Cornerstone
CAPITAL GROUP

Radically Practical Investing™

Mobilizing Donor Advised Funds For Impact Investing

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† Some of the organizations highlighted via case studies in this report are clients of Cornerstone Capital Inc. It is not known whether the clients included in this presentation approve or disapprove of Cornerstone's services. These representative clients were selected as a means of further demonstrating the charitable and administrative benefits of Donor Advised Funds.

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Introduction

More than $23 billion[1] was contributed to donor advised funds (DAFs) in the United States in 2016, yet only a minor fraction of donor advised fund assets are invested for positive social and environmental impact. More often than not, DAF assets are managed by a donor advised fund provider — such as a national investment bank that has developed a separate nonprofit to serve as a holding tank for DAF assets, or a community foundation — that has little or no offering for donor advised fund holders who want to leverage their DAF investment capital for positive impact.

Due to evolving demands from donor advisors, however, this is starting to change. In this report we outline the structure of DAFs and a variety of innovative ways that donor advised funds are being deployed strategically to help donors achieve their financial and impact goals through impact investing while also providing necessary investment capital for social and environmental initiatives. Cornerstone Capital Group sees this trend as an opportunity for additional capital in the market to be moved toward sustainable and impact investments.

[1] National Philanthropic Trust, 2017 Donor-Advised Funds Report, Page 12, https://www.nptrust.org/reports/daf-report/

Key Terms

Donor Advisor

An individual, family, trust, corporation or nonprofit organization that has made an irrevocable contribution of assets into a DAF. While the DAF host controls the allocation of DAF funds, the donor advisor has considerable influence over investment and grantmaking activity.

Donor Advised Fund

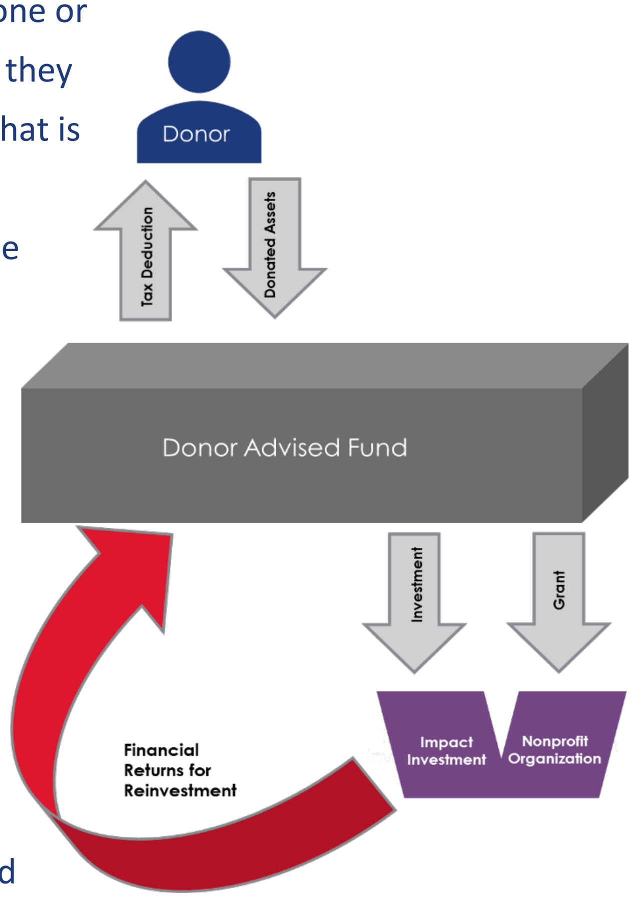
A Donor Advised Fund (DAF) is a philanthropic vehicle that is operated and maintained by a 501(c)(3) public charity. All contributions made to a DAF are tax-deductible.

A Word about Impact Investing

A growing number of investors wish to integrate their investing activities with the values that inform the rest of their lives or their organizational missions. Impact investing provides investors with the opportunity to support the social and environmental issues they care about while receiving a financial return.

Part I: Understanding Donor Advised Funds

Donor advised funds are mechanisms that allow individual or corporate donors — or groups of donors — to make grants or impact investments to nonprofit or mission-aligned for-profit companies. This process begins with a donor or investor (known as a donor advisor or DAF holder) contributing to a donor advised fund, which is typically hosted by a community foundation but can also be hosted by any number of other public charities (i.e., the DAF provider). Donor advised funds can receive contributions from one or more donors over time. Once a donor sets up a DAF, they qualify for a one-time tax deduction for the amount that is given to the DAF. DAFs and the investment income generated by DAFs are then officially controlled by the donor advised fund provider; however, the donor advisor retains a significant degree of influence over how the funds are invested or granted.



Unlike establishing a private foundation, which can require a significant amount of time and an investment in start-up legal costs, establishing a DAF with an existing DAF provider can be done immediately upon receiving the donated assets. The donor advisor is not responsible for up-front legal costs, and fees are typically limited to annualized fees on the assets held in the DAF. We outline more of the charitable and administrative benefits of DAFs in the following section.

