



LOHAS
ADVISORS

Donor-Advised Funds and Impact Investing



What are Donor-Advised Funds (DAFs)?

DAFs are philanthropic and social impact investment tools that allow donors (individuals, families, corporations, etc.) to fund special accounts through DAF “sponsor” organizations. Donors receive immediate U.S. income tax deductions and can help direct the fund’s distribution.

What are the benefits of DAFs?

In addition to the tax relief benefits, DAFs provide advantages over other tax avoidance strategies such as private foundations (PFs):

- Greater tax offset on cash contributions (deductible up to 50% of adjusted gross income for DAFs versus 30% for PFs)
- Easier allocations of securities and other property
- More flexibility on timing of allocations (DAFs have no requirement like PFs to distribute 5% of assets annually)
- Substantially less fees and tax reporting requirements

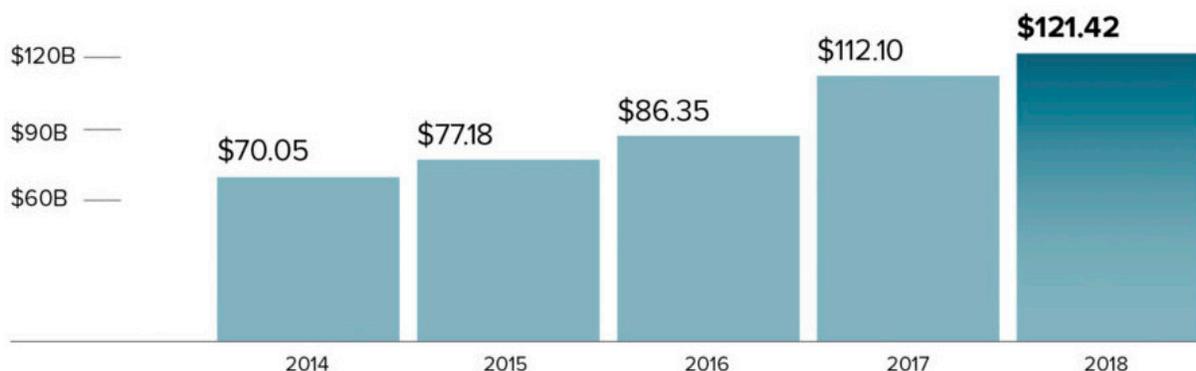
*Empower
solutions with
investment, not
just donations*

In addition, DAFs provide a degree of privacy not possible with PFs. The tax returns that PFs file are publicly available, disclosing the foundation’s financial activities, while DAF sponsors typically report their donations in aggregate, not sharing individual donor identities or activities.

How has the market embraced DAFs?

While adoption of DAFs started slowly, capital is aggregating quickly, and DAFs have become a leading tool for donation and investment in the social and environmental impact sectors. According to the 2019 Donor-Advised Fund Report of the National Philanthropic Trust, assets in DAFs now total over \$121 billion, with over \$37 billion in new DAF contributions in 2018 alone.

Total Assets in Donor-Advised Funds (\$B):

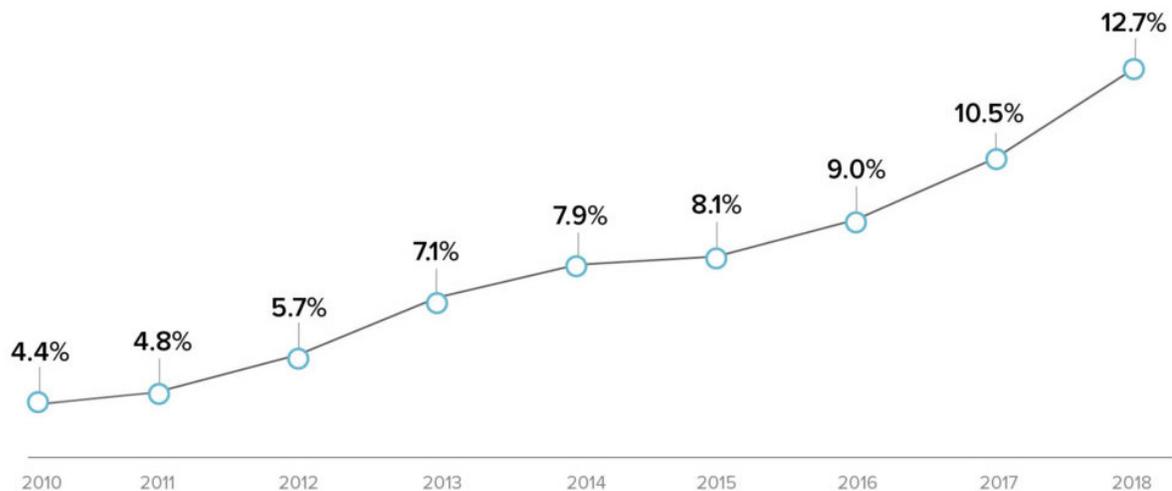


Source: 2019 Donor-Advised Fund Report, National Philanthropic Trust, <https://www.nptrust.org/reports/daf-report/>



Notably, there are now over 728,000 individual DAFs across the U.S., and the number of DAFs grew an astonishing 55% from 2017 to 2018. Contributions to DAFs have also continued to increase as a percent of total individual giving over the last decade.

