to prudent investor standard of care	Trustees are subject to prudent investor standard of care

The above is for informational purposes only. Organizations should consult with their legal counsel for a full understanding of state regulations which may be applicable to the organization and its gift annuity program. PNC IAM does not provide legal advice.

Source: ACGA

Liabilities Associated with CGAs Depend on:

1

Size

Nature and duration of the income stream (individual gift characteristics)

2

Mortality Table

Select mortality tables:
2000CM – based on the 2000 U.S. Census; assumes men and women have the same mortality; static table

IAR 2012 – more conservative than 2000CM as it assumes longer life expectancies due to medical and technological advances; also assumes different mortality for men and women; dynamic table

3

Discount Rate

Generally, the higher the discount rate, the lower the calculated liability, all things being equal

Commonly used discount rate methodologies:

- Monthly IRS discount rate on which the deduction for each gift was based
- Current IRS discount rate
- Constant specified rate (e.g. 3%)

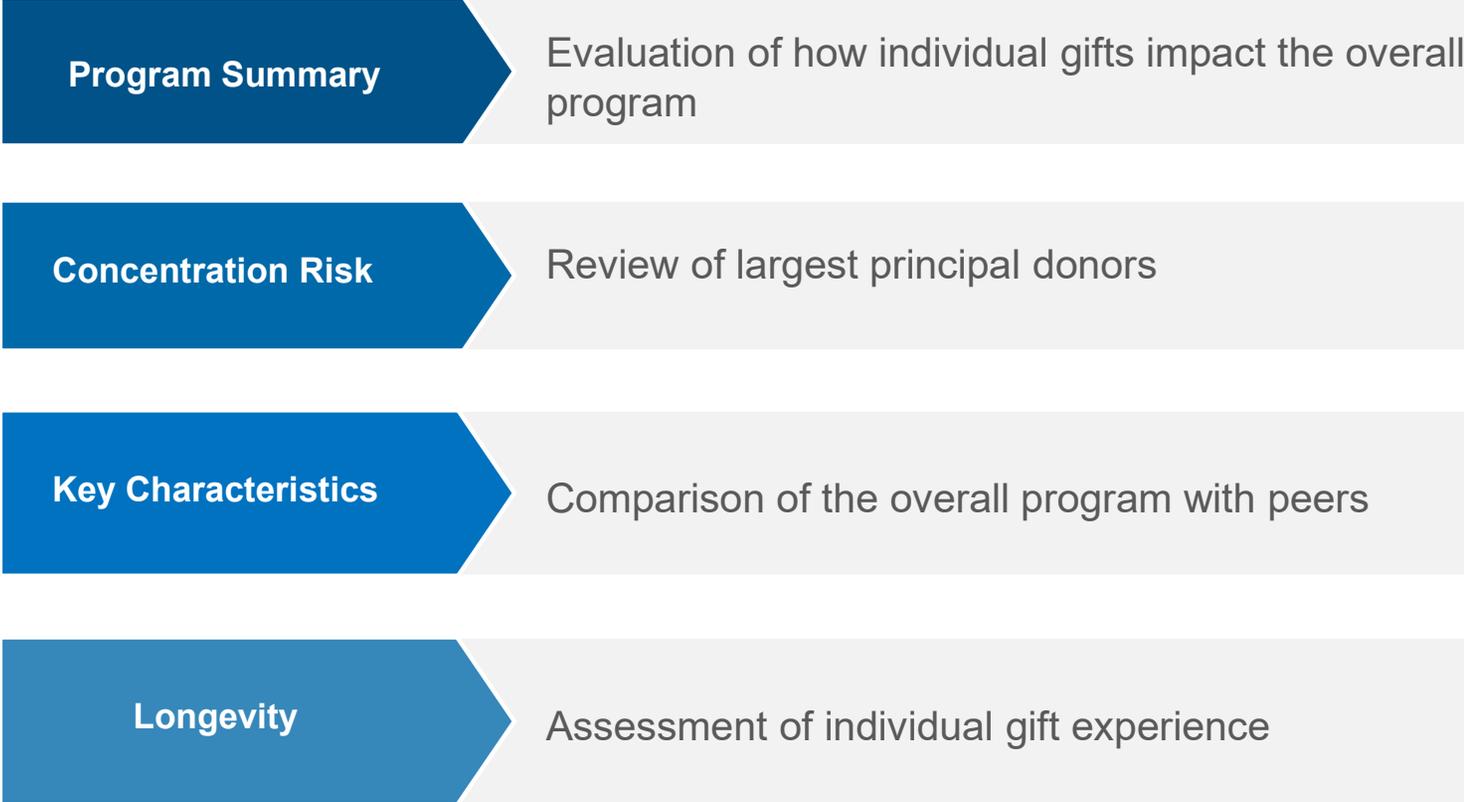
Source: PG Calc. The charity's auditors should be consulted to determine the assumptions most appropriate to their CGA program.