Charitable and Administrative Benefits of DAFs

Donor advised funds are growing in popularity and much has been written on the general benefits of donor advised funds. Some of the basic benefits of a typical DAF are as follows:

Simplified Administration: The administrative aspects of DAFs are managed by a DAF provider (such as a community foundation) so the donor advisor can avoid the burden of managing and reporting on grants and the day-to-day administrative burdens of grantmaking.

Immediate Tax Benefit: Donors often use DAFs when they have a significant liquidity event, such as the sale of a business, to decrease the tax burden that could result from the influx of large amounts of capital.

No Requirement for Set Payout: Donor advised funds do not currently require a minimum payout. This contrasts with the requirements for private foundations, which are obligated legally to expend at least five percent of their total endowment on qualifying distributions. In times of great market volatility, a five percent payout can be difficult to achieve without negatively impacting the total value of the endowment. Moreover, sometimes donors are busy and don't have time to make informed grant decisions within the prescribed time period; in this case, donor advised funds can be very valuable alternatives to private foundations.

Professional Grant/Investment Sourcing and Review: Many donor advised fund providers offer philanthropic advisory services in order to help donor advisors find and analyze potential grant and investment options available to them. This benefit can be of particular value to individuals and families with limited staff capacity.

Specialized Knowledge: Donor advisors seeking specific expertise around highly specialized issue areas, such as how to make grants or impact investments outside of the U.S., often turn to DAF providers for help. Donor advised fund providers can supply technical expertise that even professional staff of family offices and foundations may be lacking.

Anonymity: Because DAFs are managed by a DAF provider, the donor advisor does not have to report on grants or investments made through their donor advised fund; this can be particularly helpful for family or private foundations seeking to make grants to groups outside of their publicly known priority issue areas.

Short/Medium-Term Strategy: DAFs can be constructed relatively easily through an experienced DAF provider, and discontinued with relative ease and low cost. Donors and investors who seek opportunities to support or even catalyze new initiatives without making a long-term commitment often view DAFs as ideal vehicles for facilitating their strategic objectives.

Aligned Grantmaking: DAFs are excellent vehicles for bringing multiple donors and investors together in support of a particular issue, or nonprofit, or social enterprise. Either through the use of pooled funds, or through co-investment in specific organizations or companies, DAFs can be an excellent way to leverage a donor's financial contributions.

Capacity Building Partners: Donor advised fund providers can be ideal partners for donor advisors who are interested in accelerating the growth and development of a particular field or organization. The staff at DAF providers, such as community foundations, are often experts in the local community or a particular interest area and can help identify capacity needs and resources for addressing capacity gaps.

Part II: DAFs as Vehicles for Impact Investing

As important as the fundamental charitable and administrative benefits of DAFs are, they pale in comparison to the power that DAFs provide in fostering impact investments and aligned, catalytic grants that can have a substantive impact on communities and the environment. This section takes a look at how this happens.

For many years, donor advised funds were thought of in simplistic terms: First, there was a pool of money that was invested by the DAF provider through a traditional investment mechanism designed to maximum financial returns that accrued to the donor advised fund; and second, the donor advisor recommended grants to nonprofit organizations of their liking, the funds for which were withdrawn from their DAF.

Today, an increasing number of donor advised fund providers and donor advisors are recognizing that they are leaving opportunities to create positive impact[2] on the table. They are realizing that more positive change can be achieved through DAFs if the funds are invested in ways that are aligned with a donor advisor's philanthropic priority areas.

By maximizing the impact of the investment capital alongside the grants that are made, donor advised funds are proving to be

[2] Cornerstone defines "Impact" as the effect of an investment or a portfolio of investments on society and natural ecosystems. All investments have impact.

extraordinary vehicles for achieving meaningful social and environmental impact.

There are multiple ways to deploy the total assets of a DAF. Most donor advised fund providers are only beginning to explore the diverse ways that capital can be used to increase the impact of donor advised funds. In this section, we review eight ways that donor advised funds can be deployed to support impact,[3] using case studies to illustrate the possibilities.

Investing Donor Advised Fund Assets for Impact

Ways to deploy Donor Advised Fund capital to work to achieve financial goals as well as social and environmental impact aspirations

[3] For additional information on using DAFs as vehicles for impact investing, see Driving Impact, Managing DAFS: Community Foundations as Bridges to Impact Investing by Bert Feuss, Maggie Cutts and Jed Emerson: http://www.impactassets.org/files/Issue_Brief_12.pdf

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Direct Investments in Social Enterprises

A small but growing number of DAF providers offer their donor advisors the ability to make direct investments in nonprofit or for-profit social enterprises[4] that are aligned with the donor's philanthropic priorities. This capacity is particularly valuable for supporting social enterprises that need early-stage capital because they do not yet qualify for established venture funds. Moreover, social enterprises with a strong social or economic justice orientation often need low-cost capital to prove out their business model, which requires investors who are willing to work in innovative ways and potentially take greater risks with their capital.

