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Practice Briefing

Donor-Advised Funds:

an underutilized philanthropic vehicle to support innovation in science and engineering

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Executive Summary

Solutions to some of today's most pressing global challenges are being underfunded by traditional capital sources: both in the earliest stages, where government funds are increasingly limited, and in later stages, where risk capital is often too short-term in nature. Philanthropy has a unique and vitally important role to play in helping science and engineering (S&E)-driven solutions scale from lab bench to commercial deployment for true impact in the field. Philanthropic capital has the ability to meaningfully mitigate the idea-to-impact capital gap faced by many entrepreneurs, although it isn't being adequately deployed at scale to do so today.

While many financing vehicles are likely to be considered by sophisticated families and individuals, donor-advised funds (DAFs) provide a critical vehicle for philanthropists. DAFs are a philanthropic giving vehicle administered by a nonprofit sponsor, and, since emerging in the 1930's, have served as the operational backbone for many US-based community foundations, national charities, and single-issue charities.
Title XII of the Pension Protection Act of 2006 regulates DAF expenditure processes with a series of excise taxes for non-charitable distributions. This regulation has facilitated an astounding 12% compounded annual growth rate in total DAF assets under management since 2007. However, the legislation falls short of providing clear guidance on DAF investments, especially with regards to funding the commercialization of early-stage (but for-profit) S&E solutions. Thus, DAF donors and managers may be unaware of the opportunities to leverage the vehicle in support of potentially transformative science and engineering innovation. Common questions preventing widespread use include:

- **Can a DAF account make private or mission related investments akin to private foundations?**
- **What mechanisms exist today to support for-profit enterprises from a DAF?**
- **What tax liabilities might arise when making investments or distributions from a DAF?**

Given this uncertainty, it is useful to outline the ways in which forward-thinking donors and DAF managers are already successfully using DAFs to support solutions to social challenges. This paper outlines four proven mechanisms available to donor-advised funds when supporting market-based, S&E-driven innovations:

Option A – Issue a *grant* from DAF to a *non-profit intermediary* that supports market-based solutions.

Option B – Issue *debt* from DAF to *non-profit intermediary* that supports market-based solutions.

Option C – Issue a *grant* from DAF to a *for-profit S&E organization* that qualifies as charitable.

Option D – Issue an *equity* or debt investment from DAF to *for-profit S&E organization* or for-profit intermediary.

DAF sponsors are in the early days of mobilizing impact investment opportunities for their clients as the marketplace of DAF sponsoring organizations becomes increasingly competitive and DAF clients learn more about their options to make social impact with market-based solutions. However, time-sensitive social causes – in complex industries such as healthcare, energy, infrastructure, and education – demand intervention from these asset owners and managers today. Without donor-advised fund participation, some of the world's most innovative solutions will fail to survive the long and complex transition from idea to impact.

Problem Statement

In a recent 2016 quarterly US Cleantech Investments[1] and Insights analysis, PwC reported $0 in new clean tech investments. Provocative data like this sends a clear message: private capital markets do not adequately support the early stages of commercialization in "tough" technologies.[2] In the case of clean tech, it is unlikely that venture capitalists view all clean tech companies as below investment-grade quality. Rather, the venture capital asset class – which often achieves financial returns on a ten-year closed end fund in the form of one or two "homerun" investments – isn't incentivized to take the technical, market, regulatory, or financial risks often required by those companies that are hardware-based, capital intensive, or have longer-than-acceptable timelines to return on investment.[3]

With venture capital dollars moving to later, de-risked stages of commercialization, the innovation valley of death faced by potentially breakthrough ideas in energy, biotechnology, robotics, medical devices, manufacturing and similar industries only deepens. As a result, many new ideas wither away long before attracting the financing required to demonstrate meaningful product-market fit. Potentially transformative impact is lost.

Philanthropy as One Critical Solution

Philanthropy has an increasingly important role to play in supporting the early stages of science and engineering (S&E)-driven innovation and to fill (at least partially) the innovation valley of death. Armed with patient capital, philanthropists are uniquely positioned to de-risk emerging innovation-driven ventures and unlock traditional commercial funding. When injected at the right moment and in the right enterprises, philanthropic capital can have a catalytic impact in achieving charitable missions (and financial returns). The rise in popularity of impact investments – or investments made into companies, organizations, or funds with the intention to generate social and environmental impact alongside a financial return[4] – further provides market opportunity to achieve both social and financial gains.

DAF as One Option for Philanthropists

Donor-advised funds are one such type of charitable vehicle and are a growing (and yet poorly understood) part of today's philanthropic discourse in the impact investing space. DAFs have experienced exponential growth in recent years but little is known about the vehicle's evolution and nuances outside of a narrow part of the philanthropic community. Moreover, DAF donors and managers may be unaware of the opportunities to leverage the vehicle in support of potentially transformative science and engineering innovations.