Charitable Gift Annuity Services

Program Analysis

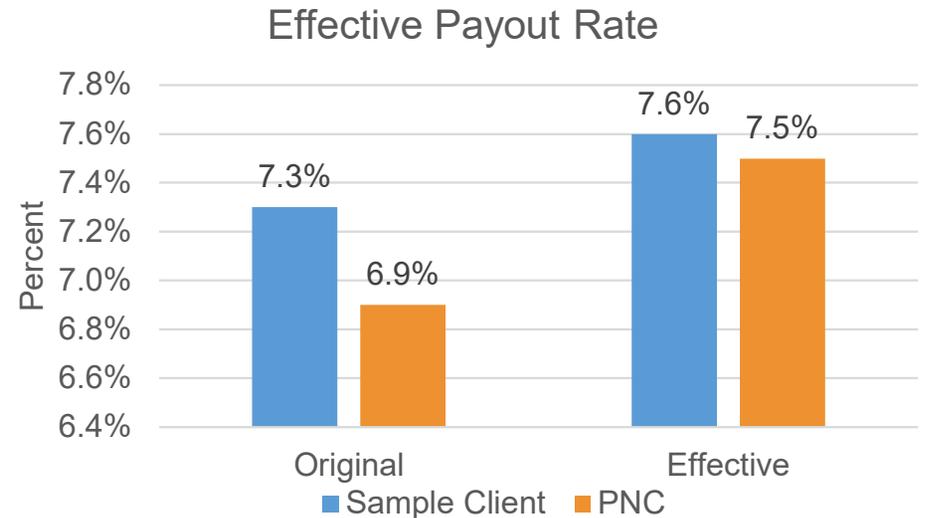
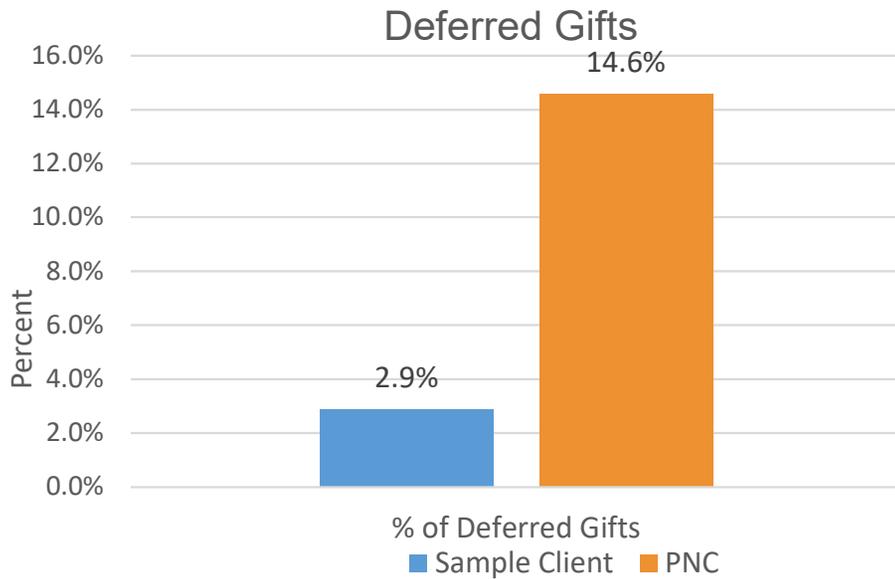
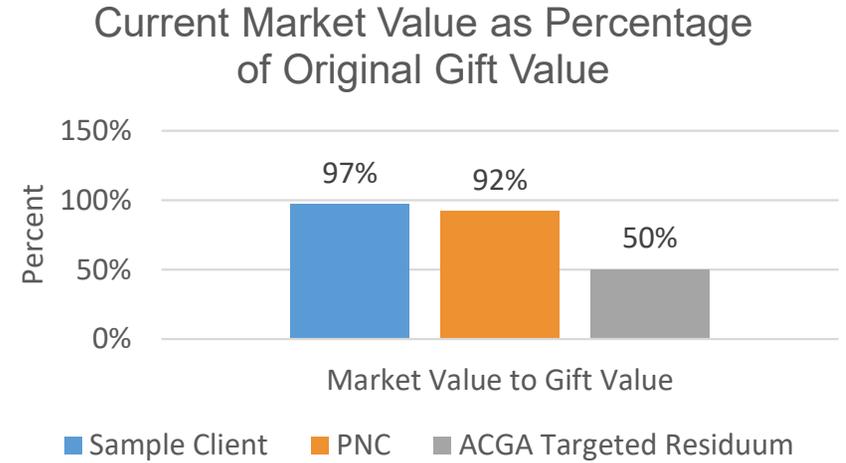
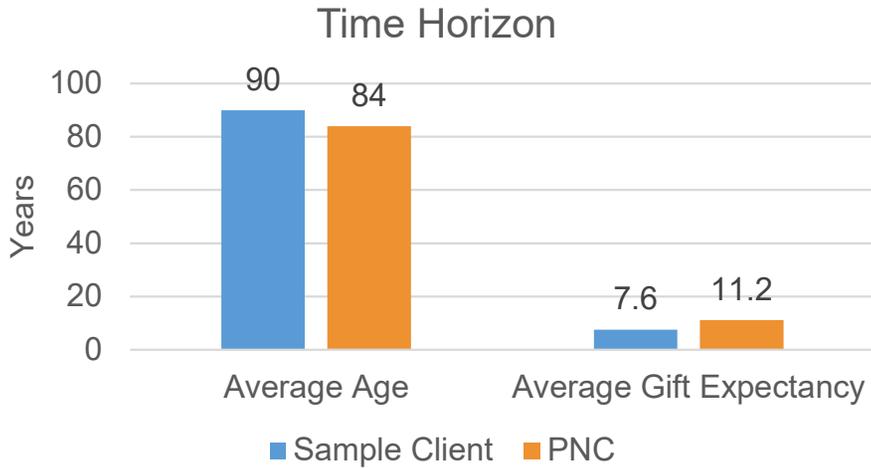