Donor advised fund holders are ideal for providing the capital needed to support emerging social enterprises; if they take a risk on a new company or nonprofit program and it fails, the donors do not lose their own money. If the social enterprise is successful, the principal and interest go back to the DAF, which is uncommon with grants.

Further, by partnering with knowledgeable DAF providers, such as a local community foundation, a donor advisor's investment can be supplemented with additional capacity provided by the DAF provider, and sometimes with capital

[4] A social enterprise is a revenue-generating company, organization, or program that has social or environmental mission. The profits generated from a social enterprise are principally used to provide ongoing support for social or environmental benefit.

from other like-minded investors seeking opportunities for co-investment.

Finally, as most angel or venture capital investors know, managing direct investments can be complicated from a relationship perspective and can be administratively cumbersome. Because the DAF provider manages the financial transaction with the investee, the donor advisor is spared the uncomfortable role of having to deal with investees if a transaction gets complicated. The DAF provider also holds the assets on their books and manages the capital calls and other related accounting and management functions, thereby allowing the donor advisor to bypass the technical and financial challenges in making direct investments.

Hands of the Carpenter

Mark Newhouse has a long and successful history as an entrepreneur. He is also a philanthropist and a donor advised fund holder. In recent years he has become a champion for impact investing and an advocate for bringing investment capital to innovative social enterprises. Realizing that investors often aren't willing to take the risks needed to seed businesses with a double bottom line (social and financial return), he turned to donor advised funds to help solve the problem.

Working with other entrepreneurs he met at Social Venture Partners Denver, Mark engaged in a partnership with Hands of the Carpenter, a local nonprofit organization with an affiliated for-profit social enterprise. Hands of the Carpenter provides used vehicles to low-income individuals and families, especially single mothers, and provides low-cost repairs for women in need. After losing their lease on their automotive garage, Hands of the Carpenter found a new location that would help it grow its for-profit car repair and car sale business and therefore enable it to serve more women. Hands of the Carpenter began working with Newhouse and his partners to raise impact investment capital to support the purchase of this new building. Through an innovative loan structure, Hands of the Carpenter was able to secure funding for a first and second mortgage through investments made in part through multiple donor advised funds held at The Denver Foundation.

Now in its first year, the investment is already starting to see a return. The number of cars placed by Hands of the Carpenter with single mothers in the first half of 2018 was more than double the number placed in the first half of 2016 and they are on target to repay the loan ahead of schedule.

When asked whether he would do something like this again, Newhouse said, “Definitely! My personal passion around DAFs comes from the fact that you can have a different discussion if your financial return has already been captured by putting your money in a DAF. You can get really focused on impact because you’ve already got the financial return. It lowers the friction on transactions.”

Sagamore Investments

Sagamore Investments, LLC was created as an impact investing vehicle with three distinct characteristics. First, it receives all its revenue from donor advised funds. Second, the LLC performs social venture design, diligence, and investment services. And third, Sagamore builds social impact into the due diligence process, ensuring industry-leading measures on the public good that results from private investment.

This unique model was developed by Jay Hein, who previously served as the Director of the White House Office of Faith-Based Initiatives. Jay saw the need to use capital more creatively to address the complex challenges facing communities. Moreover, he felt that this particular model would appeal to business people who sought to address social problems with some of the same tools they were familiar with in their professional lives.

One of Sagamore’s first investments was in a Christian health clinic in Raleigh, North Carolina. NeighborHealth provides high quality primary care to mothers receiving Medicaid. Recognizing that the clinic needed some grant capital to support operational costs, Sagamore provided $100,000 in grant support. In addition, the team received $400,000 in donations from 11 individuals designated for investment in the clinic through a donor advised fund at the Sagamore Institute. Sagamore then issued a $400,000 loan to the clinic with three percent interest rate (plus a 1.5 percent fee.) When the funds are repaid, the principal and interest will be available to support new social enterprises.

Along the way, a handful of donors got a significant one-time tax break for their contributions to the DAF; they became educated about how DAFs work; and they discovered that their money can be used sustainably to support worthy local projects over and over through the use of a DAF. More importantly, a critical community organization was able to build a vital clinic that will be in the community for years to come.

"We built Sagamore Investments with one thing in mind: to accelerate high quality impact investing deal flow,” says Jay Hein, Managing Director at Sagamore Investments. “Through the design of deals like NeighborHealth and 'make a market' strategies like our venture competition/online platform, we serve donors by improving the product on the shelf.”

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Specialized Pooled Funds

One of the great advantages of DAFs is their ability to convene multiple donors and investors around shared interest areas. Numerous DAF providers have developed philanthropic pooled funds for strategic distribution of aligned grants. Today, DAF providers are increasingly offering products that enable donor advisors to invest assets in alignment with other donor advisors.

