

# Investing: What Should the Development Professional Know?

NOCGP Planned Giving Day  
September 26, 2024

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## Investment Foundations

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

## Multi-Dimensional Considerations for Investing CGA Assets

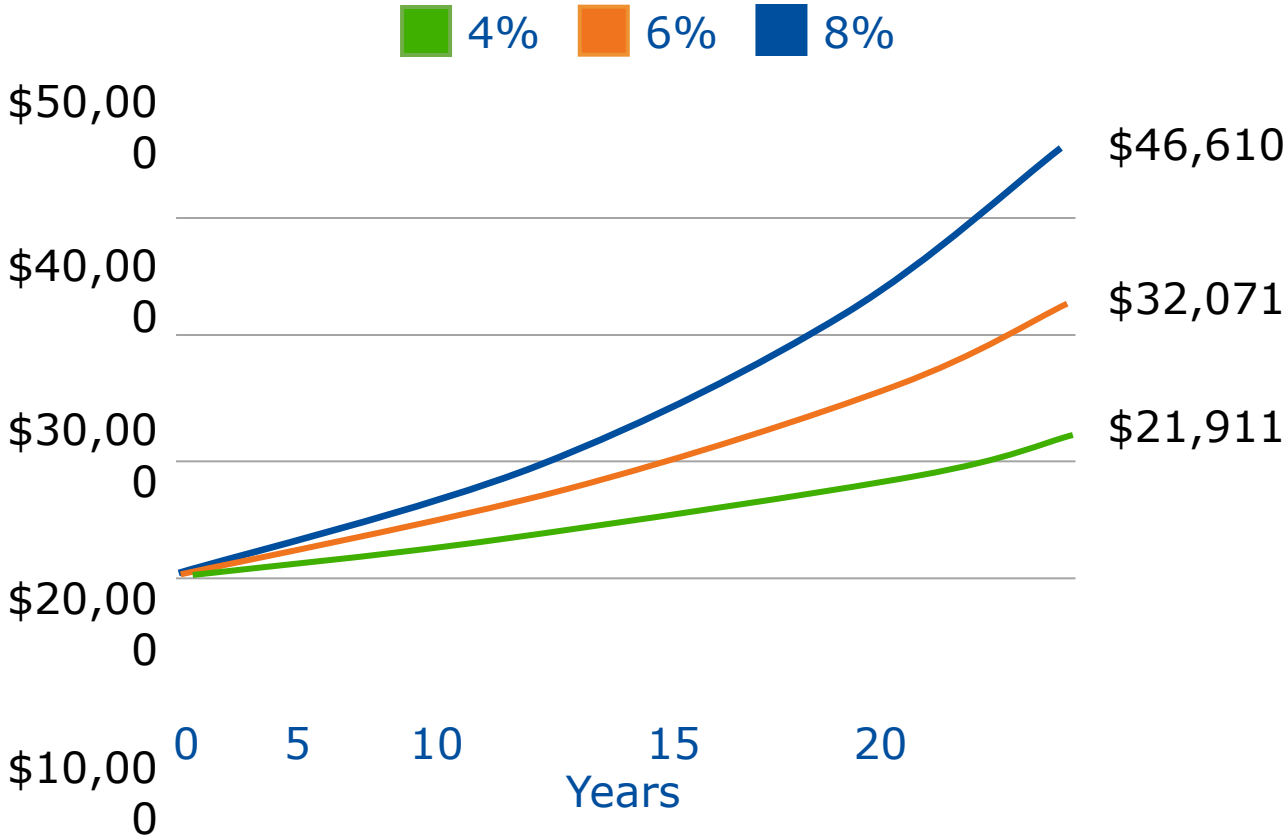
- Health of Your Program
- Key Characteristics and Potential Impact on Investing
- State Regulations

