

Considerations when creating a private foundation

Your vision. Our insights.

Creating a private foundation is often one of the most exciting and enriching experiences a family can have. Whether your philanthropy becomes a second career or remains an avocation, a private foundation can help your family organize an approach to giving while working together and collaborating with like-minded groups to achieve important goals.

Private foundations can also bring family members closer together to learn about investments, effective giving, and to create or preserve a family legacy. Additionally, private foundations can encourage younger family members to become involved with the family's philanthropic goals. This allows families to pass down their philanthropic values, and helps younger generations to develop their own philanthropic voices and to establish continuous giving through the generations.

The J.P. Morgan Outsourced Chief Investment Office (OCIO) Team has deep knowledge and experience in managing endowments and foundations investments. Whether you are exploring the idea of establishing a private foundation or already have a fully staffed board and investment committee, our team has access to an extensive range of services to help customize portfolios—allowing you to focus on achieving your philanthropic vision.

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Our integrated platform addresses the needs of private foundations

J.P. Morgan has assisted families with their philanthropic endeavors for generations. Our fully resourced firm can help you at every step of your philanthropic journey by leveraging the knowledge of the entire firm.

DEVELOP YOUR MISSION/LEARN BEST PRACTICES

The Philanthropy Centre

- Helps clients develop the tools, knowledge and connections that can help enable them to achieve lasting change with their philanthropy
- Organizes global thought leadership forums and provides insight into current trends and innovations

PLAN HOLISTICALLY

Wealth Advisory

- Offers insights into charitable structures, advises on legacy planning, and helps understand legal and tax reporting requirements
- Develops and implements tax-efficient wealth transfer techniques¹

EXECUTE ON YOUR GIVING STRATEGY

Private Foundation Services

- Provides foundation administration and grantmaking support
- Performs due diligence on grant applicants
- Designs grantmaking protocols to maximize the impact of client giving

ACCESS CUSTOMIZED INVESTMENT SERVICES

Outsourced Chief Investment Office

- Develops and implements customized investment strategies
- Provides access to full discretionary management and advisory services
- Offers custody reporting administrative services and consultative analytics

DRIVE SUSTAINABILITY

Sustainable Investing

- Offers thought leadership and engagement on critical social and environmental issues
- Sources sustainable investing strategies for clients

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The philanthropic journey

STEP 1: Build a strategy that can help maximize effectiveness

Creating a foundation is one thing; running it effectively to achieve real lasting impact is quite another. The foundation's mission is critical, as it provides a roadmap for the organization. Our Philanthropy Advisors use their extensive network of philanthropists and thought leaders to help clients find opportunities where they can make the most difference. They can collaborate with you to:

- Outline or refine your foundation's mission to reflect your philanthropic goals and provide a roadmap for giving
- Determine the appropriate funding strategy for the foundation based on your objectives
- Formulate your foundation's governing and operating procedures and succession plans
- Explore your field of interest and understand how you can have the most impact
- Connect with like-minded philanthropists, thought leaders and professionals in your areas of interest

STEP 2: Plan holistically for your wealth and legacy

Ideally, your foundation harmonizes with your plans for your family's wealth. Proper use of income, gift and inheritance tax techniques may increase the wealth available to both your foundation and your family.

Our Wealth Advisors work closely with you and your counsel to:

- Create and review succession plans
- Help select the most appropriate structure for your foundation (trust or nonprofit corporation)
- Identify which assets may be most appropriate for funding a foundation
- Provide financial modeling based on our firm's understanding of the markets to show the economic implications of your estate plan²

STEP 3: Invest to meet the unique needs of your private foundation

Investing foundation assets is significantly different from investing for an individual. Whether the purpose of your foundation is to have an impact for a finite period or serve its mission into perpetuity, coordinating a foundation's investment objectives with its distribution policy is essential. Private foundations typically need to earn approximately 6%-7.25% on their investments annually to maintain a 5% annual required distribution plus keep up with inflation and administrative costs.³

A good place to start is the foundation's investment policy statement, which memorializes the investment expectations, objectives and guidelines. A foundation's investment objectives should take into account the return on investment necessary to meet growth objectives and payout requirements. Effective portfolio management begins with these criteria, and can help a foundation meet its investment objectives and guidelines.

