

IMPACT DONOR ADVISED FUNDS: A SCAN



Tides Canada



CENTRE FOR
IMPACT INVESTING



SVX

Invest for impact

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Legal Disclaimer: This paper is for informational purposes only. Organizations considering creating an impact donor advised fund are encouraged to consult legal counsel as regulatory considerations differ between jurisdictions.

About

Tides Canada (@TidesCanada)

Tides Canada is a national charity dedicated to a healthy environment, social equity, and economic prosperity for all Canadians. To tackle complex issues, Tides Canada connects smart ideas, people, and resources, and then applies the best tools available – from strategic grantmaking to impact investing to the shared platform. We accelerate positive change, achieve greater impact, and advance solutions across the country by bringing giving, investing, and doing under a single roof.

MaRS (@MaRSDD)

MaRS Discovery District (@MaRSDD) in Toronto is one of the world's largest urban innovation hubs. MaRS cultivates high-impact ventures and equips innovators to drive economic and societal prosperity. MaRS provides expert advice and market research, and makes connections to talent, customers and capital. MaRS startup clients have created 6,500 jobs and, in the last three years alone, they have raised \$1 billion in capital and generated \$500 million in revenue.

Social Venture Connexion (@theSVX)

Social Venture Connexion (SVX) is a full service impact investing platform that supports and connects impact ventures and funds with accredited investors seeking to make investments that can demonstrate impact and provide the potential for financial return. The SVX has a range of issuers, from nonprofit education projects to health ventures focused on early cancer detection. It is the first platform of its kind in North America. Since launch, we have supported over 30 ventures and funds, helping them to raise over \$5 million on the platform. We are currently working with local partners to bring SVX to the United States and Mexico.

SVX is a cross-sectoral social innovation led by MaRS, in collaboration with TMX Group Inc., Torys LLP, KPMG, the Government of Ontario, J.W. McConnell Family Foundation, BDC, RBC, Mirella and Lino Saputo Foundation, La Caisse de dépôt et placement du Québec, and many other partners. SVX is registered as a Restricted Dealer with the Ontario Securities Commission (OSC) and Autorité des Marché Financier (AMF).

Government of Ontario

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Introduction

It is a well-documented fact amongst those in the social change and philanthropic sectors that, in order to tackle our most pressing social and environmental challenges, we must mobilize capital in both its investment and philanthropic forms. This has led to an explosion of foundations re-aligning their investment portfolios to meet their mission aims. Investment portfolios in this context largely consist of endowment funds, as many private foundations across Canada and the US have actively transformed their investments into mission-supporting vehicles.

Endowments, while significant, do not account for the entirety of investment capital housed at philanthropic foundations. This paper focuses on a traditional philanthropic instrument that many foundations have reconfigured to serve as a tool to facilitate both impact investing and grant making: the donor advised fund (DAF).

We have developed eight (8) case studies where impact investing has been integrated into donor advised fund strategies. Alongside these case studies, we have prepared a number of recommendations for consideration by the partners and industry leaders.

We hope this research will:

- provide insights for foundations and DAF holders who are considering impact investing;
- provide insights to governments who are supporting local impact investing ecosystems; and
- inform our own strategies and approaches to impact investing.

What is a Donor Advised Fund?

A donor advised fund is a tool, housed at a charitable organization, designed to accept donations and facilitate the issuing of grants to other registered charities. An alternative to incorporating a charitable foundation, a DAF operates like a charitable giving account where donors contribute to a DAF at any time and receive an immediate charitable tax receipt for the value of the gift. In order to facilitate grants, the DAF's fund advisor, often the individual who sets up the DAF, makes grant recommendations to the DAF host organization. The host handles the administrative process of issuing the grant to the qualified donee.

For donors that do not want to assume the administrative responsibilities and requirements of managing a standalone foundation, a DAF is a viable option. The DAF host foundation provides fund administration, receipting, charitable compliance and expertise, reporting, and tax filing for the DAF activities. The foundation deducts administrative expenses to cover these costs; however, with low cost barriers to entry, DAFs can accommodate a range of donors, from low- to high-net worth.

The popularity of the DAF model has increased dramatically in recent years with DAFs being adopted by financial institutions and online giving tools. In each instance, the entity housing the DAF is a charitable public foundation.

In the United States, DAFs represent a growing base of funds for charitable giving, approximately \$70.7 billion USD (7% of all charitable assets) with growth of \$19.66 billion from 2013 to 2014, representing 7.6 percent of total individual giving in the US.¹ No comparable information has been captured yet for Canada.

Introduction

The purpose of DAFs varies, some are constructed as short-term solutions to accept contributions to a capital campaign, while others are intended to hold funds for much longer periods and issue grants on an ongoing basis. The design of the DAF influences the investment practices related to the fund dollars; some require liquidity for grantmaking purposes while others are less restricted in this aspect.

The complexity of managing these funds and their investments has served as an opportunity for a number of foundations, who have directed dollars to mission- and/or program-aligned investments. What follows are profiles of DAFs that feature an impact investment dimension.

Case Studies

CASE STUDY ONE // **ChangeCapital at Tides Canada
Vancouver, BC, Toronto, ON, and Yellowknife, NT**

**Impact DAF
\$3M CAD**

ChangeCapital launched in 2015.

ChangeCapital, a DAF product of Tides Canada, works with forward-looking donors who want to better align their capital with their mission, and to invest their donations to create a financial return and a social and/or environmental return.

Tides Canada developed ChangeCapital as a tool to mobilize and extend its commitment to impact investing, that builds on the Foundation's history of environmental, social and corporate governance (ESG) portfolio investments.

Governance and Decision-Making

- **Corporate structure:** Tides Canada is a public foundation and a registered Canadian charity. ChangeCapital is a donor advised fund at Tides Canada.
- **Governance:** The fund is managed by Tides Canada while investments are recommended by the ChangeCapital Investment Advisory Committee.
- **Decision-making:** A ChangeCapital Investment Advisory Committee provides input to investment selections. Final investment selections are made by the Finance and Investment Committee of the Tides Canada board. Grants decisions are made by Tides Canada, taking into consideration recommendations from the contributors to ChangeCapital.

Investment Approach and Criteria

- **Approach:** At present, ChangeCapital invests in the following established impact funds: Renewal3, New Market Funds, Investeco, and Resilient Capital.
- **Criteria:** Investments are intended to advance Tides Canada's goal of developing smart, integrated solutions to tough social and environmental challenges. ChangeCapital investments are aligned with Tides Canada's vision of a healthy environment, social equity, and economic prosperity for all Canadians.
- **Geography:** There are no geographic restrictions; however, all funds are based in Canada.
- **Sectors:** Low-carbon economy; affordable housing; sustainable food systems; freshwater protection; environmental innovation; and community social enterprise.
- **Impact:** No impact reporting required at present.