## Charitable Remainder Trusts and Considerations

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

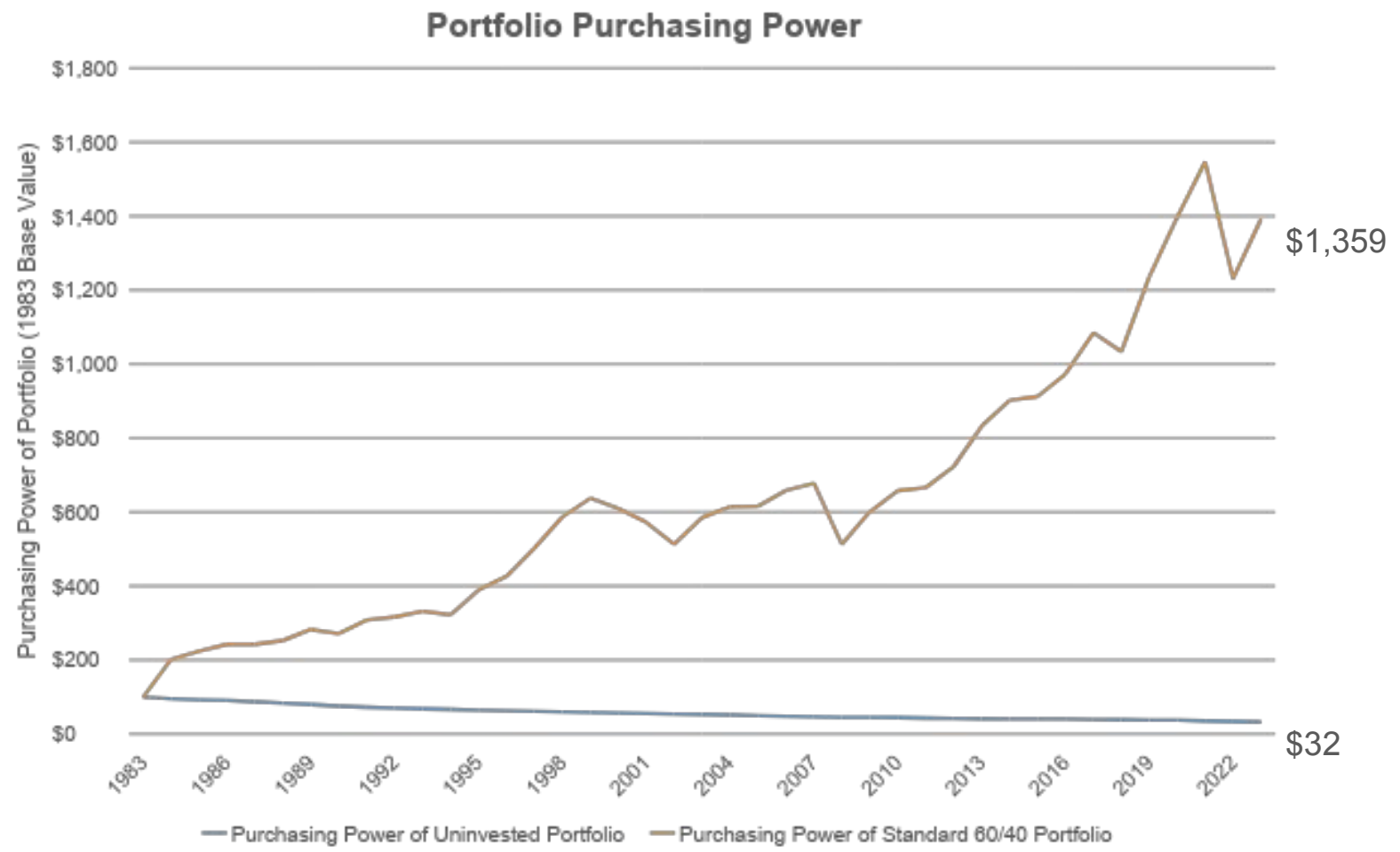
# Investment Foundations

### Growth of a \$10,000 investment over twenty years:



*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.*

### How does it impact your investments?

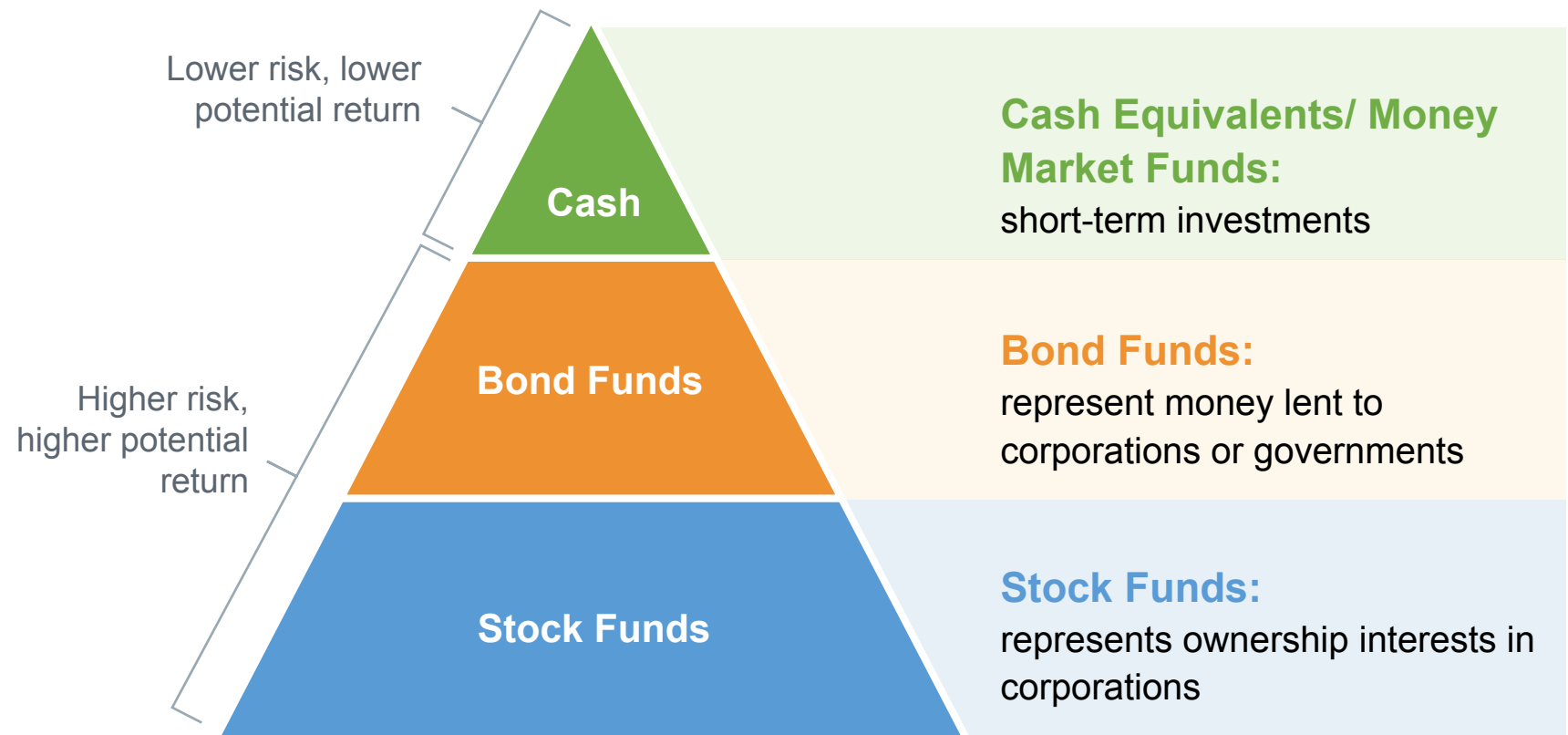


Source: Bloomberg L.P.

