

**UNIVERSITY
IMPACT**

Donor Advised Funds and Impact Investing Webinar

Agenda

What is a DAF and how does it work?

Who are the major DAF players and why you should care

Is impact investing and ESG the same thing?

What is impact investing and how does it relate to DAFs?

Learning Objectives

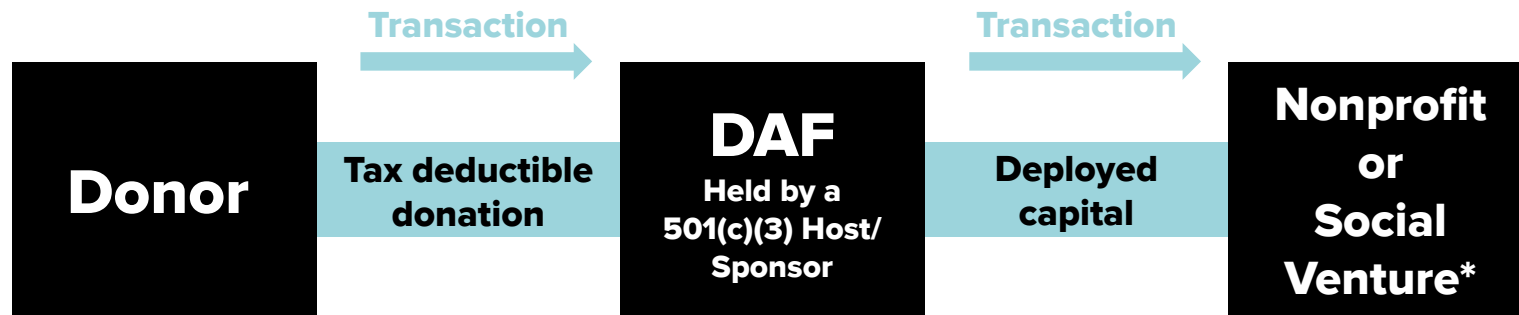
1. *Recognize* when a DAF can be used beneficially and *identify* what to consider as an appropriate DAF host
2. *Explain* how a DAF can solve social problems
3. *Compare* and *contrast* the benefits of various DAF hosts



Donor Advised Funds

Donor Advised Funds allow for future giving

A DAF is a charitable giving account established for future giving, while receiving a tax deduction immediately upon contribution to a DAF sponsor.



DAFs are increasing in popularity but aren't being fully utilized

\$120 B

Sponsored by DAF
Hosts

10%

Of all philanthropy
in the US comes
from DAFs

20%

Haven't been
touched in 10 years

\$150k

Average DAF size

DAF vs a Private Foundation

	DAF	Private Foundation
Fees & Setup	<ul style="list-style-type: none"> - Low administration fees and startup costs - Min. contribution = \$5,000 	<ul style="list-style-type: none"> - High administrations fees and startup costs - Min. contribution \$1M + legal costs
Causes to support	<ul style="list-style-type: none"> - Cannot make grants to individuals - Allows grants to 501(c)(3) - Allows grants to international nonprofits - Allows grants to for-profit entities for charitable purposes with certain procedures 	<ul style="list-style-type: none"> - Grants to individuals - Allows grants to 501(c)(3) - Allows grants to international nonprofits - Allows grants to for-profit entities for charitable purposes with certain procedure
Tax benefits	<ul style="list-style-type: none"> - Up to 60% AGI tax deductibility (cash) - Up to 30% AGI tax deductibility (public securities) - All securities deducted at Fair Market Value 	<ul style="list-style-type: none"> - Up to 30% AGI tax deductibility (cash) - Up to 20% AGI tax deductibility (public securities) - non-public securities deducted at the Cost Basis (no appreciation)
Succession plan	<ul style="list-style-type: none"> - Can name individuals, businesses, or charities as successor advisors for the DAF 	<ul style="list-style-type: none"> - Successors and officers confirmed only by vote of the board
Distributions	<ul style="list-style-type: none"> - No required distributions 	<ul style="list-style-type: none"> - IRS requires 5% distributions assets per year
Anonymity	<ul style="list-style-type: none"> - Anonymous contributions possible 	<ul style="list-style-type: none"> - All contributions are made public