Case Studies

Portfolio

- **Investees:** ChangeCapital currently invests in the following established impact funds:
 - » Renewal3 - a Canadian social venture capital fund that invests in early stage environmental and social mission companies in Canada and the United States focused on organic and natural food, green products, and environmental innovation.
 - » New Market Funds Society Affordable Housing Fund - a specialized fund manager that invests in mortgages for charities that provide affordable family rental housing.
 - » Resilient Capital - an investment program dedicated to accelerating the growth of organizations with proven business models that add to the social, economic, and environmental well-being of their communities.
 - » Investeco Sustainable Food Fund, a fund that invests in natural and organic food companies that make a positive impact on health and sustainability. Investeco is Canada's first environmental investment company.Specific examples of investees within those funds include:
 - » 100km Foods within the Investeco Sustainable Food Fund – a local food distributor in Southwestern Ontario, which aims to drive the growth of local, fresh food in the GTA.
 - » Farms & Forks within the Investeco Sustainable Food Fund – an online healthy food e-market, offering direct delivery to GTA homes.
 - » Sensible Organics within the Renewal 3 - first personal care manufacturer in the US to receive USDA organic certification
- **Performance:** As ChangeCapital works on a longer-term investment cycle, financial performance information is not currently available.

INSIGHTS // **ChangeCapital at Tides Canada**

- **Impact DAFs can open up new dialogues.** It's still early days for ChangeCapital, but we've already seen the positive effects of actively engaging in impact investing. Many of the current donors to ChangeCapital are quite seasoned when it comes to impact investing, which has been a real benefit for us. The conversations we've had with many thought leaders have been instrumental in shaping our thinking on social finance more broadly.
- **An impact DAF is a complementary piece of an active philanthropic portfolio.** In our experience, we've found that it's unlikely that an impact DAF will represent the entirety of any donor's giving or represent the launch of their philanthropic work. In other words, it hasn't been a significant entry way for new partners but has instead provided an additional tool for current donors.

Case Studies

CASE STUDY TWO // **Edmonton Community Foundation**
Edmonton, AB

Impact DAF
\$8M CAD

The Edmonton Community Foundation began to direct DAF funds for impact investment in 2012.

The Edmonton Community Foundation (ECF) exists to help the people of Edmonton and area by encouraging philanthropy and funding charitable activities. Through contributions from donors, the Foundation assembles and administers permanent pools of capital so the returns can be perpetually reinvested in our community. The Foundation complements and supports other charitable agencies.

ECF has applied an impact investment strategy across its entire endowment, which is 65% comprised of DAFs. ECF's investments are exclusively made in direct investments to start-up social enterprises and real estate for social purposes in Edmonton Capital Region and across Alberta. It is committed to achieve or surpass the target set in the recommendations by the Canadian Taskforce for Social Finance of allocating at least 10% its capital in mission-related investments by 2020, and anticipates making \$25m in such investments by the end of the year. As part of its commitment to social finance, ECF is partnered with the United Way of the Alberta Capital Region and the City of Edmonton for its Social Enterprise Fund (SEF), which also includes the Alberta Social Enterprise Venture Fund (ASEVF), which was created in 2013.

Governance and Decision-Making

- **Corporate structure:** ECF is a charitable, public foundation registered in Canada, which allows it to hold DAFs. Its DAFs are treated as part of the overall endowment and are not invested separately for impact.
- **Governance:** ECF has a dedicated director and administrative staff to manage its impact investment applications and portfolio. Decisions are then referred to the Investment Advisory Committee, a subset of its regular Investment Committee, for review.
- **Decision-making:** ECF is partnered with ECF's Investment Committees make recommendations to the ECF Board, and the SEF or ASEVF Board respectively for final investment decisions.

Investment Approach and Criteria

- **Approach:** Since the outset of its impact investment work, ECF has held numerous community engagement workshops with stakeholders and potential investee-partners to stimulate proposal development. This has proved to be a fruitful pipeline for many of its investments that ECF engages with directly. All financial due diligence and reputational screenings of the organisations are managed internally.
- **Criteria:** ECF has broad criteria based on anticipated social impact, geography and sector.
- **Geography:** While impact-driven bonds and other equity products are available across the country, ECF strictly prioritizes Edmonton and Alberta-based initiatives for its direct investments.
- **Sectors:** Investments must be aligned along ECF's 6 primary sectors of focus: Health, educational assistance, arts and culture, sports and recreation, and the environment.
- **Impact:** Based off learnings from their initial investments, ECF is in the process of defining

Case Studies

application, key performance indicators (KPI) and reporting requirements for impact. ECF evaluates applications on a case-by-case basis for impact, relying on narrative approaches stressing that they must have a clear impact-first mandate. Each investment reports on an annual basis with an individual set of indicators.

Portfolio

- **Investees:** ECF has invested \$15m for impact to date, of which approximately \$7.8m are DAF funds. Deal size in start-up social enterprises range between \$50,000-250,000, and are almost all unsecured loans. It has made larger deals to the size of \$300,000-3,000,000 in real estate backed loans. Some of these loans include the re-development and re-purposing of old schools or houses for alternative, cultural or community facilities, or providing interim financing for social housing projects.
- **Performance:** ECF expects to receive returns between 4.5-6.5% for the majority of its impact portfolio, which are on track to achieve or surpass their goals. Only one small early loan reached maturity, and while it was not able to fully repay, the social value generated by the project warranted its conversion to a grant.

INSIGHTS // **Edmonton Community Foundation**

- **Allocate adequate resources.** Full-time staffing is necessary for this type of work, regardless of loan volume. If someone isn't dedicated to setting up appropriate systems, properly analyzing applications and educating the community for this new practice area, it will be very difficult to succeed.
- **Unsecured loans are indeed, risky.** Over the last 15 years, ECF has gradually diversified its asset classes, shifting from a split between strictly Canadian bonds and public equity. They slowly broadened to include US equities and non-North American equities, real estate assets, private equities, infrastructure funds, and now impact investments to strengthen the value of their portfolio. ECF and their donors are very happy with this direction. One needs to be realistic about the loans they are working to create. If an organization is not prepared to take the risk associated with unsecured impact loans or have sufficient resources to manage them, don't commit to this. Green bonds or mainstream impact invest funds with good track records are potential alternatives.
- **It takes time to execute an effective strategy.** It took about 18 months to get the fund started and for the first \$5m to be invested, which was much longer than was expected. This was in part due to the change in model. While donors were interested in the idea of impact investment initially, ECF found that they were not forthcoming in recommending it for their own DAFs. The slow uptake led ECF to define impact investment as an asset class for their entire endowment, which donors have valued; some donors chose to co-invest.

Case Studies

CASE STUDY THREE // **The Greater Cincinnati Foundation Cincinnati, OH**

**Impact DAF
\$1M USD**

The Greater Cincinnati Foundation began offering impact investments to DAFs in 2011.

The Greater Cincinnati Foundation (GCF) was established in 1963 to “inspire current and future generations to invest in a more vibrant and prosperous Greater Cincinnati where everyone can thrive”. The Foundation itself engages in impact investing: the board has authorized the Foundation to invest up to \$10 million of its unrestricted assets in impact investing. Individual donors with Donor Advised Funds have the option of investing in specific deals alongside the Foundation.

Governance and Decision-Making

A number of actors are involved in the impact investment process.

1. Robert Killins Jr., The Foundation’s Director of Vibrant Places works with not-for-profit organizations to source and screen opportunities.
2. Their impact investing advisor, currently, Avivar Capital, conducts very preliminary due diligence, reviewing the financial statements and having initial conversations with the team.
3. The Community Investment staff then assesses the potential social return on investment. “First and foremost, a deal has to have a strong social return” that is “worthy and commensurate with the investment”, says Killins.
4. If the deal passes the social screen, the Impact Investment Committee reviews the deal. At this stage, donor staff pitch the prospective deal to donors.
5. If the investment looks promising, Avivar Capital conducts deep due diligence, which can take two to six months to complete.
6. The Impact Investment Committee makes the final decision. Donors are invited to attend this meeting.