The Standard 60/40 Market Portfolio is 60% of investment in stocks, represented by S&P 500 and 40% of investment in bonds, represented by US Agg bonds. 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



### Stocks: pooled investments

- Also known as Equities
- Partial ownership of the company
- 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: \$\$\$

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Growth

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Value

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Blend

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Large Cap

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Mid Cap

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Small Cap

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Global / International

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Specialty

### 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: \$\$

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U.S. Treasury

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Government

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Municipal

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Corporate

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Mortgage-backed

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Foreign

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Short-term

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Intermediate-term

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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: \$

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Money Market

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Treasury Bills

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CDs

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Savings Deposits

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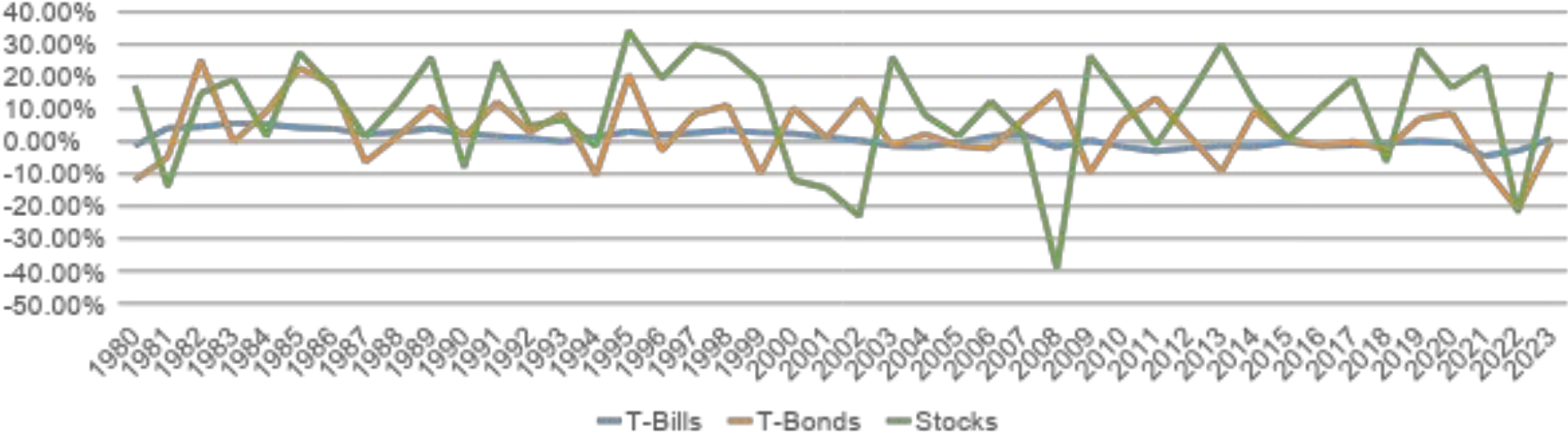
# Section 4: Risk and Return of Asset Classes

## Historical Real Returns (1980-2023)

	Average Calendar Year Return	Standard Deviation (Volatility)	Worst Calendar Year	Best Calendar Year
<b>T-Bills</b>	0.92%	2.43%	-4.48%	5.66%
<b>T-Bonds</b>	3.33%	9.86%	-20.94%	25.28%
<b>Stocks</b>	9.70%	16.45%	-39.32%	34.23%

- The FTSE Treasury Bill 3 Month index is used to represent T-Bills.
- The FTSE Treasury Benchmark 10 Year 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  
For illustrative purposes only.

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.

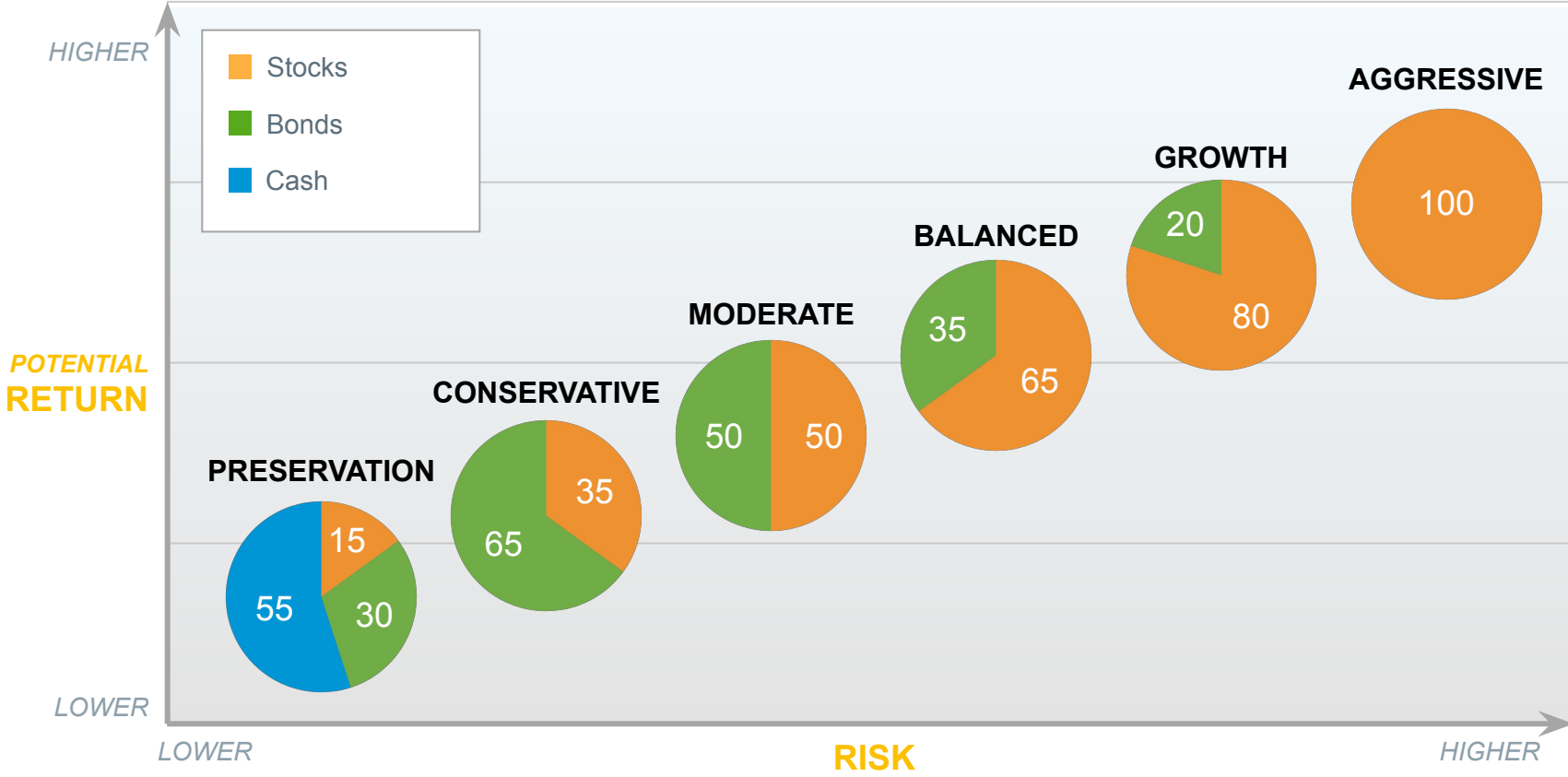
### Risk Tolerance

- 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.

