

CASE STUDY

Flowing Donor Advised Fund Capital to Communities:

Innovative
Strategies
from
ImpactAssets
and
CapShift



THE U.S.
IMPACT INVESTING
ALLIANCE

Commissioned by:

FEDERAL RESERVE BANK of NEW YORK

IMPACT IN PLACE

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Unique leveraging and structuring of DAF capital to support communities and racial justice efforts.

DONOR ADVISED FUNDS (DAFs) are a rapidly growing portion of the charitable giving sector that provide donors with flexibility, accessibility and anonymity compared to other philanthropic avenues. DAFs are charitable giving vehicles hosted by public charities that allow individual donors to recommend grants while receiving an immediate tax deduction for contributions often as low as \$5,000. In fact, Fidelity Charitable, the largest public charity in the United States, recently removed its minimum contribution requirement.¹ They offer a unique structure in that many DAF platforms allow donors to employ a variety of tools beyond grants, including recoverable grants and increasingly, impact investment offerings. Recoverable grants and impact investments can be deployed as donors plan for grant funds to be expended. They can offer critical gap filling solutions for the receiving organizations and have the potential to be recycled to further the donor's charitable aims.² Recoverable grants also serve as a useful middle ground for donors newly introduced to impact investing strategies, as they are structured similarly to a grant but can mirror an investment's reach.

Community investing through DAFs is on the rise but still faces barriers that prevent broader uptake, as is examined in the full report. The models and strategies employed by ImpactAssets and CapShift – two leaders in the impact investing DAF market segment – provide insight into the potential for leveraging DAF capital creatively to support communities.

ImpactAssets offers an impact investing DAF with over \$1.4 billion under management across 1,500 donor accounts. The firm offers a range of impact investing opportunities to its donors, from model impact asset allocations to ESG mutual funds and impact private debt and equity funds to custom, donor-led impact investments for high-net-worth clients.

One of the appeals of working with DAF platforms is the potential and flexibility to structure more creative investment vehicles that supply critically needed capital to organizations such as community development financial institutions (CDFIs). As one example, ImpactAssets worked with a corporate foundation in 2020 to administer a program that



¹ Fidelity Charitable, Press Release: "Largest grantmaker eliminates minimum contribution amount," September 2020.

² Vanguard Charitable, Recoverable Grants 101.

would specifically flow loan capital through CDFIs to small construction companies hardest hit by pandemic-related shutdowns. This allowed for the corporate foundation to target the impact of their capital to a specific sector without the challenges of lending off their balance sheet directly.

Additionally, within ImpactAssets' \$50 million Community Investment Strategy, they have directed \$15 million in equity-like capital to Calvert Impact Capital that it used to bolster its net asset position and leverage approximately \$105 million in additional lending capacity to support its portfolio of CDFIs. While the structure of this investment is complex, the donor experience is designed to be seamless, as they can easily select into this structure as part of ImpactAssets' Community Investment Strategy, one of the many pools and allocations on their investment platform.

For DAF platforms to be successful, they need to develop a range of tools to match the priorities and comfort levels of donors. These tools may include existing investment strategies (such as ImpactAssets' Community Investment Strategy), customized portfolios and resource guides that help donors better understand select thematic, and the investment options that map against these issue areas.

CapShift, an impact investing platform serves as an intermediary for philanthropic institutions, including DAFs, to help source, evaluate and monitor a selection of impact investing options. In 2020, as donors sought to understand how to invest effectively in racial justice efforts, CapShift partnered with TheCaseMade, an organization that works with social movement leaders to apply social science to help bring about systemic change. Together, and leveraging CapShift's technology platform, they published the Racial Justice Framework, which evaluates investment opportunities across asset classes based on how they serve Black, Indigenous and People of Color (BIPOC) communities across a progressive continuum from diversity and inclusion to racial equity and finally racial justice.³

The framework consists of 20 questions related to an investment opportunity's processes, practices and external reporting, and is designed to balance the transformative potential of an investment with financial factors such as risk, return and liquidity. Importantly, the framework is paired with actionable next steps – that is, a continually updated sourcing report of investment opportunities across the continuum and across impact categories, such as housing, health and entrepreneurial support.⁴ For example, the Ujima Fund – a democratically managed pool of funds to support small business and infrastructure projects in Boston's communities of color, which is examined in another case study within the full report – is included as a racial justice investment opportunity for improving access to affordable credit.

There has already been uptake from CapShift's DAF clients. Recognizing donor de-

³ CapShift and TheCaseMade, "Getting Started: Investing in an Equitable Future," Racial Justice Framework.

⁴ CapShift and TheCaseMade, Racial Justice Sourcing Report.

mand for opportunities to support communities most impacted by the pandemic, Vanguard Charitable, a national DAF, partnered with CapShift to offer recoverable grant opportunities for eligible donors, specifically selected from a COVID-19 Response and Recovery sourcing report.⁵ These eligible donors can recommend recoverable grants of \$25,000 or more to support a range of relief efforts, from local to international. Donors can channel recoverable grant funds to the New York Forward Loan Fund, for example, which enables CDFIs to expand lending to the hardest hit small businesses, nonprofits and landlords in the state.⁶

Both ImpactAssets and CapShift offer unique strategies for mobilizing DAF capital, but the broader DAF market still lags in terms of community investing offerings. That is partly because DAF platforms themselves can operate as barriers to the placement of these offerings, as they must commit to sourcing, conducting due diligence and monitoring these opportunities. Accordingly, their decision to do so will likely be dependent on levels of donor buy-in and engagement. Furthermore, national DAF platforms must appeal to a broad donor base in their products, which may be a reason to avoid specific, place-based investment offerings. There are, however, early anecdotal indications that donors are increasingly interested in investing locally to support their hometowns in the face of the pandemic, which could ultimately influence DAF platform offerings. As is a consistent theme throughout the full report, the potential for leveraging DAF capital at scale to support communities is encouraging but currently uncertain. 🐦



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⁵ Vanguard Charitable, CapShift, Recoverable Grants 101.

⁶ Vanguard Charitable, CapShift, Economic relief - U.S. (local), New York Forward Loan Fund.