SOCIAL IMPACT. TAX BREAKS. CONTROL. NO WONDER DAFS ARE HOT.

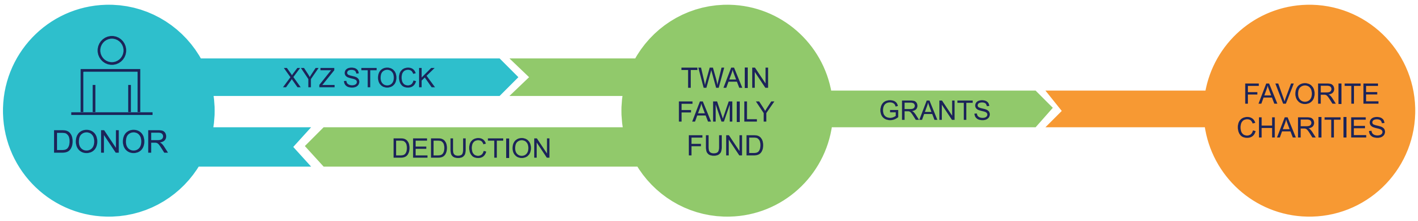
RenPSG

Not so long ago, “doing well” and “doing good” were thought of as distinctly separate endeavors. Some might have even described them as mutually exclusive. Impact investing has proven that thinking wrong, aligning investing and philanthropy in a way that could actually double impact.

Also known as “socially responsible investing,” impact investing allows people to be investors and philanthropists at the same time. And that opportunity has drawn a lot of interest in recent years: Impact investing has grown into a $715 billion movement[1].

Still, many people don’t know what impact investing is, or how to make it a part of their giving and investing strategies. The good news is that Donor-Advised Funds (DAFs) offer a pretty straightforward path to that destination.

This One-Minute White Paper will look at how DAFs work, the benefits they deliver to investor donors, and a few of the ways they help donors do what used to be nearly impossible: make a difference and reap tax benefits while maintaining a voice in the way their assets help charitable causes.



The DAF: A Vehicle for Impact

DAFs work pretty simply: A donor makes a gift to a sponsoring charity that then creates a DAF account on the donor’s behalf. The donor gets an immediate charitable deduction for the gift and, although the assets of the DAF are no longer owned by the donor, the donor gets to recommend investment strategy and recommend the charities that benefit from the fund’s growth. The power to influence the direction of the fund remains with the donor as long as the DAF exists, and can even be passed on to future generations.

This unique structure has created a lot of enthusiasm for DAFs. They’ve become the nation’s fastest-growing philanthropic vehicle[2] over the last decade, with donors contributing $37.12 billion to DAFs in 2018 and DAFs distributing $23.42 billion to nonprofits[3].

Why investors choose DAFs

So why are DAFs attracting so much wealth? Basically because they address three issues that inspire today's donor:

- **Charitable Impact.** Ninety-seven percent of respondents to the Global Impact Investor Network's Annual Survey said DAFs met or exceeded their expectations for impact[5].
- **Reduced Tax Costs.** DAFs help those investors who are looking to avoid capital gains taxes and get immediate income tax deductions.
- **Investment Flexibility.** DAFs appeal to those donors who like to be in control. Not only do they allow the donor to have a say in what charities benefit from the fund's proceeds, but the donor also can recommend how their DAF assets are invested.

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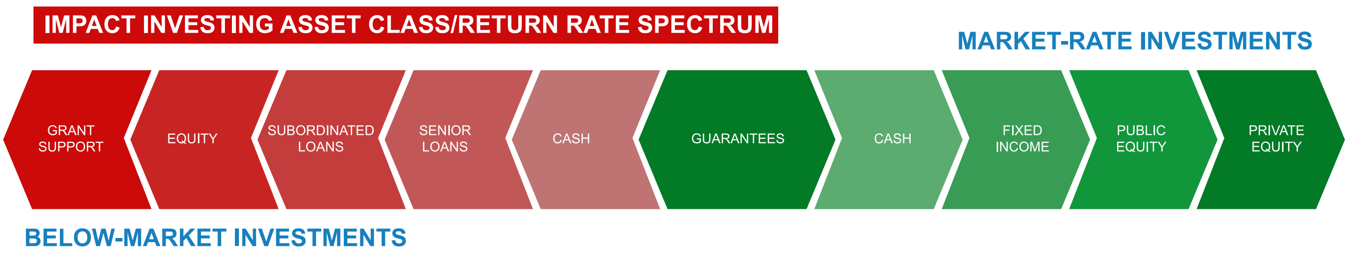

At the same time, DAFs address three key impact-investing considerations: specificity, flexibility and return.

- **Specificity … or Broad Impact:** DAFs have a unique split personality: Donor-investors with a specific cause or passion can set up targeted funds – a big plus for the hands-on donor – but donors who don't have a specific cause in mind can recommend their DAFs invest in broad Environmental, Social and Governance (ESG) investments.
- **Distribution Flexibility:** For donors who like to act when the spirit moves them – or when other factors suggest the time is right – DAFs work because they are not held to a required distribution rate. Grant recommendations can be made whenever the donor pleases, so long as the investment portfolio has been structured to allow it.
- **Return on Investment:** While donor-investors might think of financial return as secondary to impact, they typically nonetheless want to see gains. After all, that will mean more funds for future philanthropic support. And DAFs deliver: The Global Impact Investing Network reports that 88% of respondents said their impact investments met or exceeded their expectations in financial performance[5].

It's easy to see why DAFs have become so popular among investors who want to make a difference: They address key considerations, they satisfy in terms of both impact and performance, and they allow donors to continue to have a voice in the causes their dollars support.

How Financial Advisors Can Get Involved

Conversations about objectives and goals for charitable giving offer a great opportunity for learning more about a donor and how to tailor a DAF portfolio to amplify his or her goals. As part of this conversation, advisors would do well to ask the following questions:

- Are there causes you currently support?
- Why do those causes move you?
- What are you passionate about?
- Is your faith important to you?
- What changes do you want to see in your lifetime?

These questions will help an advisor understand how a donor might be moved to get beyond the idea of investing for financial growth to realize that doing well and doing good are not mutually exclusive. Then they can start to consider how a DAF portfolio might help to fulfill the donor's mission.

Options for DAF donors

Following are some ways investors can embrace DAFs.

Direct Investments in Social Enterprises: Perhaps the most obvious option for impact investing with a DAF would be to invest directly in "social enterprises," organizations that directly benefit society and/or the environment.

Syndicated Funds: Some DAF sponsors offer the ability to pool funds from multiple donor-investors to support common areas of interest.

Loan Guarantees: A DAF can provide a loan guarantee that lowers a nonprofit's loan interest rate.

Risk Capital Notes: DAFs can contribute money as a bond to a nonprofit, with the money being repaid annually with interest, and the principal being paid back by an agreed-upon date.

Community Notes: Community Notes, or CNotes, use investor capital to work with community-development financial institutions to recommend loans to organizations in underserved communities, such as small businesses, health clinics, affordable housing, and charter schools.

Screened Exchange Traded Funds: Also called filtered funds, these funds exclude from their portfolios companies or industries based on certain criteria.

Interested in Learning More?

If you're interested in learning more about aligning a Donor-Advised Fund with impact investing, contact us today at (800) 843-0050 or consulting@reninc.com

Sources

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