- PNC IAM understands the importance of a successful gift annuity program. We perform a program analysis comprehensive of the following:



Key Characteristics

What Can Your Annuity Pool Tell You at a Macro Level?



EXAMPLE

The above information is for illustrative purposes only. Returns are based on back-tested results from the hypothetical portfolio. See Important Disclosures Regarding Hypothetical Performance at the end of this presentation. The portfolio gifts, annuity rates, and characteristics are based upon a sample client. The sample client was selected because of its gift activity. Each client account is individually managed. Actual portfolio gifts, annuity rates, and characteristics will vary for each client and there is no guarantee that a particular client's account will achieve the same returns or have the same characteristics as described above. Past performance is no guarantee of future results.

Source: PG Calc GiftWrap, Client Data, Assumes IAR 2012 Mortality Table

The PNC Average is based on the 64 CGA clients selected out of 178 clients with CGA programs based on the criteria that they have at least \$1 million in aggregate original gift value. Original gift value is defined as the dollar value of the initial charitable gift annuity contract. Data is as of 12/31/2021.

Key Characteristics

What Can Your Program Tell You by Digging Deeper?

Top Donors:

Gift Key	Type	Gift Date	First Payment	Age	# Bene	Gift Exp.	Gift Amount	% of Pool	Payout Rate	Payout in \$	Market Value	Payout % of MV
Multiple	S	Multiple	Multiple	93	2	8.3	\$1,200,000	28.3%	7.2%	\$86,150	\$1,171,085	30.7%
Multiple	S	Multiple	Multiple	93	2	8.3	\$1,000,000	23.5%	6.8%	\$67,800	\$869,981	22.8%
Multiple	S	Multiple	Multiple	92	1	5.7	\$500,213	11.8%	7.8%	\$39,116	\$405,731	10.6%
199767	S	12/10/1998	12/31/1998	89	1	6.1	\$236,887	5.6%	7.4%	\$17,530	\$115,444	3.0%
Multiple	S	Multiple	Multiple	88	1	7.6	\$184,861	4.4%	7.4%	\$13,692	\$108,656	2.8%
204282	S	4/9/2018	6/25/2018	77	2	18.1	\$100,000	2.4%	5.2%	\$ 5,200	\$99,019	2.6%
199748	S	6/29/2006	9/30/2006	90	1	6.6	\$100,000	2.4%	6.5%	\$ 6,500	\$93,040	2.4%
Multiple	S	Multiple	Multiple	94	2	10.1/28.7	\$100,000	2.4%	5.1%	\$ 5,125	\$92,132	2.4%
Multiple	S	Multiple	Multiple	86	1	8.7	\$95,399	2.2%	7.1%	\$ 6,760	\$88,325	2.3%
199781	S	12/20/2007	12/31/2007	88	1	6.6	\$75,000	1.8%	7.2%	\$ 5,400	\$43,542	1.1%
								Top 5 Donors	73.5%			
								Top 10 Donors	84.6%			