Organizations that are not quite ready for investment may be offered a grant or technical assistance to get them to the point of investment-readiness.

Donors who invest alongside the Foundation do not conduct their own due diligence or engage their own lawyer. They invest on the same terms as the Foundation, minus 1% for administration.

Investment Approach and Criteria

The Foundation provides both debt and equity investments.

- **Approach:** The Foundation sources its own investments. At the beginning of the process five years ago, the Foundation reached out to a pipeline of 25 to 30 organizations with strong leadership and balance sheets to talk about the potential for investing. They have since approved 21 deals with those organizations and others.

Case Studies

- **Criteria/Sectors:** Investments align with the Foundation's granting priorities as outlined in its Community Investment Framework, and have included community/economic development (including support for entrepreneurs), health, human services (e.g. shelters), arts and culture, education, and energy. The Foundation began by investing in intermediaries (e.g. Community Development Financial Institutions) before it engaged in direct investing. It prefers to invest in intermediaries because they have the experience, capability, and infrastructure to make direct investments themselves. Its direct investments target stable, strong not-for-profits.
- **Geography:** Investees must be located in the eight counties that the Foundation is chartered to serve. The Foundation has also invested in a statewide fund to provide capital to community health centers.
- **Impact:** The Foundation does not rely on a specific impact assessment framework, but rather assesses each deal based on its likelihood of achieving the impact the investee has targeted. They are interested in serving as a partner to these non-profits, and meeting their needs as they arise. "We don't want to chase deals to meet arbitrary target," says Killins. Avivar Capital provides an impact report focused on the investments' social and financial return two times per year.

Portfolio

- **Investees:** The Foundation has made about 21 impact investments, 12 of which included some DAF investment. The average investment is \$600,000, versus \$40,000 for grants. On average, 18% of the capital for each deal comes from DAFs. In one case, DAF's provided 50% of the capital. And in another case, a donor brought the opportunity to GCF and, after due diligence, made the full investment. Twenty-eight DAF accounts have made investments, accounting for 41 individual DAF investments. The Foundation has invested \$2.7 million in equity across six deals, and the remaining \$10 million in debt. So far, the Foundation has had conversations with more than 50 of their 900 DAF holders.
 - » Example: An example investment is the Home Ownership Center of Greater Cincinnati Deal 1. It was a \$430,000 loan at 3%. Three DAFs invested \$10,000 and one invested \$20,000. This enabled the Home Ownership Center to purchase a portfolio of mortgages from Wells Fargo at 52 cents on the dollar.
- **Performance:** Overall, all of GCF's investees are paying on time and are achieving or exceeding their expected results.

INSIGHTS // The Greater Cincinnati Foundation

- **Foundations should ask their donors what kind of a DAF structure would be appealing.** Working with their first advisor, Imprint Capital (since acquired by Goldman Sachs), the Foundation conducted three focus groups with donors and other stakeholders and a fourth design session. The donors indicated a preference for investing on a deal-by-deal basis rather than investing in a pooled fund. Amy Cheney, Vice President of Giving Strategies, says, "When you're creating something like this, it's best to ask."
- **Foundations should approach donors one-on-one.** The Foundation has engaged in limited mass marketing of the DAF option. The preferred approach is for staff members to hold targeted, one-on-one conversations with donors with whom they already have a strong relationship and/or donors with large DAFs.
- **Foundations should place some limits on impact investments.** Investors must commit a minimum to any given deal (GCF's minimums have ranged from \$10,000 to \$50,000, depending on the deal). The Foundation recommends to its donors that they invest no more than 20% of their DAF's assets in impact deals because they tend to be illiquid and may carry a higher risk. Donors are able to exceed this recommendation but must sign a disclosure form.
- **Offering a DAF impact product can attract new donors.** The Foundation has attracted six new donors who came specifically seeking a DAF that could be invested for impact. One moved his DAF from a large institution. Another lives in another state and has such great interest in impact investing he does not mind that all the investments focus on Cincinnati. "When we first started, we saw it as a way to retain and engage donors. It could also attract new donors, but that wasn't our primary goal," says Cheney.
- **The Impact Investment Committee should have the right skill set, processes, and authority.** The Foundation restructured its Impact Investment Committee to ensure that it had the capacity to understand business risks. The committee now includes bankers, lawyers, CFOs, an entrepreneur, and a venture investor. The Committee meets when required, as time is of the essence in doing deals. The Committee has delegated authority from the board.
- **Specialized and experienced legal advice and due diligence expertise is required.** "Not every law firm really understands and embraces what a foundation is trying to do," said Killins. Moreover, Imprint Capital brought rigour to the due diligence process. An expert can protect the Foundation from investing in bad deals when staff may be emotionally attached.
- **Impact DAFs require significant and variable administration and time.** Allowing donors to invest their DAF assets on a deal-by-deal basis is the most complicated approach to mobilizing DAF assets for impact. Having one-on-one conversations with donors is also very time intensive.
- **Impact DAFs have costs that must be considered before implementation.** The program costs include both out of pocket hard costs (e.g., staff, consultants, legal counsel) and the opportunity costs involved in not investing strictly for market-rate returns; however, the Foundation believes that the value of the impact is significant.
- **It is challenging to find sound, investible deals at a local level.** The Foundation has found that only a small proportion of local not-for-profits are capable of taking on investment.
- **Geographic concentration is a risk.** The Foundation recognizes that investing just in Cincinnati and surrounding counties increases its risk.

Case Studies

CASE STUDY FOUR // **ImpactAssets**
San Francisco, CA and Bethesda, MD

Impact DAF
\$213M USD

ImpactAssets was created in 2010 to manage a DAF with impact investment options.

ImpactAssets was created in 2010 by the Calvert Foundation to assume responsibility for its Giving Fund, a donor advised fund that was launched in 2001 to provide donors with opportunities for socially responsible and impact investment. Today, ImpactAssets helps philanthropists and individual investors engage in impact investing by providing: impact investment products, including a donor advised fund and impact investing notes, and educational resources.

Notable investment products include the Calvert Foundation Community Investment Note. It is a fixed-income product, much like a certificate of deposit, that channels investor capital to a diversified portfolio of community development initiatives. This portfolio includes affordable housing funds and organizations.

Governance and Decision-Making

- **Corporate structure:** ImpactAssets is an independent 501(c)(3) organisation, but remains closely connected to Calvert Foundation. Board members designated by Calvert Foundation hold a minority position on ImpactAssets' Board of Directors and Community Investment Partners, a subsidiary of Calvert Foundation, supplies administration services to the firm.
- **Governance:** The Investments team sources and conducts due diligence for external public and private fund managers for review and approval by the Investment Committee
- **Decision-making:** The Investment Committee reviews and approves all platform funds and investments.