The Outsourced Chief Investment Office Team can collaborate with you to:

- Develop a deep understanding of your organization's specific investment requirements and parameters
- Build and monitor portfolios to help meet your investment time horizon, risk tolerance and asset allocation needs
- Provide access to board member best practices, insights and information on topics pertinent to private foundations

STEP 4: Manage your foundation's operations and legal obligations

In the United States, family foundations are regulated by the IRS and overseen by state attorneys general, who are charged with ensuring that these foundations' funds are devoted to the public good. When you create or join the board of a private foundation, you take on a personal, fiduciary responsibility to ensure that the foundation complies with all applicable legal requirements and regulations. Our Trusts & Estates organization can offer a range of services to assist you in managing the administrative, operational and financial requirements of your foundation.⁴

² Neither JPMorgan Chase & Co. nor any of its affiliates offer tax or legal advice.

³ Amount necessary to generate rate of return in excess of distribution rate, inflation and expenses.

⁴ Advisory services available to select clients. For more information about these services, please talk to your J.P. Morgan team.

TRUST ADMINISTRATION	GRANTMAKING	FINANCIAL AND TAX MONITORING ⁵
<ul style="list-style-type: none"> • Apply the terms of the governing documents and applicable law to the administration of the foundation, including payment of fees, taxes and expenses • Estimate projected income and payout requirements, and monitor annual distributions • Coordinate liquidity needs for grants and expenses 	<ul style="list-style-type: none"> • Coordinate and track materials from grantees and foundation offices • Prepare and distribute grant checks and letters of declination and approval • Respond to inquiries and distribute guidelines, often acting as the address of record • Execute on proposal review procedures and verify charitable status of applicants • Manage day-to-day communication with prospective and current grantees 	<ul style="list-style-type: none"> • Maintain files and retain necessary information in accordance with IRS and account procedures • Oversee the preparation of the 990-PF tax return and state filings • Aid client’s counsel in elements of tax strategy • Monitor compliance with federal, state and local laws • Calculate and pay any required quarterly estimated tax payments

STEP 5: Safeguard your foundation’s assets

Because managing a foundation entails safeguarding charitable funds, great care should be given to the custody and protection of these assets.

J.P. Morgan is one of the world’s most experienced custodians globally, with assets of \$3.7 trillion (as of December 31, 2022). Our clients receive state-of-the-art information systems and technology solutions.⁶

WE SUPPORT YOU ON MANY FRONTS

J.P. Morgan has been privileged to assist families and offices in their philanthropic endeavors for more than 200 years. We understand the demands placed on private foundations and the rewards that come from fulfilling a mission. Often, competing priorities stretch resources, and finding the right skill set to help build an effective foundation and manage those assets can be a challenge.

Whether you are establishing a private foundation or you are part of a foundation that is looking for comprehensive portfolio management strategies tailored to your foundation’s specific objectives, J.P. Morgan can provide access to a range of services that integrate advice and capabilities to empower your foundation to focus on what is important—your mission and philanthropic legacy.

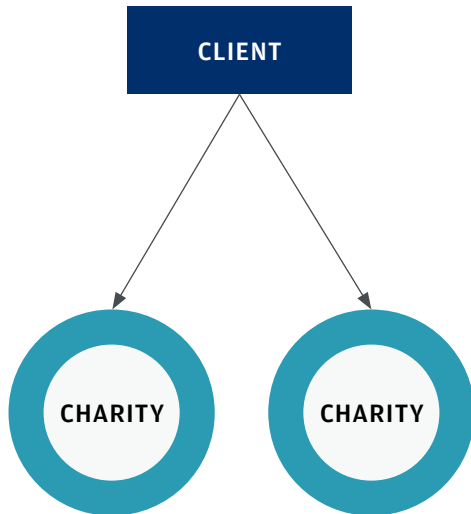
⁵The Trusts & Estates organization only performs tax monitoring and preparation services when it is full Trustee. JPMorgan Chase & Co. and its subsidiaries do not render accounting, legal or tax advice. Estate planning requires legal assistance. You should consult with your independent advisors concerning such matters.