For example, local community foundations are developing pooled funds to support the development and growth of their local business communities; national DAF providers have developed pooled funds to facilitate impact investments in critical industries. In some instances, donor advisors are actively involved in reviewing and selecting the investments made by the pooled fund, which can be rewarding for the donor advisors and help facilitate greater awareness and support for the beneficiaries of the investment.

By using pooled DAF funds to support businesses and industries, donor advisors can support the issues they care about then redeploy the returns from those investments to new mission-aligned initiatives in need of capital. Moreover, because the donor advisors are not relying on the returns from the investments to fuel their personal capital needs, they may be more comfortable making investments that are higher-risk and provide lower returns than they would otherwise.

The Denver Foundation's Impact Investing Fund

The Denver Foundation is the largest community foundation in the Rocky Mountain region. In response to the growing demand of donor advisors as well as an awareness of the need for investment capital to support community efforts, the foundation recently created a local Impact Investing Fund to make loans that align with the foundation's community objective areas: economic opportunity, basic human needs, education, and leadership and equity. The fund makes investments that typically offer below-market returns with the intention of providing low-cost capital to nonprofits or intermediaries that are making a positive impact in Metro Denver. An impact investment committee vets all impact opportunities for social impact as well as likelihood of repayment. The Impact Investing Fund was created with contributions from donors and donor advised funds held at The Denver Foundation, in addition to foundation cash reserves.

Recent investments have supported such things as Greenline's Small Business Capital Fund, which invests in small businesses in economically distressed communities. The Impact Investing Fund provided $200,000 to Greenline, which was complemented by $2.2 million in co-investments from donor advised funds held at The Denver Foundation. When the principal and interest are repaid, the capital will be returned to the pooled fund and each of the DAFs that supported the effort. Kate Lyda, Philanthropic Services Director and Impact Investing Specialist at The Denver Foundation, says of their work with donor advised funds, "We want to work with our donors to help them realize their vision for philanthropic impact. More donors are seeking a variety of options for community investment and we've expanded the scope of services we provide beyond traditional grantmaking. Each donor can structure a unique philanthropic investment portfolio to achieve their goals."

Triskeles Foundation Community Investing Fund

The Triskeles Foundation was founded in 2002 to create values-aligned donor advised funds and mission-based investment strategies. Triskeles serves values-aligned clients based in any geography. One of Triskeles' donor advisors, Babbie Jacobs, who is deeply passionate about her local community, recently decided to use her DAF as a vehicle to support local initiatives and encourage greater investment into local enterprises by her peers. She seeded the Community Investing Fund, which supports the following local initiatives:

- A private fixed income investment in an early stage organic baking company that includes formerly incarcerated individuals as employees
- A private equity holding in an early stage energy conservation company
- A fixed income private placement in a community loan fund
- A public equity position in a progressive bank (providing readily available liquidity)
- Equity positions in two best-in-class ESG/SRI mutual funds (providing readily available liquidity)
- Cash (providing immediate liquidity for grant recommendations)
- CNote, a woman-led and -founded firm that connects retail investors with a nationwide

network of nonprofit CDFIs that support investment into women and minority-led businesses, schools, affordable housing and economic development

Other donors have joined her in this effort and together they are aligning their investment capital to support important community enterprises.

RSF Social Finance and the Food System Transformation Fund

RSF Social Finance seeks to create financial relationships that are direct, transparent, personal, and focused on long-term social, economic and ecological benefit. Since 1984, RSF has made over $500 million in loans, grants and investments, placing them in the top tier of social finance organizations worldwide. RSF takes a holistic approach to financing social entrepreneurs. RSF hosts around 150 DAFs ranging from $10,000 to $6 million in assets. RSF offers an option for donor advisors to invest a portion of their DAF assets into the Food System Transformation Fund (FSTF) via a non-amortizing five-year loan to RSF with an annual interest rate of 1%. RSF considers this fund a 'shared risk' model; if there are losses incurred from the loans in the fund, those losses are distributed among the lenders. To Alex Haber, Philanthropic Advisor at RSF, the RSF model is "focused on impact first, and asks those who participate in funds like FSTF that are focused on innovation to take on more risk."

Once committed, the funds in the FSTF are deployed for direct investing and lending that RSF facilitates. The capital is lent to enterprises working to build local food systems, with particular focus on smaller and riskier targeted lending around food infrastructure, organic food hubs and market-making local food enterprises. When this loan matures, donor advisors can elect to reinvest in the fund or move the principal back into their DAF for future investments and grant opportunities. The FSTF is an example of how donor advisors can put their DAF capital to work to support a wider range of projects to maximize social impact.

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Funds for Specialized Initiatives

People who are involved with managing DAFs almost uniformly tout one characteristic of DAFs above all others — flexibility. The flexibility that DAFs provide means that they can be used in all sorts of ways to catalyze the development of innovative ideas and facilitate creative financing.