Investment Approach and Criteria

- **Approach:** ImpactAssets offers its donors highly tailored options for investing their DAF accounts; donors can create customized Giving Fund portfolios that meet their social and environmental impact orientation, risk-reward profile, time horizon and need for liquidity to facilitate grant making. The investment options include both public (impact screened mutual funds, Fidelity Cash Reserves Money Market Fund), and private (Calvert Foundation Community Investment Note, Calvert Investments mutual funds, Elevar Equity funds, Core Innovation Capital, MicroVest, the Seed Ventures Platform, the Global Impact Ventures (GIV) Platform) debt and equity investments, which are recommended by the ImpactAssets Investment team. For donors of a certain size, ImpactAssets offers the option of developing custom investment strategies and donor-sourced portfolios. ImpactAssets can also engage with independent advisors for recommendations.
 - » Example: Village Capital, a global social entrepreneurship NGO, established a Giving Fund that allowed it to make direct investments in ventures that had been top peer-ranked in its accelerator program.

Case Studies

- **Criteria:** ImpactAssets seeks to offer a range of impact investing choices for its donors across asset class, geography, investment theme and risk-return profiles. Criteria varies across investment types. For example, for the GIV platform, the Investment team sources and conducts due diligence for best-in-class fund managers who then invest across themes from microfinance to sustainable agriculture to financial inclusion of the un(-der)-banked both domestically and globally.
- **Geography:** The options that ImpactAssets offers are not restricted to a particular geography. Investments are available for primarily US-based securities while several funds and the GIV fund in particular, focus on initiatives in marginalised communities and the Global South.
- **Sectors:** ImpactAssets has three primary sectors of focus: Community empowerment, social finance, and restoration and land conservation. Individual impact investment products and loans may have further target sectors. For example, Calvert Community Investment Notes have targeting options for two US-based regions, women's empowerment, international microfinance, fair trade, small business, education, affordable housing, as well as high performing NPOs or social enterprises. Donors are also able to customise their portfolio according to their specific social and environmental interests that are reflected in individual funds.
- **Impact:** Each donor determines his or her impact orientation. The Giving Fund platform however, maintains impact screens for the funds and individual deals it facilitates. Investees and portfolio companies must have impact as an integral part of their business model. That is, the products and services they offer must be inherently impactful. Investees are required to submit customary financial as well as impact reports.

Portfolio

- **Investees:** ImpactAssets has managed \$213m worth of impact investments across its various Giving Fund options.
- **Performance:** The Giving Fund allows donors to select their target return in a range of 0-2% for the Calvert Foundation Community Investment Notes, while returns for the other public and private investment options vary corresponding to offerings from individual funds that are available at the time.

INSIGHTS // ImpactAssets

- **Donor profiles are shifting.** While their traditional DAF investor clients were primarily high-net worth individuals and family wealth offices, this is shifting increasingly as the market seeks accessible investment options. As a result, ImpactAssets has developed partnerships with various financial advisor and asset management channels to serve this growing client base.
- **Technological infrastructure is important for the client experience.** A significant pain point for ImpactAssets has been to develop appropriate technological infrastructure to facilitate a robust client learning and transaction experience, as well as to manage increasingly retail-facing interactions.
- **The impact investment industry needs to reframe its jargon.** As this is a new field, the investor educational experience needs to clearly articulate itself to connect hearts and minds. One does not have to sacrifice on return or impact any longer. The better we tell this story, the better we can build the field.

Case Studies

CASE STUDY FIVE // **RSF Social Finance**
San Francisco, CA

Impact DAF
\$45M USD

RSF began offering DAFs in 1984. RSF impact investing DAFs started in 2005.

RSF Social Finance (RSF) is a pioneering non-profit financial services organization dedicated to transforming the way the world works with money. In partnership with a community of investors and donors, RSF provides capital to non-profit and for-profit social enterprises addressing key issues in the areas of Food & Agriculture, Education & the Arts, and Ecological Stewardship

RSF's DAF program is operated by its Philanthropic Services Program. The Philanthropic Services program seeks to cultivate giving as the source of economic life. As a transformative intermediary they seek to:

- Move the field of philanthropy towards a gift economy
- Support and honor our clients' deepest intentions
- Integrate gift money into catalytic capital
- Facilitate the circulation of gift money

RSF has two different DAF portfolios that donors can choose from: Liquidity Portfolio and Impact Portfolio. The Liquidity Portfolio is focused on investments in "...safe and liquid cash opportunities that achieve deep impact." The portfolio primarily includes deposits with community development financial institutions and environmental banks. The Impact Portfolio invests in institutional-quality funds and asset managers that generate competitive risk adjusted returns. The portfolio consists primarily of smaller funds with a focus on public and private debt, private equity and real asset holdings. RSF is not offering this portfolio to new DAF clients. The portfolio was locked up in 2013 and it is winding down over the next seven years. RSF invests the greatest amount of capital (and all new donor advised funds) in its Liquidity Portfolio.

Governance and Decision-Making

- **Corporate structure:** RSF is a 501(c)(3) organisation.
- **Governance:** RSF operates under a policy governance (or Carver Model), delegating responsibility to the CEO (and subsequently, delegating to other staff representatives. An Investment Committee reviews opportunities and makes recommendations on all investments, including capital allocations from DAFs. RSF Charitable Asset Management (CAM) manages the investments.
- **Decision-making:** RSF's Investment Committee makes decisions to allocate the DAF funds in investments aligned with the portfolio, and to develop new investment offerings for DAF clients.

Investment Approach and Criteria

Liquidity Portfolio

- **Approach:** All DAF assets are invested in a pre-screened pool as they await recommendations for grant disbursement. RSF searches for its own investees in the Liquidity Portfolio. Donors do not have a separate investment strategy for each DAF. It flows into the Portfolio where investment decisions are made accordingly.

Case Studies

- **Criteria:** RSF seeks low-risk, liquid cash opportunities that achieve impact, allowing for preservation of capital and income generation for grant making. This portfolio is comprised primarily of deposits with leading community development and environmental banks. It focuses on creating long-term relationships with banks that offer unique opportunities for social and environmental impact in their local communities by supporting economic development projects, affordable housing, and environmental initiatives.
- **Geography:** RSF focuses on institutions that have place-based (or population based) investment strategies. Investments are primarily made in the U.S.
- **Sectors:** Food & Agriculture, Education & the Arts, and Ecological Stewardship
- **Impact:** There is no ongoing impact reporting requirement.

Impact Portfolio

- **Approach:** All DAF assets are invested in a pre-screened pool. RSF searches for its own investees in the Impact Portfolio. Donors do not have a separate investment strategy for each DAF. It flows into the Portfolio where investment decisions are made accordingly.
- **Criteria:** RSF seeks moderate risk investments that can provide a return in line with asset class benchmark. Risk is moderate due to the less secure nature of private equity and absolute return investments as compared with public equities, real assets, and fixed income.
- **Geography:** RSF focuses on institutions that have place-based (or population based) investment strategies. Investments are primarily made in the U.S.
- **Sectors:** Food & Agriculture, Education & the Arts, and Ecological Stewardship
- **Impact:** There is no ongoing impact reporting requirement.