### 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 Class Performance

Leadership is cyclical and changes with the business cycle

After 2022 marked one of the worst years in market history, driven by a number of macro headwinds impacting both stocks and bonds, financial markets rallied in 2023 as investors believed the Fed to be nearing the end of its tightening cycle.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LEGEND	
		EM 82.36	Small-Cap 26.85		EM 18.68				Small-Cap 21.31	EM 36.83		Large Value 31.93				Large Growth 30.03	Large Cap	S&P 500®
		High Yield 58.21	Mid-Cap 26.64		Real Estate 18.59				Mid-Cap 20.74	Large Growth 27.44		Large Cap 31.49	Large Growth 33.47			Large Cap 26.29	Large Growth	S&P 500 Growth
		Mid-Cap 37.38	Real Estate 25.93		Mid-Cap 17.88	Small-Cap 38.82	Real Estate 24.91		Large Value 17.40	Intl Dev 24.21		Large Growth 31.13	Small-Cap 19.96	Real Estate 39.35		Large Value 22.23	Large Value	S&P 500 Value
		Intl Dev 33.67	EM 19.90		Large Value 17.68	Mid-Cap 33.50	Large Growth 14.89		High Yield 17.13	Large Cap 21.83		Real Estate 27.62	Large Cap 18.40	Large Growth 32.01		Intl Dev 17.94	Mid-Cap	S&P 400®
		Large Growth 31.57	High Yield 15.12		Intl Dev 16.41	Large Growth 32.75	Large Cap 13.69		Large Cap 11.96	Mid-Cap 16.24		Mid-Cap 26.20	EM 18.39	Large Cap 28.71		Small-Cap 16.93	Small-Cap	Russell 2000®
		Real Estate 27.22	Large Value 15.10	Core Bond 7.84	Small-Cap 16.35	Large Cap 32.39	Large Value 12.36		EM 9.90	Large Value 15.36		Small-Cap 25.52	Mid-Cap 13.66	Large Value 24.90		Mid-Cap 16.44	Intl Dev	MSCI World ex USA
		Small-Cap 27.17	Large Cap 15.06	High Yield 4.98	Large Cap 16.00	Large Value 31.99	Mid-Cap 9.77	Large Growth 5.52	Large Growth 6.89	Small-Cap 14.65		Intl Dev 22.49	Intl Dev 7.59	Mid-Cap 24.76		High Yield 13.44	EM	MSCI EM
		Large Cap 26.46	Large Growth 15.05	Real Estate 4.92	High Yield 15.81	Intl Dev 21.02	Core Bond 5.97	Large Cap 1.38	Real Estate 6.74	Real Estate 7.77		EM 17.65	Core Bond 7.51	Small-Cap 14.82		EM 11.67	Core Bond	Bloomberg US Aggregate
		Large Value 21.18	Intl Dev 8.95	Large Growth 4.65	Large Growth 14.61	High Yield 7.44	Small-Cap 4.89	Core Bond 0.55	Intl Dev 2.75	High Yield 7.50		High Yield 14.32	High Yield 7.11	Intl Dev 12.62		Real Estate 10.61	High Yield	Bloomberg US Corp High Yield
	Core Bond 5.24	Core Bond 5.93	Core Bond 6.54	Large Cap 2.11	Core Bond 4.21	Real Estate 1.93	High Yield 2.45	Real Estate 0.21	Core Bond 2.65	Core Bond 3.54	Core Bond 0.01	Core Bond 8.72	Large Value 1.36	High Yield 5.28		Core Bond 5.53	Real Estate	MSCI USA IMI Real Estate 25/50
	High Yield -26.16			Large Value -0.48		Core Bond -2.02	EM -1.79	Mid-Cap -2.18				Large Growth -0.01		Real Estate -5.57	EM -0.28	Large Value -5.22		
	Small-Cap -33.79			Mid-Cap -1.73		EM -2.20	Intl Dev -4.32	Intl Dev -3.04				High Yield -2.08			Core Bond -1.54	High Yield -11.19		
	Large Growth -34.92			Small-Cap -4.18				Large Value -3.13				Large Cap -4.38				Core Bond -13.01		
	Mid-Cap -36.23			Intl Dev -12.21				Small-Cap -4.41				Real Estate -5.75				Mid-Cap -13.06		
	Large Cap -37.00			EM -19.49				High Yield -4.47				Large Value -8.95				Intl Dev -14.29		
	Large Value -39.22							EM -13.86				Small-Cap -11.01				Large Cap -18.11		
	Real Estate -40.29											Mid-Cap -11.08				EM -19.83		
	Intl Dev -43.56											Intl Dev -14.09				Small-Cap -20.44		
	EM -53.78											EM -15.05				Real Estate -26.90		
																Large Growth -29.41		
																		NEGATIVE RETURNS

As of 1 Indices



**At PNC, Responsible Investing (RI) is an umbrella term for investment strategies that consider environmental, social and governance (ESG) issues.**

RI is a non-linear process to help align portfolios with an investor’s goals, intentions, values or mission.

We implement RI into our overall investment approach, including investment strategy, portfolio strategy, manager due diligence and security selection.