For example, they provide an opportunity for diverse stakeholders to come together to make decisions. They are also useful for special initiatives that are time-limited and require shared investment, such as a pooled investment fund supported by a consortium of foundations interested in supporting a Social Impact Bond. Moreover, they can be used for special initiatives that are dependent on low-cost and high-risk capital to bring innovative ideas to fruition, such as local small business development projects.

Donor advisors can use their DAFs in a wide variety of ways to catalyze new initiatives that can make a substantive impact on the communities of interest to the donor advisors.

The Denver Social Impact Bond

Like most metropolitan areas, the City of Denver has been trying to address the needs of the chronically homeless population for years. After growing frustration about the fact that the City was spending $7.3 million per year on average to provide services (such as interactions with the police, jail, detox, and emergency care systems) for just a small number of heavy utilizers of the services, city administrators agreed something different had to be done. In 2015, a group of housing advocates and funders, including staff from The Denver Foundation, worked with Denver officials to design a Social Impact Bond (SIB) for Permanent Supportive Housing. The purpose of the SIB was to build permanent housing for at least 250 individuals, coupled with supportive services such as mental health and health care. The SIB was structured so that grant capital would be deployed, as well as low-interest debt, alongside full market-rate loans. The fundraising for the SIB was complicated, but it was made easier by The Denver Foundation's ability to mobilize their donor advised fund holders to support the project. The minimum amount to support the SIB was $500,000, but that was more than The Denver Foundation had available to commit and more than many individual philanthropists could invest on their own. The Denver Foundation therefore bundled contributions and philanthropic investments from 22 donors and donor advised fund holders and the Foundation provided the remaining $274,000 in funding to raise the full $500,000 minimum contribution. Over time, when the SIB is paid back, the donor advised funds will be replenished. This kind of active involvement in facilitating grants and impact investments has contributed to the tremendous success of the SIB: Denver is so pleased with the immediate results of the project that city officials are already making plans to expand the program to provide supportive housing to another 75 people. Moreover, the loans have already started to be paid back to the investors.

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Loan Guarantees

Access to capital is one of the most significant barriers to successful development of social enterprises worldwide. The lack of capital facing low-income communities, women, and entrepreneurs of color in the United States persists, while globally, innovation and opportunity are often stymied by the lack of access to capital. Inherent in this challenge is the inability of people with limited credit history to provide collateral for loans.

An effective mechanism for addressing the problem of collateral is the provision of loan guarantees. However, there are many challenges for those who wish to provide loan guarantees, including the need to do effective due diligence on prospective lenders; management of capital calls; global currency issues; tying up one's balance sheet; and more.

Donor advised funds can provide a solution to these challenges. By establishing relationships with intermediaries who provide loan guarantees in specific geographies (such as Community Development Finance Institutions in the U.S., or microfinance providers in developing countries), donor advised fund providers can help their donor advisors serve the critical function of providing loan guarantees to social enterprises that need their capital the most.

Intermediaries, such as groups like MCE Social Capital[5], identify small businesses with a social purpose that need loan guarantees and conduct due diligence to assess whether the social enterprises are viable and likely to repay their loans. Once a pool of small businesses is identified, the intermediary underwrites loans that are guaranteed by a group of donors, which can include donor advised fund holders if their service provider approves of the recommendation to use their fund in this innovative way. The donors are only required to pay out if one or more of the loans is defaulted on. To make it more appealing to donors, the cost to repay the loans is spread out among the group of donors, thus each donor is responsible for only a fractional amount of the amount of the loan(s) that is defaulted on. In the case of MCE Capital, the historic repayment rate of borrowers since 2006 is 98%.[6] Donor advisors can also underwrite loans directly if their DAF provider consents to administering it.

RSF Social Finance

In addition to providing direct loans to social enterprises through pooled funds, RSF now offers an option for donor advisors to underwrite loans to social enterprises in the RSF portfolio by providing loan guarantees. Loan guarantees help de-risk RSF's investments by providing an assurance that if an enterprise's loan defaults, the assets in a donor advised fund can be used to pay back the defaulted portion of the loan. Providing this type of loan guarantee can lower the interest rate that financial institutions — including RSF — charge for their loans. By buying down the cost of capital through loan guarantees, donor advisors can help social enterprises spend less of their operating capital on paying back loans.

[5] www.mcesocap.org
[6] http://www.mcesocap.org/take-action/become-a-guarantor/

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Endowments Invested for Broad Sustainable Impact

A typical endowment of a community foundation, a women's fund, or any other public charity with a donor advised fund is managed to maximize financial returns using a traditional investment strategy. Investment committees of community foundations and other DAF providers, who are typically charged with overseeing how DAF investments are made, often take a conservative approach to investing an institution's portfolio and resist investing in ways that target social and environmental impacts, despite years of performance data and multiple studies having shown that such strategies can achieve competitive financial returns[7].