Portfolio

Liquidity Portfolio

- **Investees:** Investees include: New Resource Bank, Latino Community Credit Union, RSF Social Investment Fund, Self Help Credit Union, City First Bank, National Cooperative Bank, CitiBank, and SolarCity's Solar Bonds.
 - » Example: New Resource Bank (NRB) is working towards a 100% mission aligned loan portfolio. At the end of 2012, 74 per cent of NRB loan commitments and 69 per cent of their loans outstanding were mission oriented; the remainder were traditional community bank loans made to local businesses during the bank's start-up phase. NRB is now focused on lending to businesses with green products and services, businesses that are committed to improving their operational sustainability, and sustainability-oriented nonprofits.
- **Performance:** Target financial returns are commensurate with money market accounts. Impact is determined separately by each investee.

Impact Portfolio

- **Investees:** There are twelve investments in this pool. Investees include: Beartooth Capital and Elevar Equity. Beartooth Capital is a private real estate fund generating strong financial returns through the restoration and protection of ecologically important ranch land in the Western United States.
- **Performance:** Impact Portfolio targets returns commensurate with foundation and university endowments. These are high impact, modest return investments.

INSIGHTS // **RSF Social Finance**

- **Private equity creates certain challenges for DAFs.** Private equity is a major asset class for impact investing worldwide. RSF decided to divest from public equities in 2009 following the financial crisis. The organization did not feel that public equities were direct, transparent and personal, and they were not confident the money was having an impact. However, investments in private equity created liquidity challenges. Low liquidity posed challenges for donors who wished to change their grant making allocations year-over-year. Two years ago, RSF transferred the funds into a liquidity fund focused on intermediaries and institutions that could provide lower risk and greater liquidity for donors to make grant allocations.
- **Tailored and donor directed investing is costly and time consuming.** Previously, RSF had another portfolio called the Transformation Portfolio. This portfolio was financed by five donors, each providing \$250,000. These donors made recommendations on investments to make as a pool, subsequently making five investments. The time to secure, convene, and educate donors alongside the decision-making infrastructure required was more than expected. It is expected that this approach will not be taken again in the future.
- **A single, clear portfolio where investment decision-making is made by the intermediary is most effective and efficient.** RSF has found that it is most effective and efficient for an intermediary to make decisions on investing donors funds into a pre-existing pool, instead of providing a mechanism for donors to direct funds into particular investments. However, it is important to encourage a community amongst donors.
- **DAFs provide a good option amongst a portfolio of opportunities for impact investors.** Donor advised funds provide potential investors with a starting point for engaging in impact investing. Donors can then move on to experience investing via other funds and opportunities at RSF and beyond.

Case Studies

CASE STUDY SIX // **Tides Foundation²** **San Francisco, CA**

Impact DAF
\$150M USD

Tides Foundation helped pioneer DAFs as an innovative philanthropic vehicle by launching its first DAF in 1976.

With over 250 DAFs to-date, Tides remains a leading mission-driven DAF provider dedicated to the vision of a world of shared prosperity and social justice. Tides works with its donor community to accelerate the pace of social change by partnering with social innovators on the following key issue areas:

- Equality and Human Rights
- A Sustainable Environment
- Healthy Individuals and Communities
- Quality Education

Since 1983, all DAF assets at Tides have been invested in mission-aligned portfolios. Donors have the following investment options:

- Pooled invested funds through a managed ESG-screened fund at Walden Assets
- Pooled Fossil Fuel Free Balanced Fund offering a diversified portfolio that does not invest in traditional energy companies or their suppliers (including oil, coal and natural gas)
- Pooled Legacy Capital Venture Fund-of-Funds which affords Tides' clients access to premier venture capital firms with a focus on growth potential to fund the causes they are passionate about
- Donor-directed Mission Related Investments (MRIs) across all asset classes

Remaining DAF assets are held in green bonds, community development bonds, and ESG screened fixed-income holdings at Breckinridge Capital.

Governance and Decision-Making

- **Governance:** Tides holds all DAF assets in Tides Foundation, a 501(c)(3) public foundation. Investment authority is delegated by the Tides Board of Directors to the Investment Committee to engage professional managers, establish managers' guidelines under the investment policies and set benchmarks to evaluate investment performance. Recommendations and policy updates are communicated to Tides' CEO and CFO.
- **Decision-making:** The Investment Committee regularly monitors investment performance and makes decisions on investment recommendations by the Tides' CFO and donors.

Investment Approach and Criteria

- **Approach:** Tides seeks traditional and alternative investments that are mission-aligned and have the potential for financial returns and that yield measureable social/environmental impact. Investments are reviewed and approved by Tides Investment Committee and include:
 - » Pooled public equity and fixed income portfolios are managed by Walden Asset Management and Breckinridge Capital Advisors. Both managers integrate environmental, social and governance research and engagement into the investment process to ensure that all securities meet Tides' social guidelines. Walden Asset Management has been an investment manager

Case Studies

since 1983. Breckinridge Capital has been managing Tides' fixed income portfolio since 2014.

- » The pooled Fossil Fuel Free balanced fund actively managed by Walden seeks to align with Tides' environmental guidelines and address issues related to climate change.
- » Private equity investments including a venture capital fund-of-funds managed by Legacy Venture seeks to leverage venture returns to drive philanthropic impact.

Tides also works with donors to invest in various organizations through community investment notes and donor-directed Mission Related Investments (MRIs). In addition to the potential for positive financial return, MRIs support donors' philanthropic goals and vision for social impact. Program areas addressed through Tides' MRIs include: economic development, environmental sustainability, microfinance, affordable housing, civil rights, education, community improvements, capacity building and land conservation.

- **Criteria:** In addition to Tides' mission criteria, investments are evaluated based on:

- » Negative screens
- » Risk-adjusted returns
- » Preservation of capital and enhancement of purchasing power
- » Liquidity and time horizon

Tides seeks to meet or exceed established benchmarks within the pooled equity and fixed income portfolios.

- **Geography/Sectors:** Tides' public securities are primarily US based and diversified across sectors. Tides' DAF mission-related investments have included both domestic and international investments with sectors primarily driven by each donor's areas of interest.
- **Impact:** Tides works directly with each donor to establish any social impact criteria or ongoing reporting.

INSIGHTS // Tides Foundation

- **Performance tracking requires significant and specialized resources.** Managing, structuring and monitoring due diligence and performance metrics for custom, donor-directed Mission Related Investments poses long-term institutional and capacity challenges. Tides has made over \$20M in MRIs over the past 15 years, and as we look to continue to pioneer impact investing through DAFs, long-term management of deal-flow and monitoring will be a primary focus.
- **These products require specialized impact investing products and intermediaries.** Given the challenges posed by independent structuring and monitoring of MRIs, there is ample opportunity to partner with other DAF providers and help the DAF MRI ecosystem mature by supporting robust intermediary deal-flow services. DAFs offer a unique source of capital that are already mission engaged and available for investment. The DAF marketplace needs more clear, consistent, and monitored investment opportunities. It is likely that the efficiencies created by intermediaries can decrease due diligence and monitoring associated costs. Therefore, infrastructure improvements could unlock new deal-flow as DAFs become easier to execute and track.
- **DAFs present an opportunity for collective impact.** Throughout Tides' history we have brought donors together to affect significant social change. Through pooled funds, DAFs also offer a unique opportunity to collaborate with others to foster strategic impact through their invested DAF capital.

Case Studies

CASE STUDY SEVEN // **Triskeles Foundation**
Exton, PA

Impact DAF
\$14M USD²

Triskeles began offering DAFs for impact investment in 2003.