**Investors often seek pursue RI with the intention to:**



**Avoid Harm**  
Exclude or restrict portfolio exposures that may conflict with an organization’s mission or values.



**Benefit Stakeholders**  
Proactively assesses and engage on ESG-related risks and opportunities



**Contribute to Solutions**  
Define a specific, targeted impact and allocate capital toward that objective.

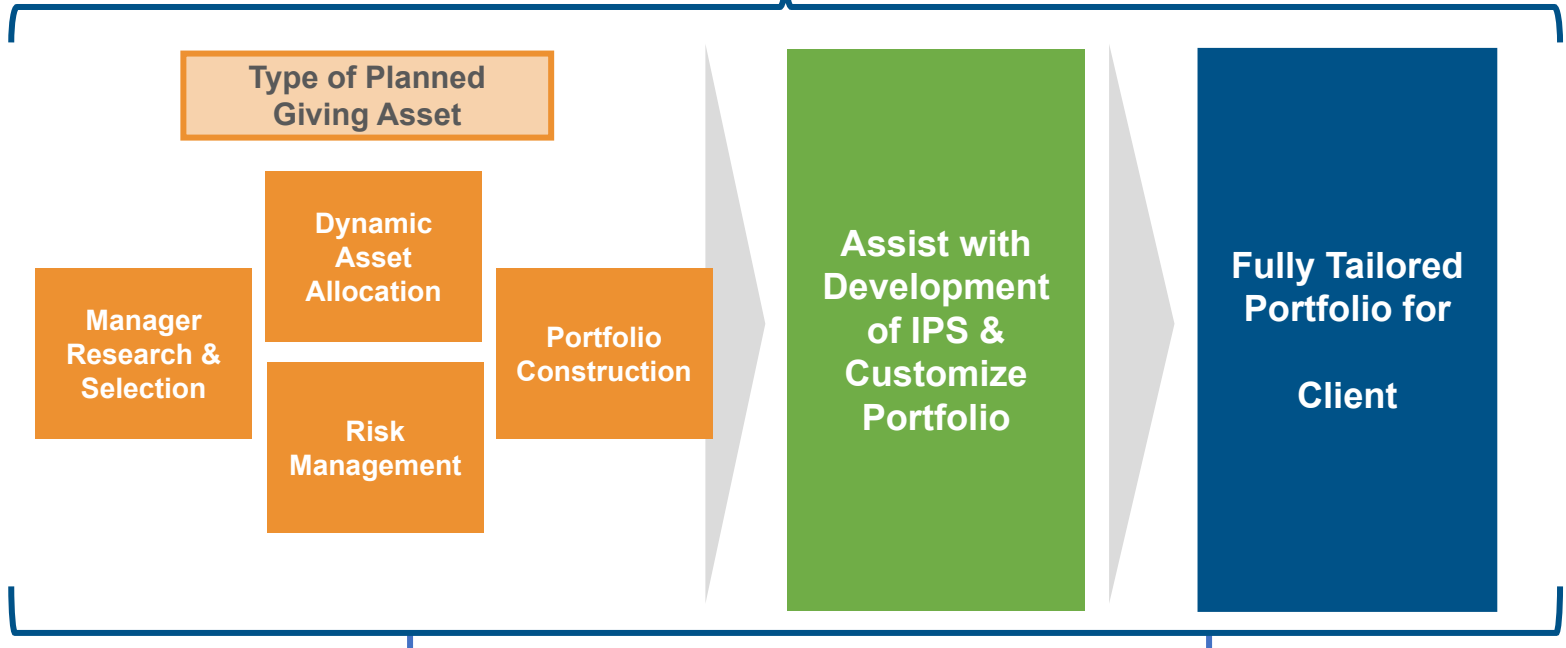
# Multi-Dimensional Considerations for Investing Charitable Gift Annuity (CGA) Assets



# Our Process

Designed to Create a Sound, Resilient, Precisely Tailored Portfolio

Execution and Oversight by Your IAM Planned Giving Relationship Team

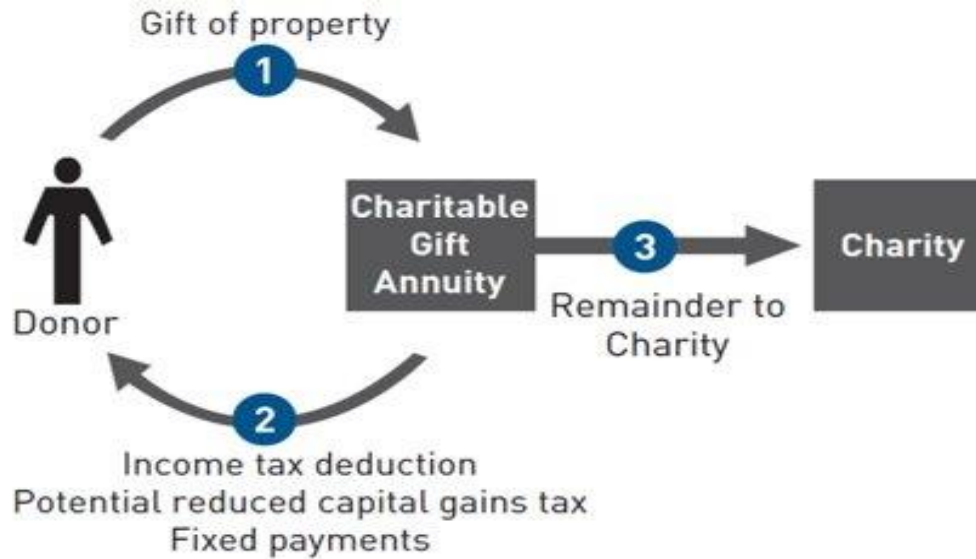


### Considerations

- 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	
<b>Reserve Requirement</b>	Segregated CA only account	Reserve + greater of \$100,000 or 10%	Reserve + 26.5%	Reserve + 10%	
<b>Investment Restrictions</b>	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
<b>Reserve Requirement</b>	Greater of \$50,000 or reserve + 10%	Reserve + 10%	Reserve + greater of \$100,000 or 10%	Segregated account	Reserve + 10% or 100% of contribution
<b>Investment Restrictions</b>	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:

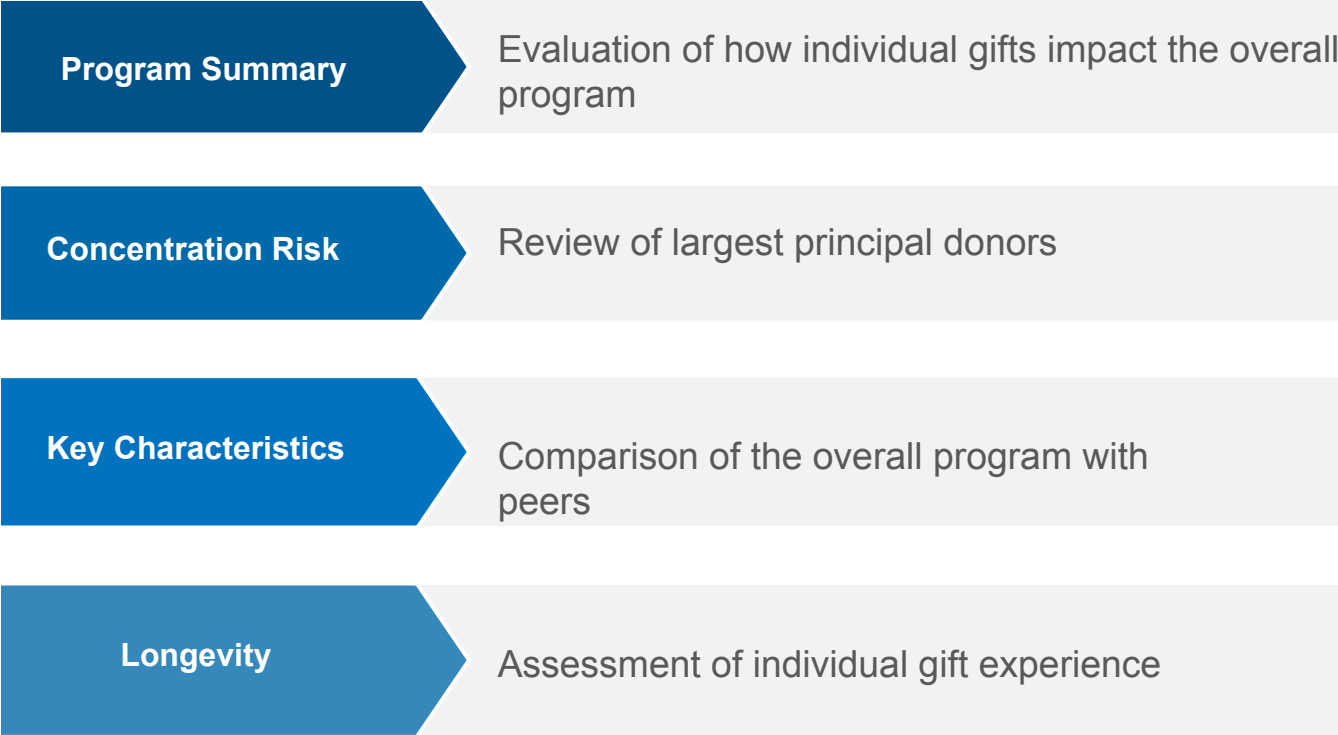
- Monthly IRS discount rate on which the deduction for each gift was based
- Current IRS discount rate
- Constant specified rate (e.g. 3%)

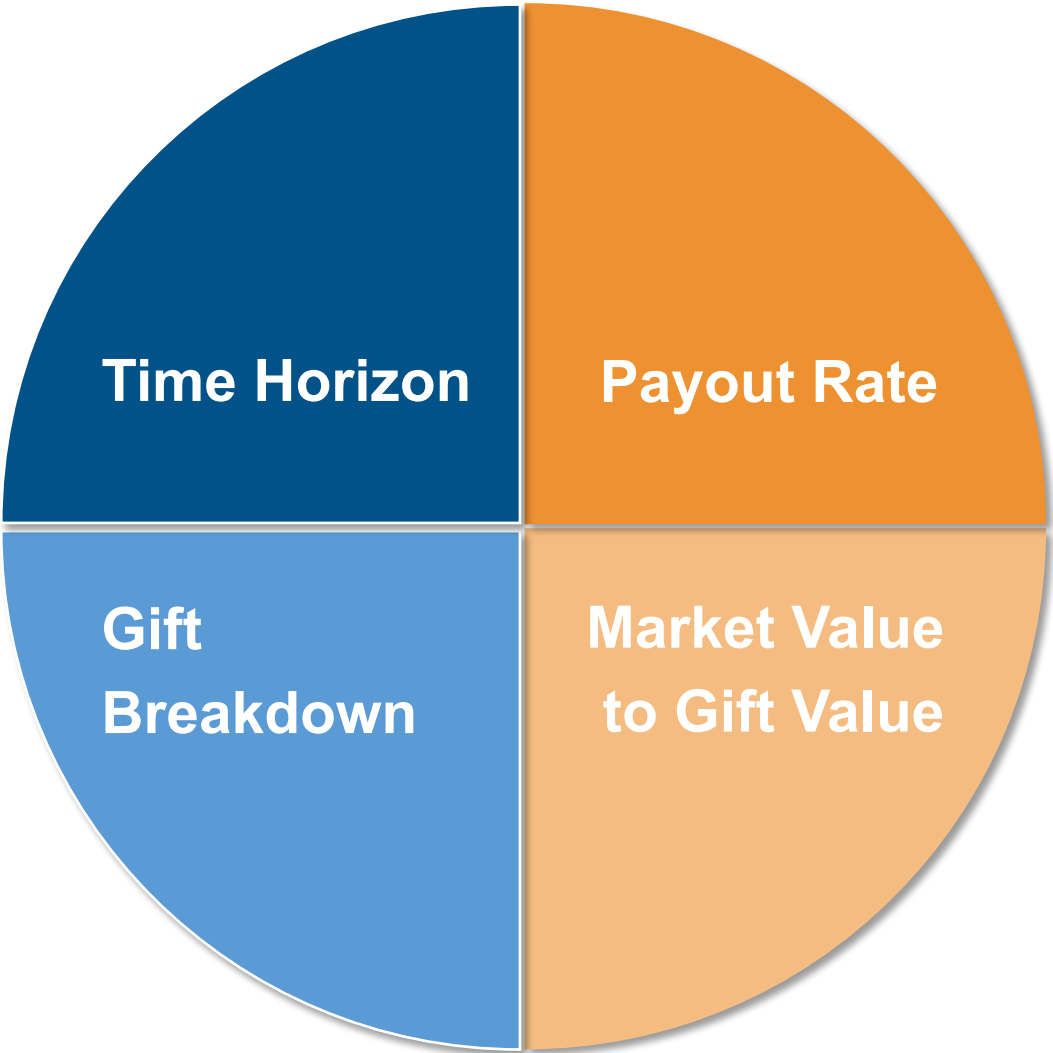
Source: PG Calc. The charity's auditors should be consulted to determine the assumptions most appropriate to their CGA program.