An increasing number of donor advised fund providers are recognizing that investing an endowment for social and environmental return alongside financial return is not only possible, it's also eminently attractive to many philanthropically minded donor advisors. In some cases, working with their investment advisors, donor advised fund providers are developing broad investment pools in which donor advisors can choose to participate.

[7] See Cornerstone Capital Group's report Sustainable Investing: Addressing the Myth of Underperformance, September 24, 2015.

ImpactAssets[8]

Spun out of Calvert Impact Capital in 2010, the ImpactAssets Giving Fund is a DAF created "of, by and for impact investors." The ImpactAssets portfolio represents more than 300 impact investment positions with around $460 million in assets under management and more than 1,000 DAFs. ImpactAssets curates a 100% impact investing platform that enables donors to preserve and grow their giving dollars while optimizing their social and environmental impact — a triple impact giving strategy. Impact Assets offers donor advisors a variety of impact portfolios, funds and custom investments addressing social and environmental issues across asset classes, with options designed for different investment and grantmaking time horizons, risk appetites and liquidity profiles.

Tim Freundlich, CEO of ImpactAssets, says, "We started ImpactAssets because we believed that philanthropic capital in endowments and DAFs needed to move more fully into impact investments rather than sit in market mattresses doing neutral to negative on the impact scale. There is a time value to impact, with a massive opportunity cost to the world with every passing day without action. Every dollar sitting idly by, left unexamined and undeployed for good, is a dollar unleveraged."

Impact Charitable[†]

Impact Charitable is a Denver-based DAF provider that specializes in aligning grant and impact investment capital. Investing DAF capital for impact is a primary reason the organization was created by Ed Briscoe, an experienced consultant who has helped foundations and other impact investors navigate the intricate world of tax credit financing for affordable housing and community development projects. Through his years of experience working to blend capital originating from foundations, individuals, investment funds, and government agencies, Briscoe became convinced of the need for more people to understand how they can maximize their impact by using various sorts of capital depending on circumstance. He further came to believe that an excellent vehicle for doing so is donor advised funds.

Impact Charitable has made a commitment to invest one hundred percent of its assets sustainably. As their assets continue to grow, seventy-five percent will be invested in liquid securities that meet broad sustainability objectives, as defined by the organization's board of directors. Twenty-five percent will be invested in direct deals that have a high impact, such as profit-generating social enterprises or local real estate investments.

DAF holders at Impact Charitable can have their DAF assets invested into specific direct deals or be a part of the diversified portfolio with both liquid and direct investments. "We want to design investment vehicles that maximize impact for our donor advised fund holders," says Briscoe. "We are a great option for someone who cares about social enterprise investing, for example. If someone wants to make an investment where they don't like the ROI [return on investment], but they love the impact and it doesn't meet their typical investment standards, I want them to know that they can make their investments using a DAF with Impact Charitable. DAFs can help them say 'yes' to opportunities they might not otherwise be comfortable supporting."

[8] ImpactAssets is an investor in Cornerstone Capital Group.

[†] Impact Charitable is a client of Cornerstone Capital Inc. Please see page 2 of this report for more information.

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Endowments Invested for Specific Impact Priority

There is a certain irony in the reality that philanthropists work hard to support nonprofit causes and organizations they care about, while their investment dollars often sit in funds that are either neutral about those issues or even work against their priority issue areas.

For example, many foundations whose missions center on women and girls have gender-focused grantmaking priorities, even as their endowments are managed with no attention to how their holdings might positively or negatively affect women and girls. This practice is slowly starting change, however, and some women's funds and other donor advised fund providers with specific issue interest areas are dedicating some or all of their endowments to those issues.

A growing number of DAFs now provide donor advisors with the option to invest some or all of their DAF assets in the priority issue area of the donor; for example, investments that are made with a gender lens.

The Women's Foundation of Colorado

The Women's Foundation of Colorado offers DAF options that give donor advisors access to the Foundation's deep community connections and the option to invest their DAF assets in a 100% gender lens portfolio, making them one of the few community foundations to offer this option. With growing interest from donor advisors, they have continued to diversify this portfolio, adding a gender-focused fixed income allocation in 2018. The Women's Foundation of Colorado also invests 8% of the overall endowment into gender lens strategies. The WFCO's Board of Trustees has recently approved a strategy to increase gender lens investing to 51% of the long-term investment portfolio by March 2022.

The team at the Women's Foundation of Colorado is committed to working with their donor advisors to make gender lens investing easy and impactful for the donors. "We continue to think about ways to support our donor advisors to leverage their DAF assets to fulfill their philanthropic passions. We see the gender lens pool as a way to support this alignment," says Renee Ferrufino, Vice President of Development at the foundation. "We are focused on how we can support our donors' intentions, through the gender lens pool and by making impact investments into mission-aligned programs, in addition to the grantmaking done out of their DAFs."