The Triskeles Foundation encourages and supports charitable giving through its innovative donor advised funds and other philanthropic services and education. It offers a flexible investment strategy that emphasizes sustainability and impact with solid returns to donor and organizational funds.

From 2002 – 2009, the Triskeles Foundation developed three program areas: philanthropic services (including donor advised funds), experiential youth programs, and consulting/advisory services to support smaller not for profits. In 2009, in order to further focus and streamline responsibilities, Triskeles realigned its activities into two separate not for profits: Triskeles Foundation—which continues to offer philanthropic and educational services and the donor advised funds; and Triskeles Inc., which offers and develops experiential youth programs (currently ten programs in PA).

Governance and Decision-Making

- **Corporate structure:** Triskeles Foundation is a 501(c)(3) public foundation. Triskeles has 78 donor-advised funds (DAFs) and three fund managers.
- **Governance:** The governance model includes the fund manager, Investment Committee, Board, management, and donor, to some extent. The investment approach is customized and aligned with each individual donor who provides strategic direction for the grants and who is invited to participate in investment strategy discussions.
- **Decision-making:** The donor sets the overall direction for the giving of funds. The Board establishes and approves policies and procedures for the overall use of charitable funds. The fund manager(s) makes recommendations for specific investments in each DAF to the Investment Committee and CEO. The Investment Committee monitors the manager and investments, reviews the investment policy statement annually, and makes investment recommendations to the Board. The Board has ultimate decision-making power over the investments and controls membership on the Investment Committee. The fund manager provides regular reports to the Board.

Investment Approach and Criteria

- **Approach:** The Triskeles approach is highly customized to each DAF. The search for investees is conducted by Investment Committee members, management, and the fund managers. They look for a menu of opportunities (primarily public equities, but also private equity and direct investments into loan funds) and they can customize the DAF to align with the investors' interests (e.g. poverty alleviation, fossil fuel free). Triskeles does not bundle their assets into a single pool, or a small number of pools based on risk profile.

Case Studies

- **Criteria:** Investments are dependent on a number of factors including:
 - » Financial viability;
 - » Alignment with donor interest and Triskeles' values;
 - » Impact; and
 - » Liquidity.
- **Geography:** DAF investment funds are invested globally. They can target placed-based strategies based on a donor's interests.
- **Sectors:** All impact sectors that align with a donor's interests.
- **Impact:** There is no standard impact requirement; criteria is developed by each donor.

Portfolio

- **Investees:** Triskeles has invested in a number of mutual funds, private equity positions, ETFs, stock selection strategies, and alternative investments. There have been 10-15 private or alternative investments in products like community loan funds and the Calvert Community Investment Note. The portfolio is a 90:10 mix of public and private equities.
- **Performance:** Target financial returns are commensurate with money market accounts. Impact is determined separately in each DAF.

INSIGHTS // Triskeles Foundation

- **Liquidity is important.** Liquidity is important, as donors may wish to increase the size of their grant commitments and meet disbursement requirements of these philanthropic funds.
- **Customized strategies still require controls.** Although the investment approach is customized and donor-directed, it is still important to put controls in place to appropriately manage risk. In one case, Triskeles had a donor request a large amount of their funds be placed into a private equity opportunity. In order to manage risk, Triskeles reduced the level of investment into that opportunity.
- **Donors are interested in DAFs as a philanthropic tool.** Donors are very interested in DAFs as a financing tool for charities. The investment approach is an added value benefit but not a core purpose of the capital.
- **DAF intermediaries need operational capital.** It is vital to have enough start-up capital to effectively and efficiently manage DAFs focused on impact investing and to recruit and support new donors.
- **Reporting on impact is challenging.** There is not an easy way to report on impact with depth when there are as many sector and impact categories as Triskeles has in their portfolio.

Case Studies

CASE STUDY EIGHT // **Vancity Community Foundation Vancouver, BC**

**Impact DAF
\$3M CAD**

Vancity Community Foundation started to offer DAFs in the early 1990s.

Vancity Community Foundation (VCF) is a public charity founded in 1989 with an initial endowment of \$1m from Vancity Savings Credit Union. VCF was founded with a mandate to enrich the community while building on the values of the credit union. Many of the innovations that are now applied at a larger scale within Vancity were piloted at VCF, such as microfinance, higher risk lending to non-profit organizations, financial literacy support, social enterprise and charitable sector advocacy. VCF's vision is to see, and be an integral part of, thriving communities that are just and vibrant. Its mission is to be a catalyst for transformation. They measure success by the impact of those they work with, using a holistic set of community assets: including social, financial, natural, built, human, political and cultural capital.

VCF's current portfolio of impact investments include allocations made from its general endowment, some individual donor advised allocations, and the aggregate DAF pool. At this time, a minimum of \$3m of DAF assets has been allocated for impact. Currently 25% of VCF's total assets are directly invested in impact beyond just screening publicly traded securities. Its board set a target to achieve 50% mission alignment by 2018. VCF has long engaged in responsible investing, applying screens in accordance with the United Nations Principles for Responsible Investing (UNPRI) to all assets under management, including shareholder actions. It applies rigour beyond common SRI definitions for impact investment: Social and/ or environmental impact must be the specific intent of the investment as well as financial return. They include both market-based investments and below market investments made to qualified donees.

Governance and Decision-Making

- **Corporate structure:** While VCF is a public charity, governed by an independent board, it maintains a close partnership with Vancity Savings Credit Union, which gave its initial endowment and provides annual operating support. This partnership allows VCF and its donors to access Vancity's notable strengths as a financial institution to be able to conduct due diligence on its potential deals. VCF has approximately 145 DAFs under management.
- **Governance:** VCF's Board of Directors sets the investment policy with provisions for different asset classes and for impact investments, which guide the allocations and decisions by its investment committee, investment managers and VCF staff.
- **Decision-making:** For most direct investments, VCF staff manages the due diligence process, submitting proposals for final decisions through the Investment Committee to the Board. Aggregated investments with broader funds are handled by professional Investment Managers, once again subject to policy approved by the Investment Committee and Board.

Case Studies

Investment Approach and Criteria

- **Approach:** The vast majority of the VCF pipeline for investment opportunities originate from a network of VCF and Vancity partners, and trusted partners in the Vancouver community and across Canada.
- **Criteria:** The Investment Committee sets general parameters for risk management that considers both donor fund level and Foundation-wide risk. VCF staff sets the parameters for desired impact levels and return expectations according to sector and the type of investment. VCF considers ESG issues in its investment analysis, and while SRI parameters are currently based on UNPRI, they are working toward a more rigorous set of impact criteria going forward. VCF tends towards initiatives that uphold the values of community economic development, such as social justice and financial inclusion, sustainability and cooperative principles.
- **Geography:** VCF does not have strict criteria on geography. It counts regional, national and continent-wide funds among its investments. While most direct investments are in partnership with organisations in Vancouver, it has extended direct investments to the rest of British Columbia and Canada.
 - » Example: In partnership with the Community Forward Fund, VCF committed to an equity investment in the Nelson Commons project of Kootenay Co-op in Nelson, BC, a mixed-use community purpose real estate project, which included social housing and a cooperative food venture.
- **Sectors:** VCF's chief focus is to contribute toward impact through supporting initiatives in alignment with its holistic strategy of building community assets, especially social, financial, natural, built, human, non-partisan political and cultural capital. This primarily manifests in two strategic program areas of non-profit social enterprise and community-owned real estate.
- **Impact:** VCF evaluates its impact investments on an individual basis according to its sector and type of investment, including disclosures on ESG issues and performance relative to expectations. Reporting is prepared for individual donors, as well for regular board review.