# Charitable Gift Annuity Services

## Program Analysis

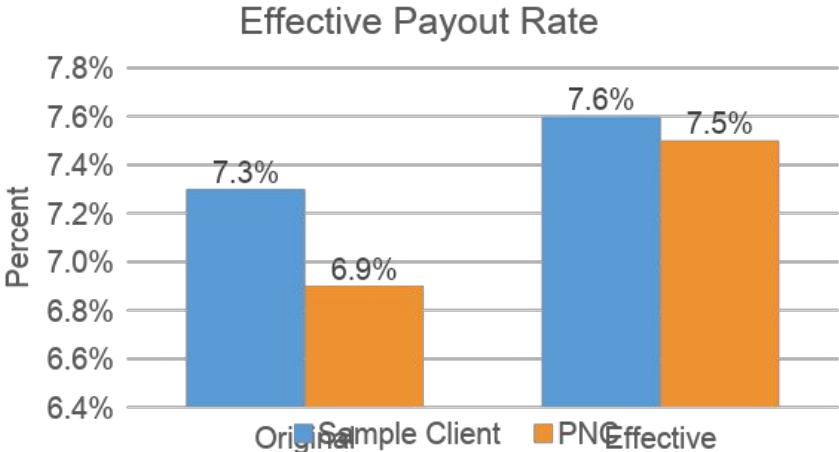
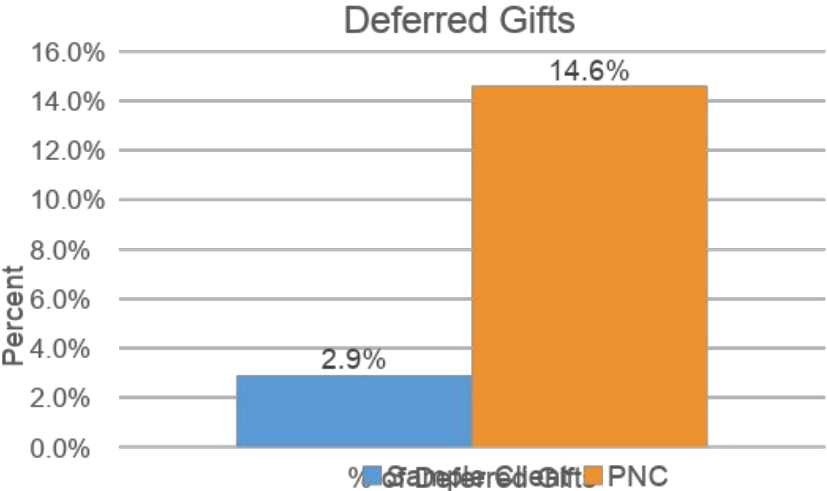
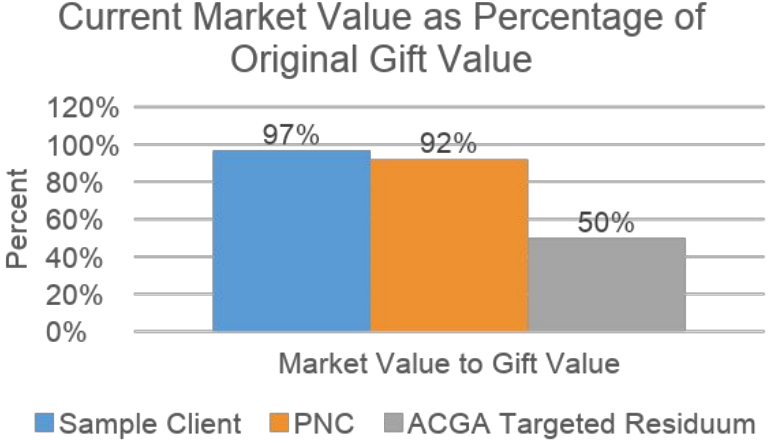
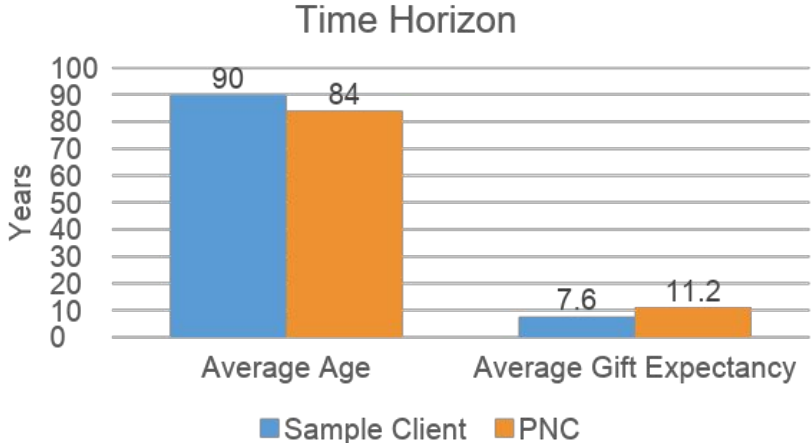
- PNC IAM understands the importance of a successful gift annuity program. We perform a program analysis comprehensive of the following:





# Key Characteristics

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



The PNC average data in the charts above is based on CGA clients that had 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. The Sample Client was selected because of its gift activity and is included for illustrative purposes only. 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. Data is as of 12/31/2021.