Common questions preventing widespread use include:

- **Can a DAF account be used to make program- or mission-related investments akin to those from private foundations?**
- **What mechanisms exist today for DAFs to support for-profit enterprises?**
- **What tax liabilities might exist when DAFs make investments or grants?**

This whitepaper answers pressing questions such as these by outlining for donors how to best use DAFs to drive science and engineering-driven impact in today's most pressing global issues.

What is a DAF?

DAFs are a unique philanthropic tool that allow donors – i.e., individuals, families, or companies – to establish and fund a charitable account with a "sponsoring organization" that will (eventually) be used to support charitable activities. Donors receive an immediate tax deduction and maintain advisory privileges over the fund's ultimate distribution for charitable purposes (and in many cases over the investment options for the account).[5] DAFs advantageously allow donors to decouple the timing of their charitable giving from any of the associated tax benefits, i.e., the tax deduction.

Current Growth Trends

Donor-advised funds experienced significant growth over the last two decades and now represent over 8.4 percent of total annual charitable giving in the US.[6] According to the National Philanthropic Trust, DAFs in 2015 accounted for $78.6B in total assets under management (AUM), an 11.9 percent increase over the prior year. Further, the total grant value issued from DAFs ($14.5B in 2015) and contributed to DAFs ($22.3B in 2015) experienced a 14.5% and 20.9% compounded annual growth rate respectively since 2010.[7]

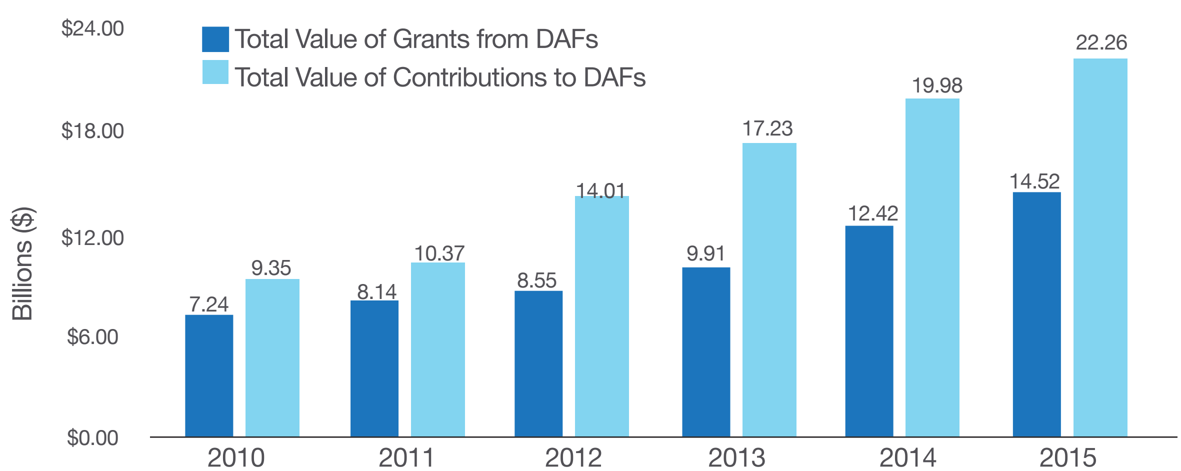


Figure 1. Total Contributions to DAFS and Total Distributions from DAFs, 2010-2015. Source: National Philanthropic Trust.

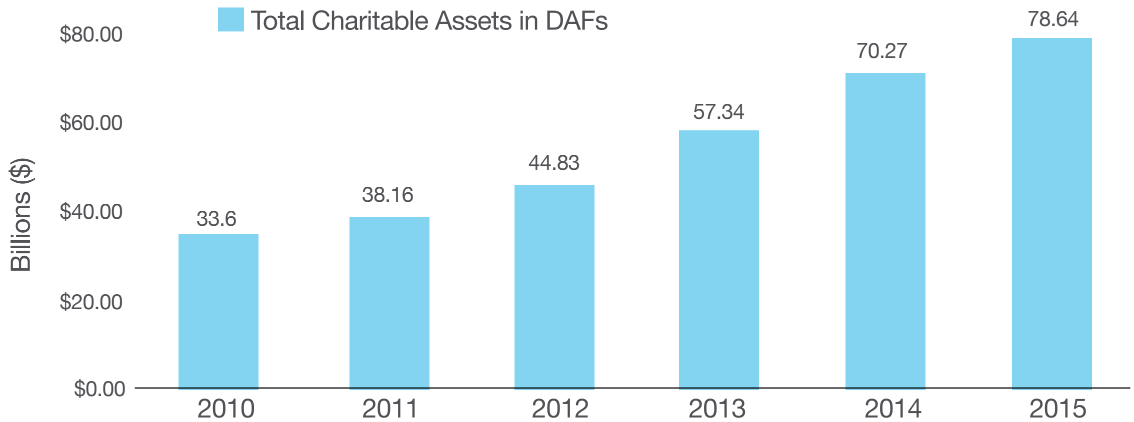


Figure 2. Total Charitable Assets in DAFs, 2010-2015. Source: National Philanthropic Trust.