Portfolio

- **Investees:** At this time, VCF has invested over \$14m for impact, of which \$3m is from its overall DAF pool. Of these investments, about 30% are invested in impact funds such as Resilient Capital, New Market Funds and the Renewal Funds, while the remaining 70% are in direct, program related investments or other impact loans. Some of its recent direct investees include the Chrysalis Society, Catalyst Community Development Society and the Kuterra Salmon operation owned by the Namgis First Nation.
- **Performance:** VCF reported an annualised performance of 4.4% for its overall DAF portfolio in 2015, with a historical yield of 7.2%. Overall, due to the high level of due diligence by VCF, the performance of its impact investments and fund portfolio has been consistent with the overall portfolio, except where provisional pricing is provided in lieu of granting support.

Case Studies

INSIGHTS // **Vancity Community Foundation**

- **Impact investing itself is not as a risk.** While VCF recognizes that risk is inherent to all investing, it has learnt from previous engagements, the importance of appropriate due diligence, including strong partner track records and management team capacity as key determinants for success. In addition to weighing potential financial risk and returns, which must be addressed, VCF takes into account the impact risk and return based on the investment's likely success or failure to deliver for communities and individuals.
- **There continues to be a high level of scrutiny by potential donors when considering whether endowments should include investments for impact, despite its proven gains.** The DAF model may come under further scrutiny if foundations seek financial returns exclusively for the purpose of fulfilling a 3.5% annual grant disbursement quota. VCF is seeking to change perceptions that DAFs are limited to a sole purpose. Mobilizing DAFs for impact investments multiplies the impact of each dollar donated.

Cumulative Insights

There is a significant amount of impact investing activity through DAFs. There is clear leadership in impact DAFs from a number of foundations and organizations in Canada and the United States. Over \$475 million in DAF assets were dedicated towards impact investments in the case studies for this report alone.

There is a diversity of strategies for impact investing with DAFs. There is no single approach to impact investing when it comes to DAFs. From customized strategies for every donor, including choice of sector as well as investment product, to a single pool heavily weighted in public securities for all donors, intermediaries and foundations have different strategies to target different kinds of donors and meet their organisational objectives.

DAFs benefit significantly from liquidity. At present, the majority of impact investments are in private, illiquid securities. Across many of the DAFs studied, DAF managers and foundations included public equities and securities to provide liquidity to the capital pool to make funds available if they are needed on a short-term basis.

Donor education is crucial, as is providing demonstration cases. Many donors are amenable to the idea of mission-aligned asset management, but associate investing for impact with inherently higher risk; donors may be hesitant to allocate the management of their DAF for impact. Education on the demonstrated performance of impact invested or mission-aligned funds and the sector as a whole, is critical to build donor confidence.

Impact DAFs can have a transformative effect on foundations. The Hamilton Community Foundation has been a leader in Canadian philanthropy's move towards impact investing. Their approach has informed by their DAF portfolio, specifically the engagement of DAF holder Bill Young.

Hamilton Community Foundation began its work in impact investing in 2010.

The gift of The Young Fund, a DAF, by Bill Young Jr., supports its two largest pilot impact initiatives. Commitments were made for an ESG Fund for public market investments (\$35 million) and a Direct Impact Fund comprised of private equity (\$7 million). The Direct Impact Fund has made investments of approximately \$0.5-2 million over 5-10 year terms and includes impact driven funds such as Sarona Asset Management's Fund of Funds, VanCity's Resilient Capital Fund and the Community Forward Fund, for which they catalyzed add-on capital as the first investors. Hamilton Community Foundation's Finance and Investment Committee, which is assisted by Guardian Capital, an asset manager, and Impact Investment Committee makes the investment decisions for the ESG Fund and the Direct Impact Fund respectively.

While none of the private equity investments have yet matured to report on their performance or impact, Hamilton Community Foundation will soon consider the future iteration and liquidity structure for its use of DAFs in impact investment, whether it will offer impact investment options for other donors, or pursue an endowment wide strategy which would include its DAF assets.

Cumulative Insights

Highly specialized DAFs are resource and time intensive. DAFs tailored to a very local area or an individual donor mandate require a significant amount of time and resources. This has made bespoke DAFs focused on direct impact investments very challenging to implement.

Impact DAFs require specialized skills, products and services. The costs and expertise for appropriate due diligence on impact investments can be prohibitive for foundations who are not typically structured to manage a significant amount of direct investment flow. Specialized intermediaries and firms who can provide solutions including connecting impact capital with pre-screened deal flow can be helpful to DAFs interested in impact investing. Alternatively, an organization will need in-house expertise, time, and resources to create and administer an impact DAF.

Recommendations

There are many ways that the philanthropic community, investment community, and impact investing sector can mobilize more philanthropic capital for impact investing. The dual objective for industry should be to increase the proportion of existing donor advised funds engaged in impact investing, and to provide pathways for new philanthropic capital to flow into current and new impact investing focused donor advised fund products. The industry may need to create a new array of products to meet the diverse needs of donors, donor advised funds, and other stakeholders like philanthropic advisors and wealth managers.

In addition, these products should be helping to finance impact funds, ventures, and organizations that have demonstrable social and/or environmental impact with sound financial models, but lack access to capital to start or scale their work.

1. Connect and leverage existing industry infrastructure to make impact investing through existing donor advised funds more effective and efficient.

Although it remains at an early stage, Canada has robust industry infrastructure and intermediaries that can be more leveraged and connected. There are clear opportunities for collaboration. For example, a DAF could be made available to the SVX investor network. In addition, foundations could leverage SVX to source screened impact funds for its portfolio. Moreover, other existing donor advised funds could leverage intermediaries like SVX to source investments for their impact investing strategies. In this way, SVX fulfills the role of a mainstream exchange, providing a vital screen to build products for investors. The SVX platform would significantly increase the efficiency of the due diligence process for DAFs such as the in-depth review of finances, impact, management and governance, and the investment offering.

2. Create regional and/or national pooled products for donor advised funds with a balance of public equities, impact funds, and direct investments in individual ventures and organizations.

There is a need for a lower risk, higher liquidity product for philanthropic capital that is seeking an impact investing mandate. Although it would not be dedicated exclusively to DAFs, this product could focus on DAFs as a target customer.