Limitations on using a DAF

Restrictions for how funds in a DAF are used to ensure integrity of the social impact

Limits of DAF transactions:

- Must hold less than 20% ownership interest (voting stock)
- May not invest in businesses with ownership interests of disqualified persons:
 - DAF managers (including trustees, directors, officers)
 - Substantial contributors to DAF
 - Family members
- Cannot participate in self-dealing; a transaction with disqualified person
- Cannot make grants to individuals, i.e. a direct individual scholarship
- Donors may not receive personal benefit from transaction

DAFs provide tax benefit for 60% of adjusted gross income (AG) up to five years

Cash contributions to DAFs qualify for a tax deduction up to 60% of Adjusted Gross Income (AGI)

Example:

- Donor with AGI of \$100,000
- Donor contributes \$80,000 cash to a DAF
- \$60,000 is the max deduction the donor can take in this year, reducing AGI to \$40,000
($60\% * 100,000 = 60,000$)
- \$20,000 can be carried forward following years (up to 5 years) for deduction

DAFs provide additional tax benefits for charitable bunching

Example of charitable bunching assuming \$20,000 donations per year, 24% marginal tax bracket*

Standard Deduction	Bunching
YEAR 1	YEAR 1
Standard deduction** = \$24,800	2 years donations (in DAF) = \$40,000
YEAR 2	YEAR 2
Standard deduction* = \$24,800	Standard deduction* = \$24,800
Total = \$49,600	Total = \$64,800

$\$64,800 - \$49,600 = \$15,200$ (saved by bunching) x 24% (tax rate) = **\$3,648 Tax Savings**

*Example does not consider effects of other kinds of deductions, i.e. state taxes, mortgage interest

**Assuming married filing joint



When to use a DAF

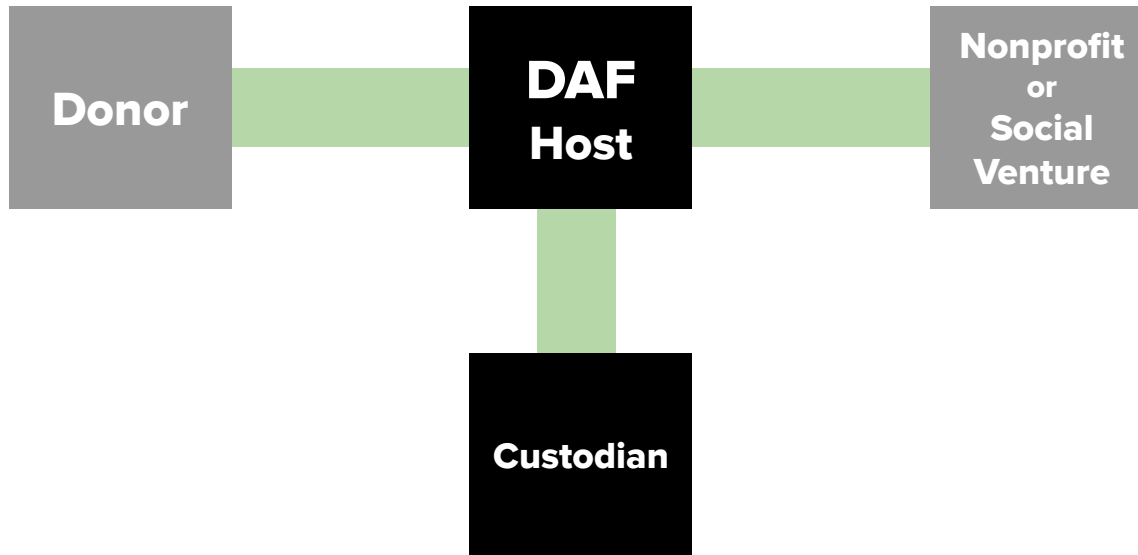
Donor Advised Funds are not for everyone, but there are many people that could benefit from a DAF that are currently not taking advantage of the opportunity

