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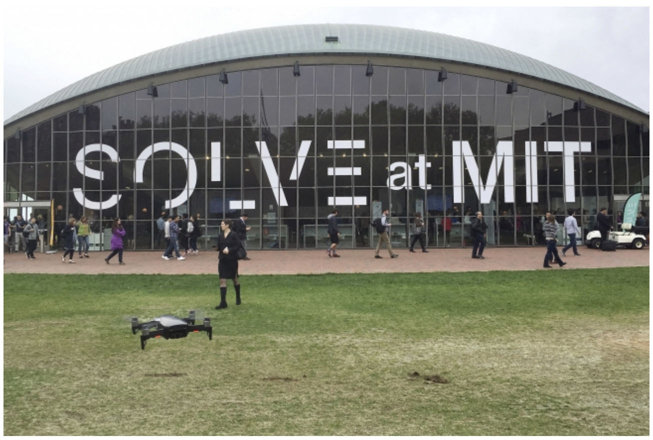
Donor-Advised Funds Grow in Popularity as Tools for Impact Investing

By Alex Daniels



MATT O'BRIEN/AP IMAGES

When the Nasdaq closing bell rang last Thursday, investors in Beyond Meat were jubilant. Trading in the plant-based food company had driven up the share price 163 percent during its first day on the exchange, making the Beyond Meat IPO one of the most successful public offerings of the past decade.

In addition to putting smiles on the faces of a lot of investors, the first-day gains also generated more than $20 million for future charitable gifts, thanks to investments two donors made through their donor-advised-fund accounts.

Donor-advised funds, a fast-growing way to make charitable contributions, may be the propellant needed to fire up impact investing, a practice that is growing but is viewed by some as having unfulfilled promise. By using plants instead of livestock for its products, Beyond Meat markets itself as part of a climate-change solution that reduces animal cruelty.

Beyond Meat’s splashy IPO and a new venture fund launched Tuesday by the Massachusetts Institute of Technology are the latest examples of investors using donor-advised funds to place bets on companies that try to achieve social good along with a financial return.

Using donor-advised funds, people can make a gift to a charity and take a charitable tax deduction that same year. The assets they give are technically owned by a donor-advised-fund sponsor, which invests them and makes charitable contributions on the recommendation of the donor.

But a donor does not have to make charitable gifts within a certain time frame using the funds, and the assets can remain in an investment portfolio, something that has led critics to suggest they are warehousing charitable dollars.

When people allocate their donor-advised funds to impact investments, their money isn't just being stockpiled, it is an active force for good, says Tim Freundlich, chief executive of ImpactAssets, the financial-services firm that managed the donor-advised-fund investments in Beyond Meat.

"Why would you leave your money in a mattress while you're waiting to make grants when you can radically increase the asset base you have available for more grants" while making investments that are in line with a donor's charitable plan? he asks.

Unusual Investment

Over the past five years, two donors, Seth Goldman, the co-founder of Honest Tea (and chairman of Beyond Meat's board) and businessman Mark Van Ness had invested a combined $1.1 million in Beyond Meat through donor-advised-fund accounts they opened at ImpactAssets. Their combined investment was worth nearly $24 million after the company's first day of trading. How much will go to charity will depend on the future share price and when Goldman and Van Ness decide to sell their stock and make gifts.

ImpactAssets allows donors to place their contributions in investment portfolios designed to generate social good. It also offers custom-tailored direct investments it has already screened, for donors wary of going through the rigmarole of investigating new social ventures on their own.

Since it was spun off of Calvert Impact Capital in 2011, ImpactAssets has completed 600 such deals, and the pace is quickening, according to Freundlich. For the first two months of 2019, ImpactAssets closed two deals a week.

Freundlich says the $700 million in donor-advised funds managed by his team serve to complement donors' regular charitable gifts. "The great problems of the world need unrecoverable grants, " he says, "but impact investing has come of age a bit over the past few years. Every time a story like Beyond Meat comes out, it will fuel the fire."

