With donor-advised funds, venture firms reach philanthropically minded investors

July 10, 2017 By Kaitlyn Landgraf Bartley

Sketched as a Venn diagram, philanthropy and venture capital overlap very little. But the sliver of space they have in common is growing, and one nonprofit investment company is hoping to expand it further.

Launched in 2010, ImpactAssets straddles the worlds of charity and investments with Giving Fund, a donor-advised fund that enables individuals and foundations to make donations in exchange for tax deductions. The organization then invests in various assets before the returns are donated to charitable organizations.

As a vehicle for philanthropic giving, donor-advised funds are nothing new. But ImpactAssets, Bethesda, Maryland, has broadened the menu of investment options into which donors can put their money to include funds run by socially minded venture firms.

That gives the firms access to a new class of investors, whose individual contributions may fall below a firm's minimum investment requirement but are combined into the larger fund.

"ImpactAssets made it easier for us to fundraise because they aggregate the investor pool, they have the existing infrastructure, and know how to diligence us," said Rick Moss, managing director at Better Ventures, an Oakland, California, seed fund that invests in tech startups pursuing social and environmental good.

Moss declined to say how much funding Better Ventures had received from ImpactAssets, other than the figure was "quite significant" and that ImpactAssets ranked high on its list of LP commitments. The firm closed a $21 million second fund in 2016. "Because their investors are philanthropically inclined, social-impact inclined, they're a group of people already seeking funds like ours," Moss said.

Unlike most donor-advised funds, ImpactAssets' Giving Fund allows for customized private debt and equity impact investing, an idea that company President Tim Freundlich says is just beginning to catch on among donors who are looking to encourage entrepreneurship with their dollars.

"You're going to give it all away anyway, so why not have the asset base itself going toward starting these disruptive, game-changing products and making the world better even before you give it away?" he said.

Freundlich says he's not aware of other companies that enable customized investing into private equity, but he has heard of occasional deals. "It's starting to creep through the donor-advised-fund industry that you can do this kind of thing and donor advisers are starting to ask for it anecdotally," he said. "I'm hearing little stories scattered across the U.S."
The fund has grown to $360 million in assets with about 850 clients, Freundlich said, 5 1/2 times the $64 million of 2011. About $30 million of the total is invested in private equity and venture funds focused on environmental or social good, with another $30 million in direct company investments.

The company operates as a kind of limited partner: It includes five or six venture funds into its Giving Fund platform each year and may do one-off deals with another 10 to 12, Freundlich said.

**New Media Ventures**, a San Francisco seed fund and angel network that invests in media and tech startups working for progressive political change, worked with ImpactAssets to set up a donor-advised fund, which ImpactAssets manages for the firm. The firm has raised $2.6 million since 2014 through the fund.

Since the election, New Media Ventures has received five times as many pitches as it normally does, according to Principal **Julie Menter**, but that wasn't always the case.

"We were investing in this obscure corner of politics-meets-tech, and three years ago people were, like, 'is there even any return?'" she said. "We thought if we raised a nonprofit (donor-advised) fund, our incentives would be aligned with funders and any money made from investments would go back into the fund."

Donors to New Media Venture's fund include the **Ford Foundation, Open Society Foundations, Propel Capital** and **Omidyar Network**, as well as individuals and family foundations, according to Menter.

For Menter and Ross, donor-advised funds provide streamlined access to capital that would otherwise be inaccessible, cutting down on the time and effort that goes into fundraising.

That doesn't mean the model is ideal for all potential donors, though, since they have little control over how the money is invested.

"Some donors want to know exactly where their money is going, and it's not a good fit for them," said Menter. "For people with a specific focus area, like immigration reform or criminal justice, this is not a great fit for them because we decide [which startups have] the most potential."

And it took an investment of time and energy for Better Ventures to pass ImpactAssets' due-diligence test, Moss said.

But he said, "Fundraising takes an enormous amount of energy, and anything that makes it easier, that taps into investors who are hard to access otherwise and who are aligned with your goals — that's a big advantage."

Photo of donate button on computer keyboard courtesy of Tashatuvango/iStock/Getty Images

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