- Liquidity event (selling business, appreciated stock)
- Unexpected income (bonus, inheritance, etc.)
- Charitable bunching (popular with new tax code)
- Passionate about solving social problems
- Currently making donations to multiple charities (simplifies giving)
- Generational giving - younger generations are focused on making impact

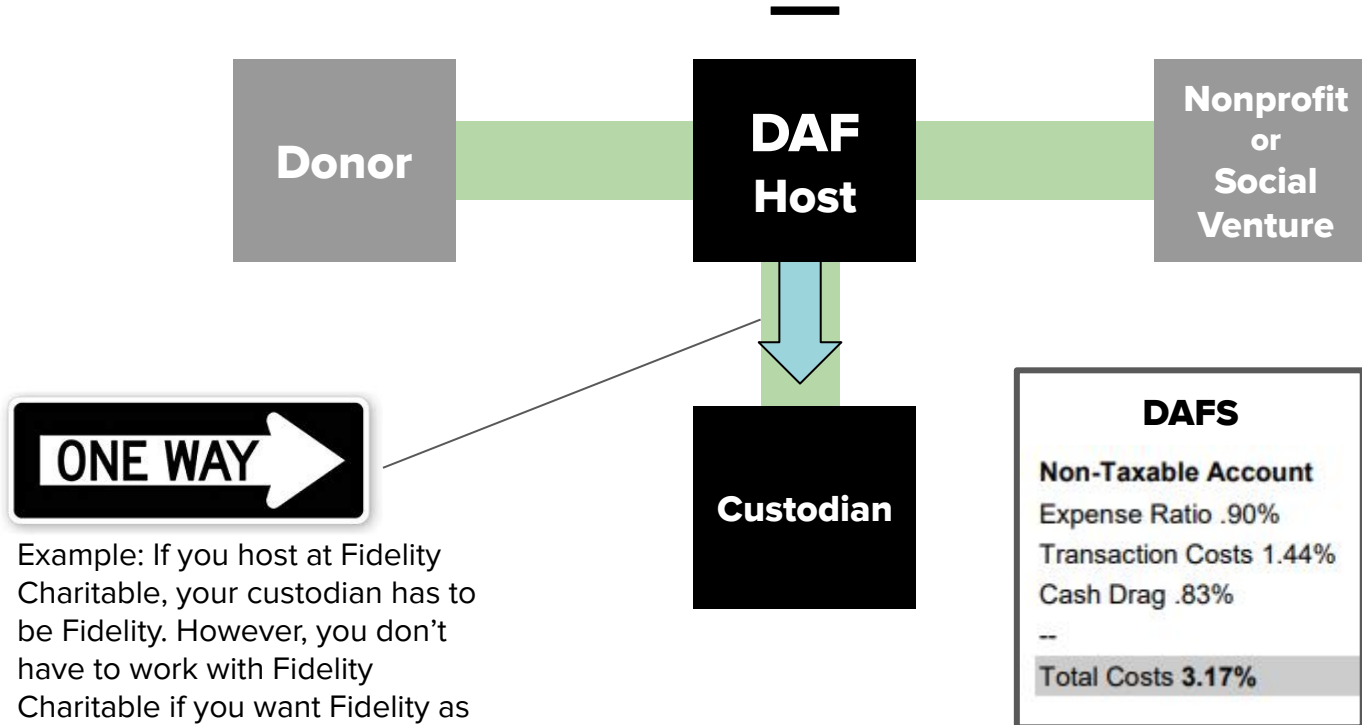


Key Players in the DAF Industry

**DAF sponsors (hosts) manage flow of DAFs,
while the assets remain at a custodian**

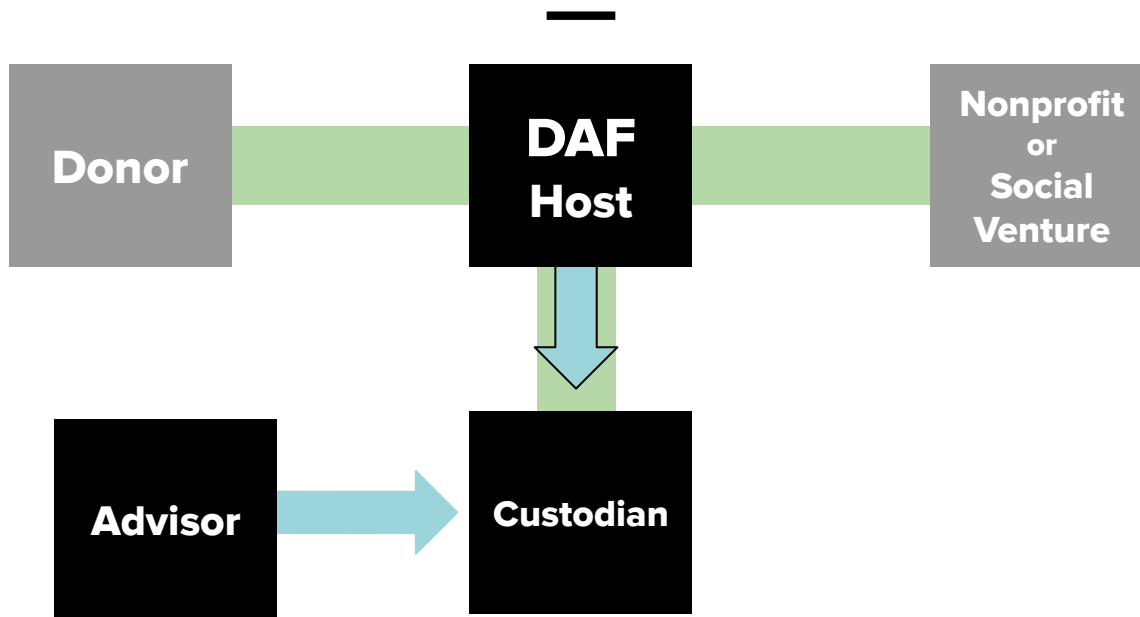


Some DAF hosts, require a specific custodian, which can lead to a lack of fee transparency



Example: If you host at Fidelity Charitable, your custodian has to be Fidelity. However, you don't have to work with Fidelity Charitable if you want Fidelity as the custodian.

Decoupling between the DAF host and custodian is typically done by an advisor



Some Considerations of a DAF Host

“Giving Options” refer to organizations that DAF Host allows donors to contribute to, many have restrictions on acceptable contributions, such as impact investments.





Giving Options	Grants to domestic nonprofit organizations
	Grants to foreign nonprofit organizations
	Investments in domestic private companies (social ventures)
	Investments in foreign private companies (social ventures)
User Experience	Ease of use (online portal, time to deploy capital)
