You don't have to be a Rockefeller! (Donor Advised Funds + Impact Investing)

SPEAKERS: Tim Freundlich, Calvert Foundation; Ron Cordes, East Bay Community Foundation; Kim Wright-Violich, Schwab Charitable; Sarah Williams, Philanthropic Advisor

Moderator: Sean Stannard-Stockton, Tactical Philanthropy

Purpose:
Donor advised funds represent the fastest growing philanthropic asset management solution in the country, with roughly $25 billion in investment assets awaiting grants to charities. What if a significant percentage of these assets were invested in social and environmental options, providing a range of investment capital to social entrepreneurs throughout the world? Leaders in a broad range of programs spanning a local community foundation, to a boutique social investment brand, to one of the largest national donor advised funds in the country discuss the massive opportunity that donor advised funds offer as a source of capital that breaks down major barriers that social investment encounters in the conventional markets.

Design/methodology/approach:
Reports and expert opinions from panelists

Findings
Donor advised funds are monies donated to a charitable institution for future use in a manner advised by the donor. The initial donation can be taken as a charitable deduction. Community foundations have for many years received donations in amounts as low as $5,000, and as high as millions of dollars. The D/A account is an individual account in a larger structure, not a private foundation; expenditure of funds must be done within the constraints of charitable organizations.

Relatively new players in the field include traditional fund managers which now have charitable arms. Only recently have such organizations accepted smaller amounts than the former $250,000 threshold. This development has significantly democratized participation.

At some institutions, donor advisors can pool their funds and make socially responsible investments; profits from the investments stay within the pool, thus incurring no tax burden. In addition to complying with all IRS regulations, standards of due diligence, conflict of interest, etc. apply. In part because the donors have already received the tax benefits, they are more likely to make the kinds of social investments that may yield lower rates of return and be riskier. The institutions managing the funds are paid a percentage of funds under management, so they have incentives to keep the pool of funds filled through wise social investments.

There is a large, and growing, number of options for use of the funds, including straight loans to social entrepreneurs, program-related investments, as well as private debt and equity. Deal sizes are also below the $250,000 threshold, increasing their number and diversity. Pooled funds result in lower administrative costs and greater impact from aggregation. A $5,000 donor can participate in a $1 million equity investment.

Guided investments can go beyond the traditional Socially Responsible Investment practice of using positive screens (e.g. solar power) or negative screens (e.g. no tobacco) to helping socially responsible start-ups grow and stabilize.

The social capital donor-advised funds vehicle helps people who want to participate but don't have the time to research promising investments, or perhaps sufficient funds to participate. The D/A funds also permit a mixture of investments and grants. They can also take first positions in investments, attracting other capital, publicize the companies, etc. and offer other resources that regular capital investors might not.

Another “product” for the funds is offering loan guarantees, particularly helpful in the case of microfinance, which relies on interest from loans they make and has traditionally used philanthropists to provide a line of credit. This use of D/A funds can keep all the transactions in private hands.

Whereas the professionalization of D/A funds is only about 15 years old, it has matured to encompass an investment space of hundreds of millions of dollars. It is inherently conducive to the kind of experimentation needed for social capital, because donors have already given the money “away” for the tax break. Donor advisors are accustomed to making charitable grants, with no monetary return, so even the smallest single-digit returns are welcome.

Practical Implications, Originality/value: D/A funds now have several years of experience in their investment strategies, yielding important information about financial returns on social investments

Keywords: donor advised funds, blending philanthropy and investment, tax deductions, socially responsible investing, loan guarantees

Type: *conference panel*

Summary by:

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