



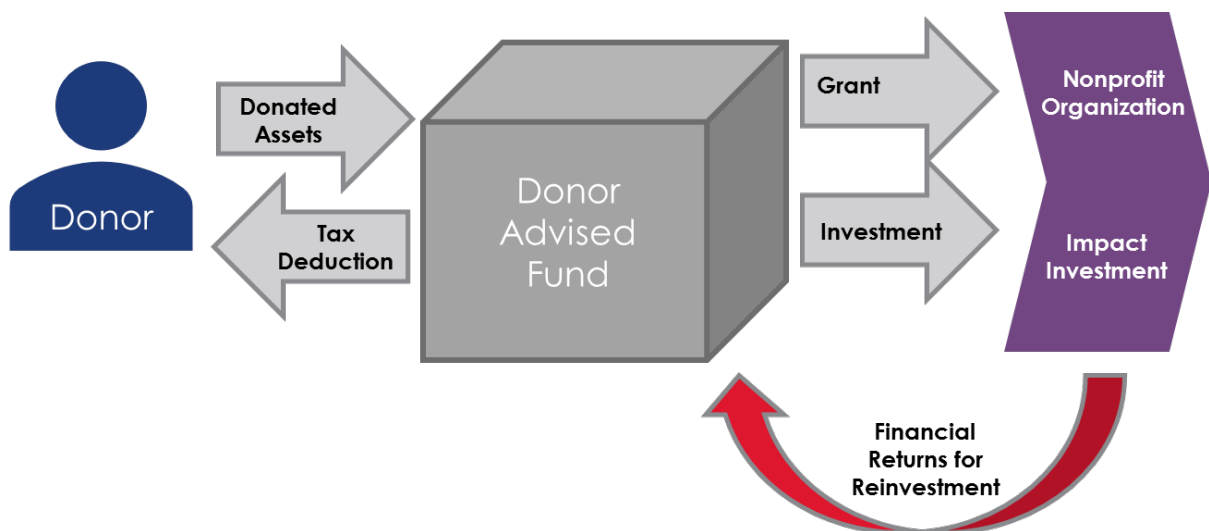
Mobilizing Donor Advised Funds For Impact Investing

A growing number of Donor Advised Fund (DAF) providers and donor advisors recognize that *investing* DAF assets for *impact* can dramatically magnify the effect of donor advisors' *philanthropic* activity. By maximizing the impact of a DAF's investment capital alongside charitable contributions, DAFs can be extraordinary vehicles for achieving meaningful social and environmental impact.

Donor Advised Fund Basics

Donor advised funds are philanthropic vehicles maintained and operated by 501(c)(3) public charities. Unlike private foundations, donors are not responsible for up-front legal costs, there is no set payout and a DAF can be established as soon as a DAF provider receives the donated assets. 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 allow individual or corporate donors to make grants or impact investments into nonprofit or mission-aligned for-profit companies, and while DAFs are officially controlled by DAF providers, a donor advisor retains a significant degree of influence over how these investments and/or charitable contributions are made.



Investing Donor Advised Funds for Impact

In our full-length report “Mobilizing Donor Advised Funds for Impact Investing,” Cornerstone Capital highlights how DAF assets are being deployed as impact investments to support the environmental and social impact goals of individuals and organizations. By using DAF funds for impact investments, 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. This capacity is particularly valuable for supporting social enterprises (see below) that need early-stage capital because they do not yet qualify for established venture funds. 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.

We identify eight ways to deploy DAF capital to work to achieve financial goals alongside impact aspirations, outlined below. See our full report for specific examples and insights from ImpactAssets, Impact Charitable, RSF Social Finance, The Denver Foundation, Tides Foundation, and Triskeles Foundation, among others.†

Direct Investments in Social Enterprises

A social enterprise is a revenue-generating company, organization, or program that has social or environmental mission. 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 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.

Specialized Pooled Funds

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 growth of their local business communities; national DAF providers have developed pooled funds to facilitate impact investments in industries such as regenerative food systems.

Funds for Specialized Initiatives

DAFs are flexible vehicles that can be used in numerous 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 initiatives that are time-limited and require shared investment, such as a pooled investment fund supported by a consortium of foundations. Moreover, they can be used for initiatives that depend on low-cost and high-risk capital to bring innovative ideas to fruition, such as local small business development projects.

Loan Guarantees

Access to capital is one of the most significant barriers to successful development of social enterprises worldwide. Inherent in this challenge is the inability of people with limited credit history to provide collateral for loans. Donor advised funds can provide a solution to these challenges. By establishing relationships with intermediaries who provide loan guarantees in specific geographies, 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.

Endowments Invested for Broad Sustainable Impact

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.

Endowments Invested for Specific Impact Priorities

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.

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. Some community foundations provide donor advisors with the option to use a “sub-advisor” to manage the assets in the donor advised fund. 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.

Corporate Donor Advised Funds

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.

† Some of the organizations highlighted via case studies in our report are clients of Cornerstone Capital Inc. It is not known whether these clients 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.



Cornerstone

C A P I T A L G R O U P

Radically Practical Investing™

Cornerstone Capital Group was created to catalyze the flow of capital toward a more regenerative and inclusive global economy. We seek to optimize investment performance together with social impact through rigorous research that systematically integrates Environmental, Social and Governance (ESG) factors into portfolio design. In seeking positive societal impact at scale, Cornerstone offers investment advisory services to individuals, families, foundations & endowments, as well as other registered investment advisors. We also offer capital markets advisory services to corporations and organizations. All of our services are underpinned by rigorous research and a focus on quantifiable impact. We are an SEC-registered investment adviser and a WBENC-certified Women Owned Business.

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 for impact investments, 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, 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

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