	Opportunities to use DAF - (does the Host find opportunities?)

Some Considerations of a DAF Host

“Custody Options” refer to what type of donations are accepted, who the DAF host allows to be the custodian of the assets, and the associated fee

Custody Options	Accepted assets (cash, stock, real estate, restricted stock)
	Custodian options (some allow donors’ advisor to choose custodian)
	Investment fee (charged for holding assets before deployed), expense ratios, transaction costs
Setup & Maintenance	Minimum starting contribution
	Required follow-on contributions
	Administration fee (charged by Host for administrative costs)

Comparing Types DAF Hosts

	Whole Service	Commercial Fund Provider	Community Foundation	Single Issue
Example Organization				
Online Portal	✓	✓	✓	✓
Grants to 501c3 Organizations (Domestic)	✓	✓	✓	✓
Investments to Private Companies (Domestic)	✓	✗	✓	✗
Grants to NGOs (Foreign)	✓	✗	✗	✓
Investments to Private Companies (Foreign)	✓	✗	✗	✓
Personalized Impact Report	✓	✗	✗	✗

Problems In DAF Market

Although DAFs are one of the best ways to get involved in solving social problems, 3 major challenges exist:



Donors' giving is generally limited to domestic nonprofits



Donors must find their own opportunities for giving within their areas of interest



Most DAF hosts don't perform due diligence on opportunities

Solutions In DAF Market

To maximize for social impact, we recommend finding a DAF host that:



Allows domestic and foreign giving & impact investments



Proactively sources opportunities based on donors' impact preferences



Performs impact and financial due diligence & tracks performance of grants/investments



Impact Investing

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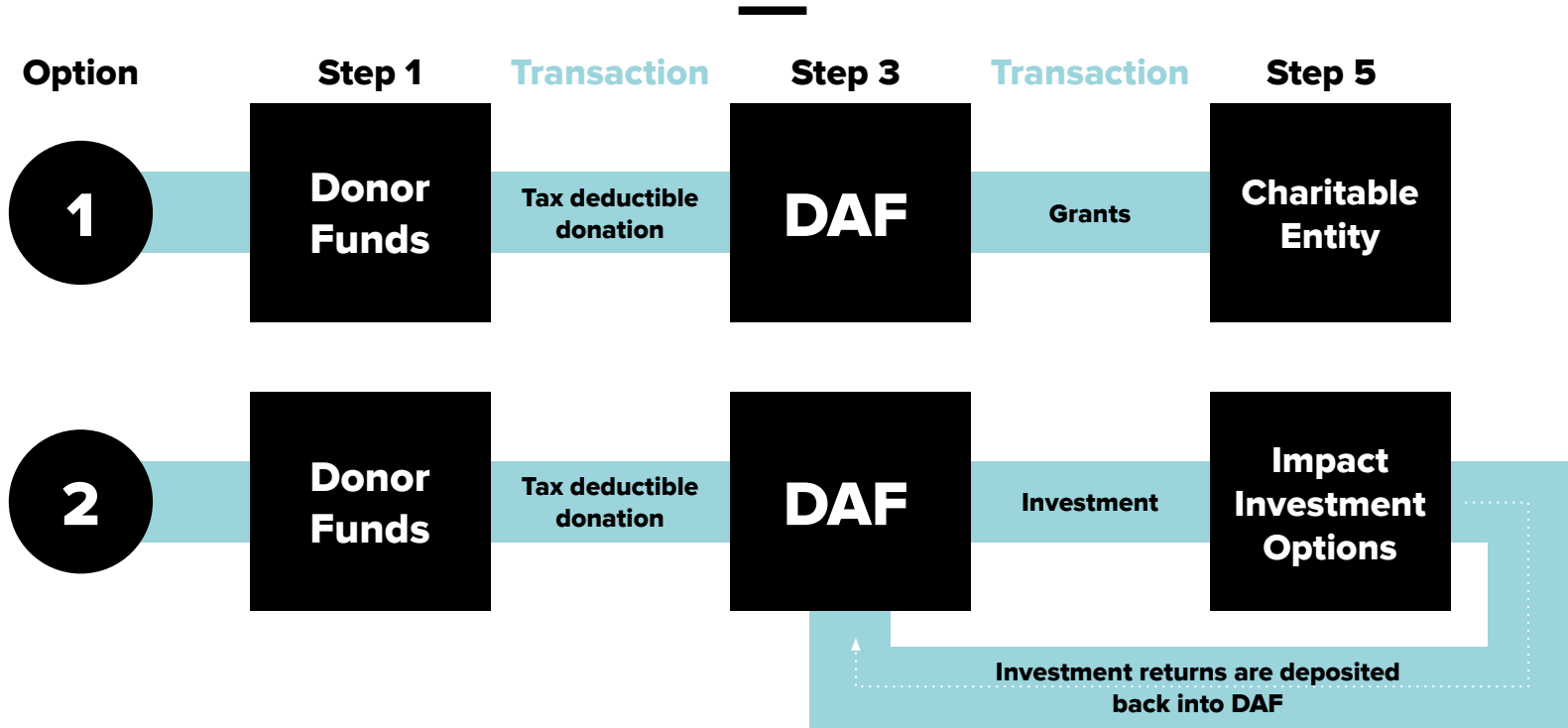
\$20 B
Provides housing
to homeless in US

\$3.9k
Average salary in
sub-Saharan Africa

150 M
tons of plastic
circulate marine
environments

1 in 9
People in the world
face hunger

Returns from Impact Investments through A DAF are recycled back into the DAF



Impact investing is different than SRI and ESG investing

Impact investing focuses on investing to solve a problem, whereas SRI and ESG investing are negative screening things to avoid