Ms. Foundation for Women†

The Ms. Foundation for Women, one of the first and largest women's funds in the United States, offers donors an opportunity to open DAFs that are deeply aligned with the foundation's mission to build women's collective power to realize a nation of justice for all. DAFs held at the Ms. Foundation can be integrated into the foundation's endowment, 100% of which is invested in strategies that were selected because of their focus on gender. "Having full alignment between our grantmakers, programs and investments is important to ensure we have the greatest impact to get to gender equity. Alignment is key," says Teresa Younger; President, Ms. Foundation for Women. Once the donor advisor is ready to grant out of their DAF, they have access to the knowledge and expertise of the Foundation to recommend strategic grants that are made with a gender focus.

† The Ms. Foundation for Women is a client of Cornerstone Capital Inc. Please see page 2 of this report for more information.

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Advisor Managed Funds

The vast majority of community foundations and other public charities with DAFs work with an investment advisor to manage their pooled donor advised fund assets. Many "legacy advisors" who have been advising foundations for years on how to invest their endowments lack knowledge of, or experience in, investing assets for social and environmental impact.

Some community foundations provide donor advisors with the option to use a "sub-advisor" to manage the assets in the donor advised fund.[9] Sub-advisors can be hired who have specific expertise in investing for social and environmental impact.

These relationships can bring the donor relief in knowing that the assets in their donor advised fund are being managed in ways that align with their philanthropic values.

[9] This level of customization might require a minimum DAF asset amount.

The Zoma Foundation†

The ZOMA Foundation is a private foundation that supports the philanthropic priorities of ZOMA LAB, the family office of Ben and Lucy Ana Walton. It is the sister organization to Zoma Capital, which makes market-based investments. While the Foundation has a professional staff with deep expertise in its priority program areas (early childhood and community development) as well as extensive philanthropic and investment backgrounds, they also hold two donor advised funds, one of which is held at The Denver Foundation.

As an impact-oriented philanthropy, ZOMA Foundation wants the assets held in its donor advised fund to be invested with deep impact. This allows the ZOMA Foundation to make grants and investments out of their DAF while knowing that the investment income held in their DAF is being managed in ways that align with their overall values and objectives. Luis Duarte, president of the ZOMA Foundation, says "You can actively manage all of your assets in a way that is values- and mission-aligned…. the impact you can have is fully maximized."

† Zoma Foundation is a client of Cornerstone Capital Inc. Please see page 2 of this report for more information.

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Corporate Donor Advised Funds

The history of corporate America includes innumerable corporate philanthropy initiatives that have met with varied levels of success. Many of these initiatives were designed to help the local communities in which a corporation was based, or where the consumer bases of a given company are concentrated, with the dual mission of helping the corporate brand and the beneficiaries of the initiative.

While often well-intentioned, too often these efforts shrink and then disappear. This happens for a number of reasons, not the least of which is that corporate philanthropy programs are often considered ancillary parts of a business. Yet in today's world, many small businesses and corporations see the value and indeed the imperative of becoming partners in making their communities and the planet more sustainable and equitable. In fact, for many of today's entrepreneurs, it is absolutely core to their values.

Corporate Donor Advised Funds can help companies become involved in positive ways. Corporate DAFs are essentially identical to donor advised funds, although the decision-making about the deployment of capital in a Corporate DAF is typically done by a company's internal stakeholders, such as employees. Corporate DAFs provide businesses with a simple instrument for making grants in the local community or strategic investments in nonprofits or companies that complement their business model.

There are many benefits of using a Corporate DAF to make aligned investments. For example, companies can make DAF investments through investment funds that support the growth of companies in their supply chain. By working with a DAF intermediary, they can help bring capital to companies that are vetted through the intermediary and use grant capital through their DAF, if so desired, to support local communities that are impacted by the companies in the supply chain. DAFs are also valuable for businesses that may experience an exit: as they grow and prepare for sale to an outside investor, the moneys that are given to a Corporate DAF will not transfer with the sale of the company, thus ensuring that the company's philanthropic capital doesn't dissolve when the company is sold.

As a few experts whom we consulted for this project noted, corporations are likely to become major users of the DAF vehicle and we may see a significant influx of new Corporate DAFs in the near future.

RSF Social Finance and Equal Exchange

RSF has worked with Equal Exchange, a full-service provider of high quality, organic coffee, chocolate, cocoa, and other products to centralize corporate giving, through a Donor Advised Fund (DAF). RSF engaged with Equal Exchange, a worker-owned co-operative, through RSF's Fair Trade Capital Collaborative, a philanthropic fund used to provide technical assistance grants, catalytic grants, loans, guarantees and other investments to the high-integrity supply chains of fair trade borrowers. Equal Exchange was initially one of these borrowers. This program for providing flexible capital proved to be so beneficial to Equal Exchange and the coffee farmers that are a part of their co-operative that the company decided to open a Corporate DAF at RSF and allocate an initial $165,000 for supporting their supply chain community in a similar way. "It's not just that Equal Exchange was giving in their local community, but that they were thinking of their corporate giving as a part of their business model, working with companies down their supply chain and with the communities around their suppliers to leverage the power of their purchasing in ways that supported these communities and the integrity of their suppliers," says Alex Haber, Philanthropic Advisor at RSF. The funds held in the Equal Exchange DAF are invested through the RSF liquidity pool that is mission-aligned, with several investments that are fair trade and supply-chain focused. Projects funded through the Equal Exchange DAF include income diversification work, training, next generation engagement for farmers, and essential technologies. The partnership with RSF brought expertise on structuring and compliance requirements necessary to put into practice this innovative model for deploying capital.