In March, the Marin Community Foundation began to offer customized impact investments through ImpactAssets for its donor-advised-fund holders. The Cleveland Community Foundation, which this week announced a broader four-year, $150 million impact-investing effort, has seen a spike in interest in the practice. Two years ago, its Socially Responsible Investing Pool, which invests money from donor-advised and organization funds, had attracted $500,000 in assets. The fund, which invests in fossil-fuel-free public equities and screens mostly locally based investments for gender-equity and environmental responsibility, has grown to $44 million. Large commercial donor-advised funds are taking notice.

Increasing Appetite

Already, donors who give through Fidelity Charitable, the largest donor-advised-fund sponsor, are showing a bigger appetite for impact investing. Last year they put $22 million into impact investments offered by nonprofits, according to a February report issued by the donor-advised-fund giant. That's in addition to the $936 million Fidelity Charitable account holders allocated to investment options geared toward making a social impact

Impact investing is a catchall phrase meant to describe investments intended to improve social and environmental conditions. Over the past several years, the amount of money traditional investment houses steer toward companies with environmental and social goals has risen sharply, reaching $502 billion in assets under management, according to a study released last month by the Global Impact Investing Network.

Still, the impact that money can make is "dwarfed by persistent, troubling issues such as climate change, inequality, and social division, according to Amit Bouri, the network's chief executive.

For private foundations, impact investing can refer to how a grant maker either allocates its assets or distributes its funds. A *Chronicle survey* of the top 15 private foundations found they had committed less than 1 percent of their endowments to so-called mission investments that serve to support their broader goals.

Program-related investments are a more established practice. These come from a foundation's grant-making budget and usually consist of a below-market rate loan or equity stake in a for-profit company that is trying to improve society.

Rather than make a grant to a nonprofit, as is usually the case with a donor-advised fund, the MIT fund plans to provide equity and debt financing to participants in MIT Solve, a program the institution runs that invites entrepreneurs to design venture-stage tech fixes to pressing social and environmental problems. Unlike a grant that doesn't generate additional cash, the money paid out to the ventures, plus profits or interest payments, will be returned to the fund if the venture is financially successful. The investment return will be used to support subsequent participants in the program. MIT Solve teams concentrated on tech fixes, like designing robots to improve marine ecosystems and virtual-reality training for factory workers.

The donor-advised fund, called the Solve Innovation Fund, will be housed at a sponsoring organization to be named later.

Noubar Afeyan, founder of Flagship Pioneering, a life-sciences venture fund, has committed $3 million to the effort. Over the next several years, the fund aims to raise a total of $30 million, says Casey van der Stricht, an MIT Solve principal who will lead the effort.

According to van der Stricht, there is a "pioneer gap" in venture funding for social causes. Using traditional business measurements, many venture investors look to support young companies that can scale up quickly. Many of the ventures designed by MIT Solve team need more "patient capital" that can assess the societal impact of the investment, van der Stricht says.

Money in the donor-advised fund has already been earmarked for a social good. That makes it likely donors will be willing to take a risk on a venture investment that has the possibility of both improving society and generating a return, even if they aren't assured of any gains, van der Stricht says.

"We're trying to use philanthropy to flesh out the continuum of capital available to those entrepreneurs," she says. "Hopefully we'll help them get over the hump."

ImpactAssets and MIT Solve aren't the first organizations to try to hitch impact investing to the growing popularity of donor-advised funds.

In 2016, the Calvert Foundation, the Chicago Community Trust, and the MacArthur Foundation created an investment vehicle designed to take advantage of their growth and the creative-financing opportunities offered by program-related investments. Called "Benefit Chicago," it allows people to make impact investments to a slate of pre-vetted organizations using their donor-advised funds. Three years into its work, the fund has raised $96 million, just short of its $100 million goal, and has invested $25 million in loans throughout the Chicago area.

1255 23rd Street, N.W.
Washington, D.C. 20037