Socially Responsible Investing (SRI)	Actively eliminates or selects investments according to specific ethical guidelines. SRI uses ethical factors to apply negative or positive screens on the investments.
Environmental, Social, Governance (ESG)	Environmental, social, and governance practices of a firm that may affect investment performance. The main objective of ESG valuation remains financial performance.
Impact Investing	Investing in companies with products and services that can generate measurable, beneficial, social or environmental impact, alongside financial return. Impact investments seek to solve or address an existing social problem.

Impact Investors commonly align their focus with the UN's Sustainable Development Goals

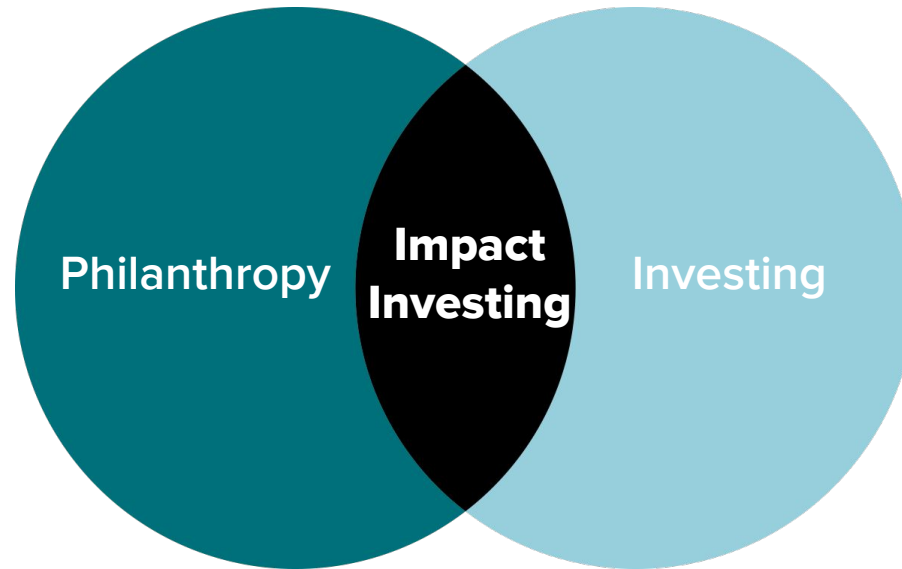
Investments in companies with business models that solve a social problem, generating social impact and financial returns



University Impact uses the 17 United Nations Sustainable Development Goals as targets for impact.

These goals were created by the UN to focus efforts towards solving the most pressing social problems afflicting people around the world.

Impact Investing Is At The Crossroads Between Traditional Investing And Philanthropy



Philanthropy

Where is the focus? Giving money to charities and people in need

Fun Fact: Charities that received donations from more than 1,000 DAF accounts:

- American Heart Association
- Harvard University
- National Multiple Sclerosis Society
- Pan-Mass Challenge
- U.S. Fund for UNICEF
- Oxfam America
- Dana-Farber Cancer Institute
- American National Red Cross
- Wounded Warrior Project
- Habitat for Humanity
- St. Jude Children's Research Hospital
- The Nature Conservancy
- American Cancer Society
- Church of Jesus Christ of Latter-Day Saints