Exhaustion Analysis:

Type	Gift Date	First Payment	Reserve State	Current Age	Remain. Gift Exp.	Gift Amount	# Bene	Payout Rate	Payout in \$	Market Value	Reserve Amount	Excess over Reserve	Funding Ratio	Est. Years to Exhaust
S	12/28/2001	3/31/2002	CA	94	4.9	\$20,000	1	8.5%	\$1,700	-\$2,318	\$5,928	-\$8,246	N/A	0.0
D	12/15/2005	12/31/2006	NY	103	2.5	\$10,000	1	12.0%	\$1,200	-\$2,922	\$2,199	-\$5,121	N/A	0.0
S	10/22/2004	12/31/2004	NY	96	3.7	\$20,000	1	9.4%	\$1,880	\$498	\$6,294	-\$5,796	8%	0.3
S	9/28/2004	12/31/2004	MA	96	3.7	\$10,000	1	9.4%	\$940	\$325	\$3,147	-\$2,822	10%	0.3
S	9/25/2003	12/31/2003	NY	96	4.2	\$13,458	1	9.1%	\$1,225	\$1,345	\$4,171	-\$2,825	32%	1.1
S	4/26/2004	6/30/2004	WI	92	5.7	\$50,000	1	7.5%	\$3,750	\$14,426	\$15,900	-\$1,474	91%	3.8
S	4/19/2005	6/30/2005	WI	92	5.7	\$100,000	1	7.6%	\$7,600	\$29,786	\$32,510	-\$2,724	92%	3.9
S	6/21/2005	9/30/2005	NY	95	4.6	\$5,317	1	8.1%	\$431	\$1,706	\$1,578	\$128	108%	4.0
S	11/5/2004	12/31/2004	FL	92	5.7	\$102,000	1	7.5%	\$7,650	\$31,563	\$32,435	-\$872	97%	4.1
S	12/27/2004	3/31/2005	MA	89	6.1	\$10,000	1	7.7%	\$770	\$3,462	\$3,665	-\$204	94%	4.5
S	2/2/2007	3/31/2007	FL	92	5.7	\$151,525	1	7.9%	\$11,970	\$54,581	\$50,754	\$3,827	108%	4.6
S	10/20/2006	11/30/2006	FL	93	6.9	\$10,000	2	7.8%	\$780	\$4,058	\$4,405	-\$347	92%	5.2
S	12/13/2005	12/31/2005	NY	88	7.6	\$5,000	1	7.9%	\$395	\$2,086	\$2,044	\$42	102%	5.3
S	12/4/2002	12/31/2002	AL	91	6.2	\$10,000	1	7.2%	\$720	\$4,780	\$3,103	\$1,678	154%	6.6
S	12/15/2006	3/31/2007	FL	90	11.7	\$24,613	2	6.9%	\$1,698	\$11,294	\$13,301	-\$2,007	85%	6.7
S	7/26/2011	9/30/2011	MS	89	6.1	\$25,000	1	8.5%	\$2,125	\$17,535	\$10,317	\$7,219	170%	8.3
D	6/27/2005	12/31/2007	NY	82	10.1	\$25,000	1	8.3%	\$2,075	\$18,328	\$13,774	\$4,554	133%	8.8
S	3/7/2019	6/25/2019	NY	81	12.1	\$10,000	1	8.3%	\$830	\$10,157	\$7,781	\$2,376	131%	12.2
D	3/12/2019	12/25/2027	MD	61	36.4	\$64,129	2	8.3%	\$5,323	\$65,313	\$67,172	-\$1,859	97%	12.3
S	11/21/2018	12/25/2018	NJ	75	21.5	\$50,000	2	6.2%	\$3,100	\$51,407	\$45,427	\$5,980	113%	16.6

The above information is for illustrative purposes only.

Source: PG Calc GiftWrap, PNC

In column Type, "S" refers to Standard and "D" refers to Deferred

Note: Market Value is negative when the principal value of the original gift has been exhausted. Excess over Reserve column is negative when the current market value is less than the required reserve.