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

# 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%			

EXAMPLE

### 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

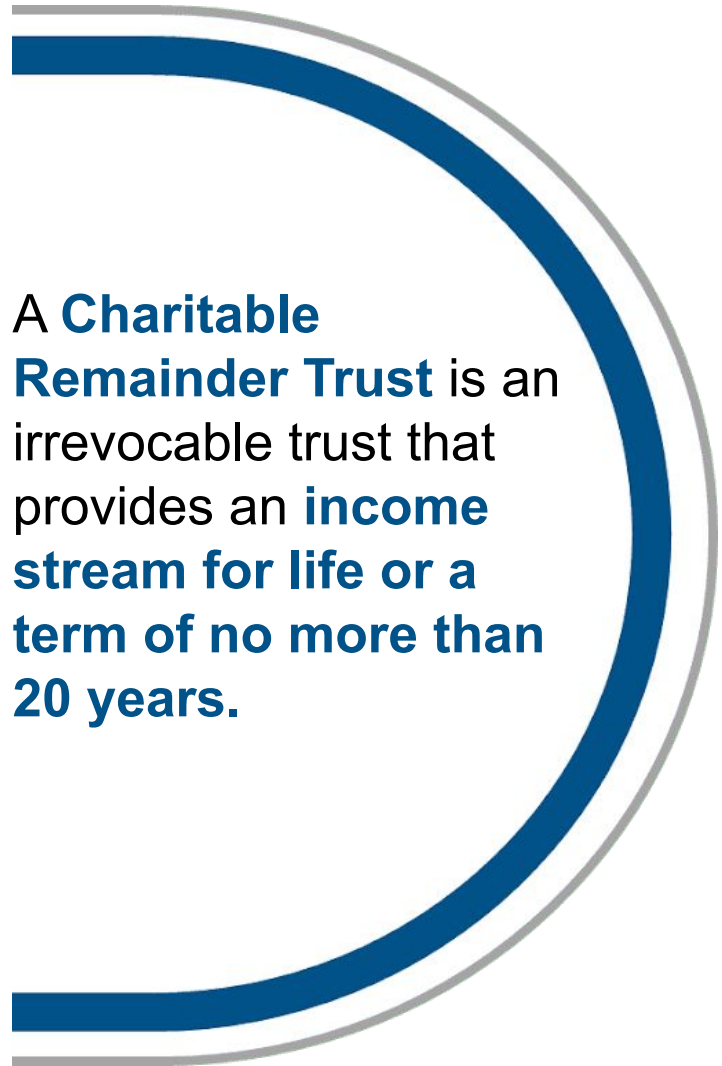
In column Type, "S" refers to Standard and "D" refers to Deferred

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

# What is a Charitable Remainder Trust?



A **Charitable Remainder Trust** is an irrevocable trust that provides an **income stream for life or a term of no more than 20 years.**



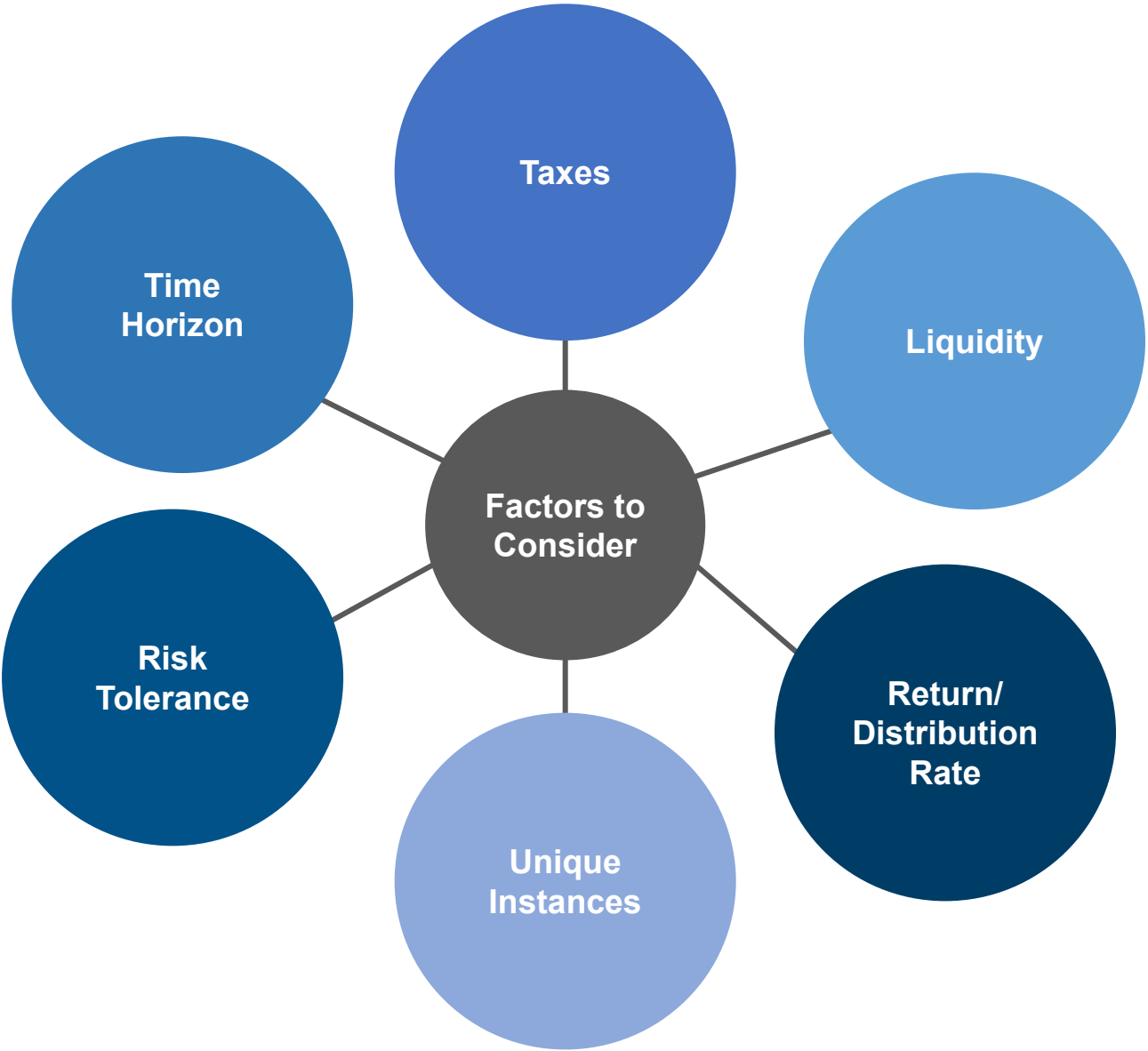
**Make the Gift**



**Receive Income**



**Remainder to Nonprofit**



# Questions?

Scan for Additional Thought Leadership:



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