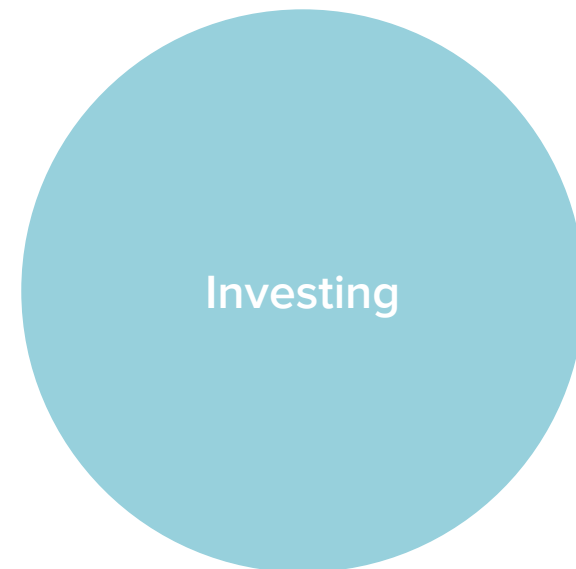


Philanthropy

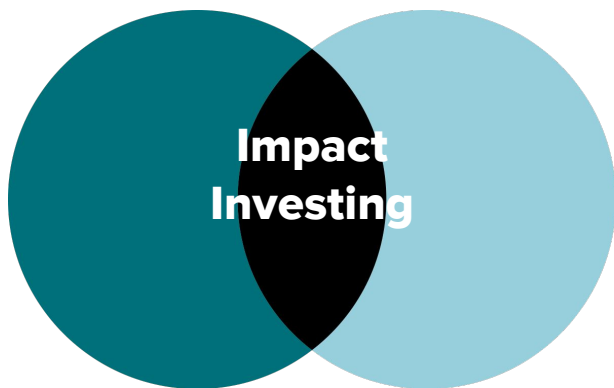
Traditional Investing

Where is the focus?

- Investing is driven by receiving a financial return
- Business model is evaluated on efficiency and scalability of business



Impact Investing combines the best of philanthropy and investing



Where is the focus?

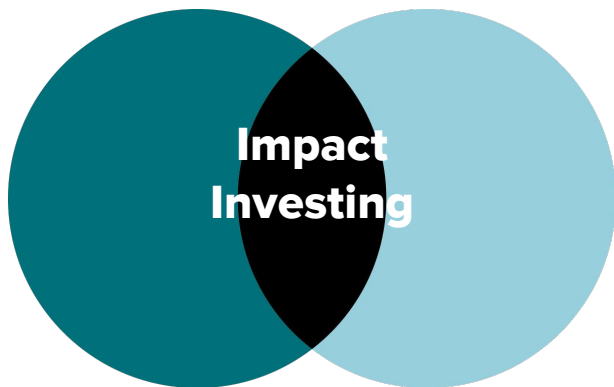
- Philanthropy: Solving environmental problems, helping underserved communities and individuals, and progressing the economies of developing countries
- Investing: *Sustainable* solutions are emphasized through impact investing
 - Providing loans, commonly at reasonable rates
 - Providing equity in companies solving social problems

Impact Investing has a strong focus on measuring outputs, outcomes, and impact

Where is the focus?

Theory of Change is evaluated

- **Outputs:** These are the activities done by the nonprofit
- **Outcomes:** These are the observed effects of the outputs on the beneficiaries of the nonprofit
- **Impact:** This is the degree to which the outcomes observed by a nonprofit are attributable to its activities