⁶J.P. Morgan Custody Services.

Case study

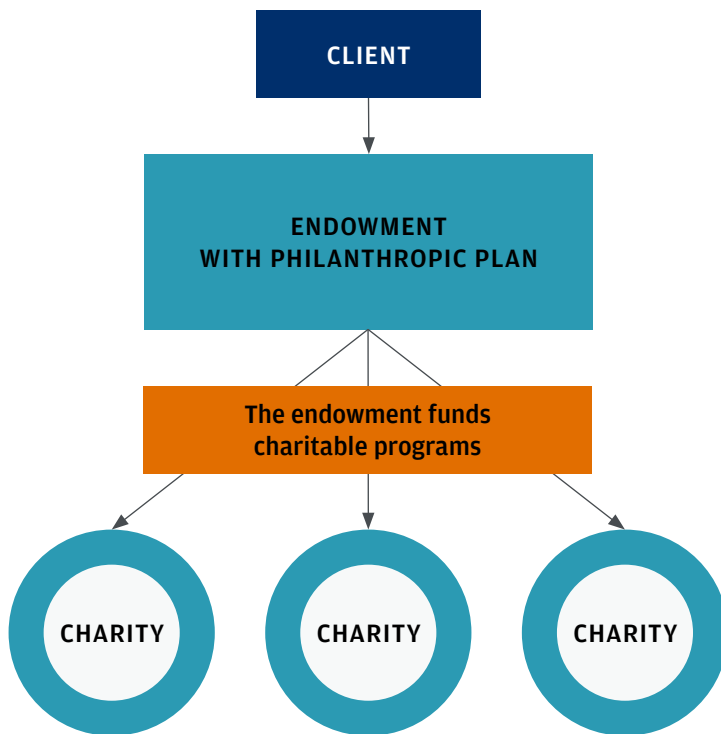
BEFORE

CLIENT MADE CHECK PAYMENTS
DIRECTLY TO CHARITIES



AFTER

CLIENT CREATED AN ENDOWMENT



CHALLENGES

- NO sustainability: The philanthropic funding of programs is subject to fluctuations and external factors (e.g., family business)
- NO governance: Philanthropic funding lacks grantmaking criteria and a formal process to approve grants
- NO involvement: Very little family or next generation participation or accountability

POTENTIAL BENEFITS

- Sustainability: An endowment paired with the appropriate “spending policy” promotes expense tracking and self-sustainability
- Governance: The endowment is independent of external factors and focused on long-term philanthropic impact
- Involvement: The endowment model encourages intergenerational participation
- Performance: Endowments are open to the potential for more sophisticated investment strategies and greater diversification, both of which tend to perform better than smaller or shorter-term capital pools

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Investment strategies are selected from both J.P. Morgan and third-party asset managers and are subject to a review process by our manager research teams. From this pool of strategies, our portfolio construction teams select those strategies we believe fit our asset allocation goals and forward-looking views in order to meet the portfolio's investment objective.

As a general matter, we prefer J.P. Morgan managed strategies. We expect the proportion of J.P. Morgan managed strategies will be high (in fact, up to 100 percent) in strategies such as, for example, cash and high-quality fixed income, subject to applicable law and any account-specific considerations.

While our internally managed strategies generally align well with our forward-looking views, and we are familiar with the investment processes as well as the risk and compliance philosophy of the firm, it is important to note that J.P. Morgan receives more overall fees when internally managed strategies are included. We offer the option of choosing to exclude J.P. Morgan managed strategies (other than cash and liquidity products) in certain portfolios.

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