Charitable Remainder Trusts & Considerations

Charitable Remainder Trusts

CRAT vs. CRUT

Charitable Remainder Annuity Trusts (CRAT)

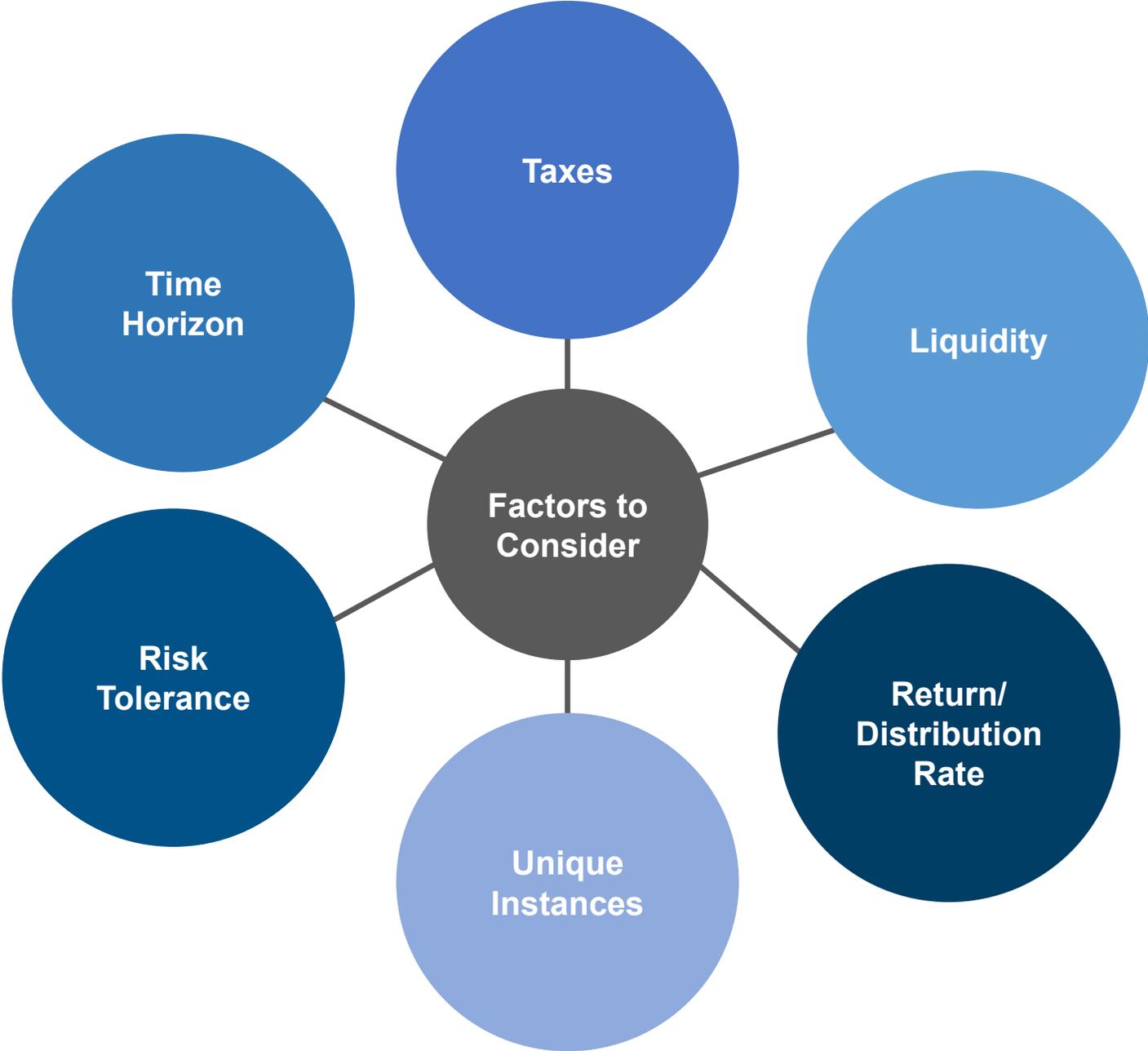
- The payout is a fixed amount determined as a specific percentage of the initial fair market value of the trust assets
- For example, a \$1 million CRAT established with a 7% payout will distribute \$70,000 annually, regardless of market value of the CRAT
- Due to the fixed dollar amount of the annual payment, CRATs can exhaust
- Once a CRAT exhausts, no additional payments are due the income beneficiary



Charitable Remainder Unitrusts (CRUT)

- The payout is a variable amount determined as a specific percentage of the annual fair market value of the trust assets
- The actual annual distribution amount will fluctuate based on the annual valuation of the trust (standard CRUT) (“first business day of the new year”)
- As the payment amount is adjusted annually based on the fair market value, a CRUT won’t exhaust but payments can get smaller if the trust market value declines





Questions?

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