Example: Soup Kitchen



Theory of Change

- Providing free meals will decrease hunger in a community

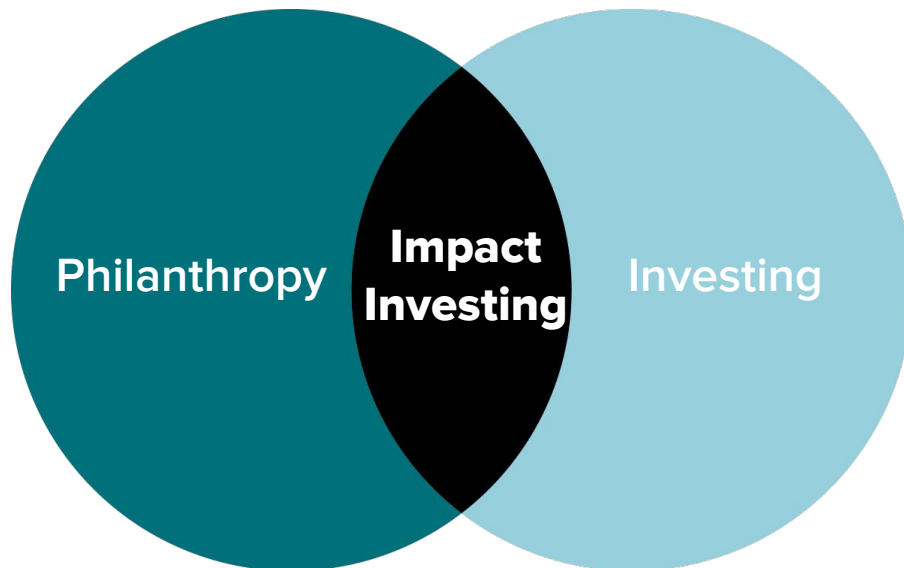
Soup Kitchen

- **Outputs:** The meals served by a soup kitchen
- **Outcomes:** The degree to which the meals served by the soup kitchen reduce hunger in the population served by the soup kitchen
- **Impact:** The impact of the soup kitchen is the degree to which a reduction of hunger in the population they serve is attributable to its efforts.

The reduction in hunger might simply be attributable to an improving economy, or some other activities that are not part of the soup kitchen's efforts.

Impact Investing Is At The Crossroads Between Traditional Investing And Philanthropy

Impact investments are made with the intention to generate positive social and environmental impact, alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns depending on investors' goals.



Foreign Impact Investment Example

Vindhya (India)

Vindyha is a business process outsourcing company that hires people with disabilities

30%

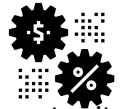
Year over year
profit growth

1800

Employees

70%

From disadvantaged
communities



Opportunity to
consolidate &
refinance high
interest loan

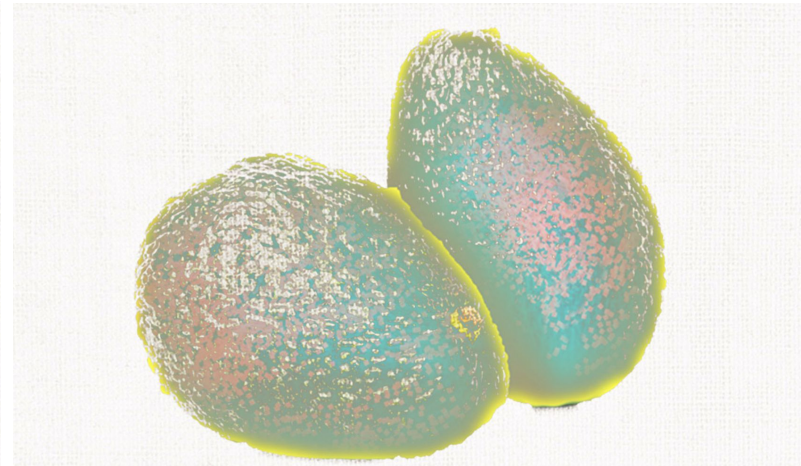


Will accelerate
growth rate and
profitability

Domestic Impact Investment Example

Impact Vision

ImpactVision uses hyperspectral imaging software to monitor attributes of food quality to prevent food waste



In summary

There are many people that could benefit from a Donor Advised Fund that are currently *not* taking advantage of the opportunity

Learning Objective

1) *Recognize* when a DAF can be used beneficially and *identify* what to consider as an appropriate DAF host

- DAFs can be used to solve social and environmental problems, making contributions to a non profit or social venture while receiving an immediate tax deduction.
- It is important to recognize fees associated with a DAF and what types of contributions are offered

In summary

There are many people that could benefit from a Donor Advised Fund that are currently *not* taking advantage of the opportunity

Learning Objective

2) *Compare* and *contrast* the benefits of various DAF hosts

- Depending on the donor's preferences, some hosts may be a better fit than others based
- Consider: fees, minimums, accepted assets, custody options, ease of use
- The ability to maximize impact

In summary

There are many people that could benefit from a Donor Advised Fund that are currently *not* taking advantage of the opportunity

Learning Objective

3) *Explain* how a DAF can solve social problems

- DAFs can be used to make grants to nonprofits or investments to social ventures, all of which are seeking to solve social problems.
- DAFs can help these organizations receive needed capital when access is limited

Thank you

For more information please reach out to:

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