Contributions to Donor-Advised Funds Expressed as % of Total Individual Giving:



Source: 2019 Donor-Advised Fund Report, National Philanthropic Trust, <https://www.nptrust.org/reports/daf-report/>

Why use DAFs for impact investing in for-profit companies or funds?

DAFs have typically been used for charitable donations and philanthropic grant-making. However, astute donors have started to recognize that by directly investing DAF capital in for-profit companies or funds, they can become extraordinary vehicles for achieving meaningful social and environmental impact. In fact, if managed correctly, DAFs can become impact investing venture capital funds for donors. DAFs can serve either as donors' first steps into the impact investing world or an enhancement of the work the donors have already been doing with their main investment portfolios.

**No-risk
investing
because funds
already donated**

DAFs are an ideal initial impact investment tool because they are completely risk free – the funds have already been donated, so no financial returns to the donor are expected. However, investments from a DAF that generate financial returns can flow back into the DAF. That means the capital is then available for the donor to direct towards the next socially or environmentally impactful venture (as with a traditional investment portfolio).



Why use DAFs for impact investing versus just making donations?

The individual and organizational clients (and their advisors) with which LOHAS works recognize the multiplier effect and “perpetual” nature of investing in companies or funds compared to making one-time grants. When intelligent investments are made through a DAF, in addition to the social or environmental benefits of the venture, real financial returns can be generated and returned to the DAF for future investments. For-profit social enterprises have the capacity to generate ongoing benefits to society and investors versus traditional philanthropic models in which regular donations are required.

How can DAFs be used as an instructional tool for legacy-building?

Due to the risk free nature of DAF investments, DAFs can serve as an ideal investment training ground for children and young adults. Not only are children provided with the opportunity to invest in the socially and environmentally impactful areas of most interest to them, but also parents can establish a legacy of giving to causes the family cares about in a way that is simultaneously instructive in essential areas of traditional private investing (such as performing due diligence, structuring deals, evaluating returns, etc.). In essence, DAFs can serve as defacto impact venture capital funds with donors (or their designated representatives) serving as fund managers.

*Create your own
social impact
venture capital
fund*





How can DAFs be used for impact investing?

There are a variety of ways in which the capital held in DAFs can be invested to further one's impact goals. For example, they can be the ideal capital to use for early stage or higher risk investments (that may not align well with the donor's main portfolio) or invest in funds that support the donor's passions. Similarly, corporate DAFs provide a simple mechanism for making strategic investments in mission-aligned companies that complement the corporation's business model or further a stated impact goal.

Currently, most DAF sponsors do not allow DAFs to be used as (for-profit) impact investing mechanisms, and those that do often offer only a limited selection of investment options for donors. However, some DAF sponsors are showing greater flexibility, and DAFs can typically be transferred to other sponsors that better support donors' impact investing goals. Notably, DAF funds can even be used to pay advisors to help transfer DAFs (when needed), analyze investment opportunities, and deploy DAF capital as effectively as possible towards the causes the donor is most passionate about.



How can LOHAS Advisors help?

The LOHAS team of professionals provide:

1. Hands-on support setting up or transferring your DAF
2. Guidance in establishing your impact investing strategy
3. Deal sourcing and due diligence to satisfy investment goals
4. Ongoing performance reporting and investment support

*Setup and
implementation
fees payable
directly from
DAF funds*



What are some areas of investment interest to LOHAS clients?

- Women-founded/led organizations
- Healthcare issues and access
- Social impact entertainment
- Place-based initiatives
- Financial inclusion
- Affordable housing
- Fair senior housing
- Social justice
- Education
- Climate change mitigation
- Infrastructure resiliency
- Sustainable real estate
- Clean energy and water
- Ocean health
- Wildlife and nature conservation
- Sustainable food and agriculture
- Eco-tourism
- Clean Transportation

How can you get started?

Some questions to consider when contacting LOHAS:

1. Do you already have a DAF established?
 - a. If yes, with what DAF sponsor are your funds?
 - b. If no, would you like assistance in setting up a DAF?
2. Does (or will) your DAF hold \$100,000 or more in funds?
 - a. If yes, LOHAS can immediately help support your impact investing needs.
 - b. If no, LOHAS is developing a solution to support smaller funds. Sign up for our newsletter and indicate your interest in this offering when it's ready.
3. Are there social or environmental impact areas in which you're most interested?
 - a. If yes, are there specific companies or funds you already know that you may want to support?
 - b. If no, LOHAS can work with you to help align your passions with your investment goals.

**Great entry
strategy into
impact investing
sector**

LOHAS Advisors works with individuals, family offices, and corporations as well as the advisors that support them to enable impact investing from DAFs. To start your own DAF impact investing journey or for more information on LOHAS' DAF offering, please visit our website at LOHASadvisors.com.