Tides Foundation and Corporate DAFs

In addition to individual DAFs, Tides Foundation also hosts corporate donor advised funds. Through these funds, corporations work with Tides to gain access to networks of experts across a number of issue areas and approaches to corporate social responsibility that help inform an impact strategy aligned with their corporate giving goals. Approaches include the Pledge 1% movement, a special initiative of Tides that expands the commitment and scope of corporate giving, as well as focused and active corporate giving.

Close to thirty organizations utilize corporate DAFs through Tides Foundation to execute on their multifaceted approach to supporting nonprofit innovators. "These organizations are core believers of getting money out into the field and do a lot of giving through Tides. Corporate DAFs of organizations like Patagonia, Google, Okta, Twilio, and Box are very active and engaged," says Dhaval Patel, Investment Manager at Tides. Collectively, Tides helped to facilitate more than $170 million in granting for corporations in 2017. When working with Tides, corporations focus on supporting issues areas like education, economic opportunity, diversity and inclusion, environment, and crisis response through grant-making and impact investing from their respective DAFs.

To Patel, direct investments in social enterprises present opportunities for impact that have been limited by a lack of awareness. Patel believes "it is really important for people to know that you can do more than grants and socially screened investments to achieve your desired impact through a DAF."

Tides supports several of its clients by facilitating direct investments through DAFs. When operational and due diligence resources are limited, they work with donor advisors to find the right partners that can help make those direct investments.

For example, one corporate donor advised fund at Tides is focused on investing in education and education technology as a part of its corporate social responsibility. They do so through a combination of mission-related investments, grants and money invested in pooled funds offered by Tides. "They see these investments as a part of their corporate legacy, one important enough that it could outlive the founders or the firm itself," says Patel. Many of these direct investments were sourced through partnerships with Silicon Valley venture capital firms focused on similar issues. The tech company behind the Corporate DAF benefits from the rigorous due diligence, research and expertise of these venture capital firms to make early-stage investments in line with their mission. So far, the Corporate DAF has made three grant and equity investments in the early-stage education space.

Part III: When Is a DAF the Best Vehicle?

Donor advised funds are clearly valuable vehicles for facilitating positive impact. As a firm focused on building the field and moving capital toward investments that provide positive social and environmental impact, we see potential to grow the amount of capital being moved into donor advised funds.

However, as with any form of capital, there are situations where DAFs are not the best vehicle for achieving an intended outcome. Experienced donor advised fund hosts and advisors stress that DAFs are useful in some instances, but not in every instance. For example, when one is engaging in a highly technical transaction that requires specific expertise that is not available through a donor advised fund provider, such as a complex real estate transaction, then a DAF may not be the right solution. In addition, because there are restrictions on how much marketing can be done through DAFs, they may not always be the best solution for companies seeking to use a DAF to increase their public profile. Similarly, DAFs cannot be used to support giving to political candidates or campaigns. Finally, it should be noted that DAF contributions or investments can sometimes take more time to process than a direct contribution or investment into a nonprofit or a for-profit social enterprise.

Tax advisors and attorneys specializing in nonprofit and philanthropic laws and regulations should be consulted before making a decision about whether a DAF is the best fit for a specific purpose.

Part IV: Conclusion

Addressing complex social and environmental challenges is difficult. It happens in stages and it's usually messy. It also requires the use of an array of tools. The typical philanthropist thinks about the tools they have available to them in a fairly limited fashion: their most utilized tool is likely philanthropic capital that is given away to nonprofit organizations in the form of grants.

A new generation of donor advisors and DAF hosts is recognizing the multiple ways that donor advised funds can be used for impact investing. They are becoming very creative in maximizing their effectiveness through deploying the right types of capital for the problems they are trying to address.

At Cornerstone Capital, we are honored to work with many of the innovators who are opening up new avenues for supporting positive social and environmental change through using DAFs, some of whom are profiled in this report. If you are interested in learning more about how to use DAFs for social and environmental impact, please contact one of our team members.

If you are interested in learning more about how to use DAFs for social and environmental impact, or to discuss the possibility of hosting a presentation focused on the findings from the report, please contact Alison Smith at alison.smith@cornerstonecapinc.com.

For more information on this report or our services, please contact our Investment Advisory team:

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