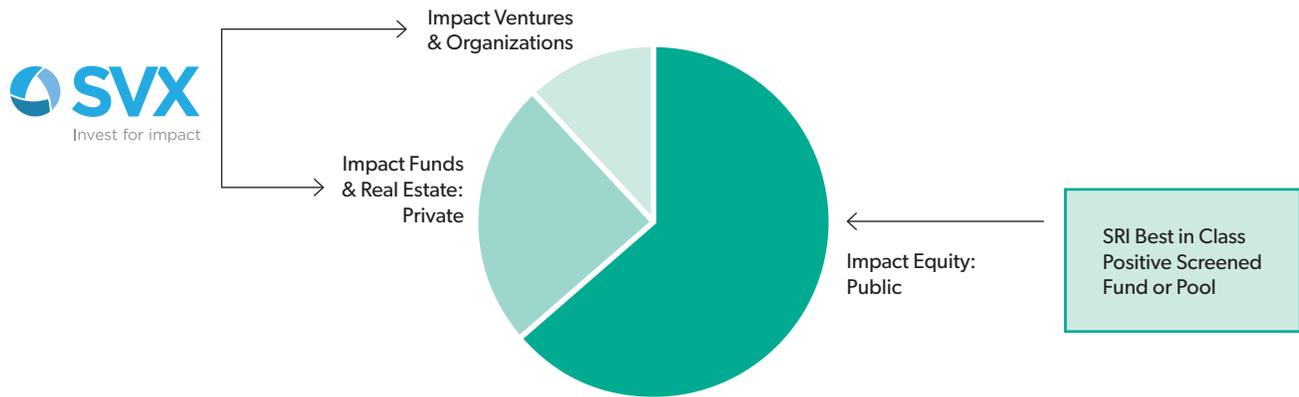
This donor advised fund product could be managed by a foundation, independently or in partnership with a financial services firm or financial institution. It would have a balanced portfolio to provide some liquidity while also targeting capital where demand is greatest in impact funds and direct investments. The portfolio could include:

- Public equities from best-in-class providers focused on impact equities and/or socially responsible investments;
- Impact funds including private equity funds, nonprofit or community loan funds, and community economic development funds (or SEDIFs) primarily sourced from SVX; and
- Direct investments in individual ventures and organizations from SVX across Canada, focused on larger impact real estate projects (> \$1 million) and private equity opportunities not covered by the portfolio of impact funds.

Recommendations

A model of the portfolio is outlined below, with hypothetical weightings of each segment of the portfolio.

Sample Portfolio of a Model Product for Impact Donor Advised Funds



In Canada, this product would have an Investment Committee comprised of representatives from Tides Canada, lead donors or investors, volunteer members with mainstream and impact investing experience, and a representative from the connected financial services firm or institution (if applicable).

There would be many advantages to a pooled product with a diverse portfolio, including:

- **Liquidity:** financial first, impact positive screened public securities would provide liquidity for donor funds.
- **Risk mitigation:** A diverse portfolio including public equities alongside a mix of funds and direct investments should be an effective risk mitigation strategy for donors/investors.
- **Sourcing efficiency:** There is an available supply of screened and reviewed product for a pool from SVX, which significantly reduces search and due diligence costs.
- **Deep, demonstrable impact:** The impact funds and direct investments in individual ventures in organizations meet high standards of impact and report annually on their impact metrics;
- **Capital demand:** The more attractive risk-return profile could attract new and additional capital into impact investing from investors who may have been interested but cautious about taking this approach. Accordingly, this would also move money into ventures, funds, and organizations that have high impact but challenges accessing capital.
- **Simplicity:** This product would be a simple, ready-made option for those donors/investors that do not have time and resources to create and manage their own customized strategies.

There is precedent for this general type of product: French 90/10 Solidarity Investment Funds.⁴ These funds, designed for employee savings programs, balance screened public equities with private investments in high impact organizations. The balance is simple:

- Between five per cent and ten per cent of its assets are invested in unlisted “solidarity designed” organizations.
- Between 90-95 per cent of assets in the portfolio are invested in listed securities (such as equity, fixed-income, etc.), and are mostly managed according to core SRI principles – making the full employee savings purse an overall “responsible” retail product.⁵

This type of product would also fulfill the mandate of the proposed fund of funds as recommended in the Report of the Canadian Task Force on Social Finance in 2010.

Recommendations

3. Create a small range of customized products with sector-focused or place-based strategies for donor advised funds.

At the other end of the spectrum, there is also potential demand for more customized products based on sectors or geographies. In order to reduce costs, these customized products would not be developed on a donor-by-donor basis. They would be available based on demand to a group of DAF investors.

In order to increase efficiency while providing a clear, small and simple set of options, they would be a pre-packaged set of products with a specific geography (e.g. Canada, Ontario, GTA, or Northern California) and/or sectors (e.g. sustainable food and consumer products, clean technology, or impact real estate). Accordingly, the proceeds from investments could also be allocated to the same sectors or geographies. For example, an impact real estate donor advised fund may provide grants to charities focused on housing and homelessness.

It is more likely that these donor advised funds would be sourcing investees from private impact funds and direct investments. These products could also have enhanced liquidity and a perception of lower risk through the inclusion of public equities.

These customized DAFs could leverage the same infrastructure as the larger, sector and geography agnostic pooled product, again leveraging an intermediary like SVX to increase the efficiency of the due diligence process. This product could also be managed by a financial services firm or institution, potentially in collaboration with an Investment Committee including lead investors.

New Donor Advised Fund (DAF) Product Shelf

Large Pooled Product Fund	ChangeCapital	Sector and Geography Focused Funds
<ul style="list-style-type: none">• Regional and/or national pooled product for donor-advised funds (DAFs) with a balance of public equities, impact funds, and direct investments in individual ventures and organizations.• Sector and geography agnostic.• High liquidity	<ul style="list-style-type: none">• Proof-of-concept impact DAF• Focus on private impact funds• Sector and geography agnostic• Low liquidity	<ul style="list-style-type: none">• Sector focus (e.g. impact real estate, agriculture, education, etc.)• Geographic focused funds (e.g. Ontario, Ottawa)• Balance of public equities, impact funds, and direct investments in individual ventures and organizations• Modest to high liquidity

Recommendations

4. Advance capacity building, awareness, and standards for donor advised funds engaged in impact investing or looking to engage in impact investing.

Leveraging existing infrastructure and creating new products are necessary but insufficient means of achieving the objectives above. It will also be necessary to continue to build capacity and awareness about impact investing amongst current and potential donors, as well as those who manage donor advised funds. Impact investing must be more effectively integrated into educational materials, communications, and conferences for the philanthropic sector and the segment of the financial services community that manages philanthropic funds (family offices, financial institutions, etc.). In addition, the impact investing community should integrate discussions and information on donor advised funds into its educational materials, communications, and conferences.

In addition, in order to increase participation amongst DAFs in impact investing, it may be useful to create simple industry standards for impact DAFs. Standardization may be another important pathway to scaling, as it will provide comfort and confidence for those with more traditional approaches that these new products are meeting a high bar of quality in terms of impact, management, and finances.

Endnotes

¹ National Philanthropic Trust. 2015 Donor Advised Fund Report. November 2015.

² Tides Canada and the US Tides Foundation are legally and administratively separate organizations with no governance or management ties. While Tides Canada was originally modeled on the US Tides Foundation, the two organizations have developed in different fashions and operate with wholly independent programming and services.

³ This figure fluctuates based on investments cycles.

⁴ Dupuy, Guilhem and Cyrille Langendorff. Bringing Mass Retail to Impact Investing: The French 90/10 Solidarity Investment Funds. 2014. As found on: <http://globalpolicy.iipcollaborative.org/wp-content/uploads/sites/5/2014/12/II-in-France.pdf>.

⁵ Ibid.

Appendix

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