DAFs are created and held by a public charity sponsor, typically referred to as a "sponsoring organization," which maintains control over the assets and ensures recipients are qualified under IRS rule.[8] The 1,000+ DAF sponsoring organizations in the US are traditionally categorized by geographic scope and primary charitable activities. Each of the three categories of sponsoring organizations – i.e., national charities, community foundations, and special-interest charities[9] – have witnessed significant growth in recent years across a number of key IRS-reported metrics.

National Charities	Community Foundations	Single-Issue Charities
A tax-exempt independent or financial institution-affiliated organization with a national focus in fundraising and grant making. Subtypes Commercial NDAF: Fidelity Charitable; Schwab Charitable Other NDAF: National Philanthropic Trust; Impact Assets	A tax-exempt organization that raises funds from many separate donors to carry out charitable interests for the benefit of residents of a defined geographic area, typically no larger than a state. e.g., Silicon Valley Community Foundation; The Boston Foundation; Foundation For the Carolinas	A tax-exempt organization that works in a specific philanthropic topic area, including universities, faith-based charities, and issue-specific charities. e.g., Jewish Federations of North America; Stanford University; National Christian Foundation

2016 Statistics (% change over 2010)

Accounts (#)	153,871	+67%	68,168	+22%	47,171	+28%
AUM ($B)	v$38.83	+210%	$28.70	+93%	$11.11	+78%
Total Grant Value ($B)	$7.05	+140%	$4.14	+80%	$3.34	+65%
Total Contrib. Value ($B)	$12.77	+200%	$5.53	+95%	$3.97	+73%
Grant Payout Rates	21.1%	-25%	15.4%	-13%	33.1%	-3.5%
Average Account Size	$252,325	+85%	$421,013	+58%	$235,727	+37%

Donor-advised funds remain a relatively small component of total charitable asset contributions. It is anticipated, however, that the quantity of annual contributions, distributed grants and newly-created DAF accounts will continue to witness significant growth in the near term due to the maximum tax-efficiency and simplicity afforded to donors.

Evolution of Donor-Advised Funds

The DAF market has evolved through three distinct phases: the rise of community foundations and single-issue charities, a later boom spurred by financial institution participation, and today, an exciting evolution to more innovative philanthropy amidst legislative ambiguity and debate.

Phase I: Rise of Community Foundations and Single-Issue Charities

Milestones in DAF Evolution

1931 New York Community Trust establishes the first donor advised fund
1969 Tax Reform Act
1987 National Foundation, Inc. v. United States
1991 The Gift Fund is established by Fidelity
1996 Debate emerges on how to regulate DAFs
2000 President calls to Congress for legislation regulating DAFs
2006 Pension Protection Act (PPA)
2014 Tax Reform Act bill and debate over DAFs

The Cleveland Community Foundation established what would become the nation's first pooled financing vehicle for supporting local charitable initiatives in 1914.[10] The emerging community foundation model disencumbered the limitations of legacy wills and trust funds by allowing community members to support charitable initiatives by donating to a local governing charity.

Nearly twenty years later in 1931, the New York Community Trust established the first DAF-like charitable account for William S. Barstow, a colleague of Thomas Edison and General Manager of Edison Electric Illuminating Company. New York Community Trust allowed Barstow and his wife, who were interested in supporting organizations offering technical training to underserved children, to "make recommendations to the Trust about how donated funds should be used in the community."[11] Community Foundations thus grew in popularity throughout the mid-1900's using DAF-like structures as the operational vehicle of choice.

The Tax Reform Act of 1969 primarily regulated private foundations, but described donations "pooled into a common fund" and established a definition for "supporting organizations" – those organizations exempt to private foundation laws since they were organized, operated, and controlled in the public's interest. The law did not explicitly define donor-advised funds, but resulted in the emergence of a new class of DAF managers. Public charities, religious organizations, and other special interest groups began managing their own DAF programs as supporting organizations under private letter exemption from the IRS. The Jewish Communal Fund, which now manages over $1.4B AUM and distributes nearly $300M annually, is credited with launching the first single-issue DAF in 1972.[12] Together, community foundations and single-issue charities launched the DAF market.

The 1987 ruling in National Foundation, Inc. (NFI) v. United States marked a pivotal inflection point in the evolution of DAFs. In the ruling, the court held that "an organization that actively raised and distributed funds to other charities under recommendations from its donor base qualified for exemption under section 501(c)(3)."[13] The court found that NFI projects recommended by donors qualified for exemption due to NFI's stringent standards that the project:

1. **be consistent with the charitable purposes specified in section 501(c)(3);**
2. **have a reasonable budget;**
3. **be adequately funded;**
4. **be staffed by competent and well trained personnel; and**
5. **be capable of effective monitoring and supervision by NFI.**

Further, NFI maintained autonomy to reject the recommendations of its donor base if the project did not meet its specified standards. These tenants would later serve as the legal precedent for evaluating project charitability using a DAF-like vehicle and de-risked the market for new institutional participants.

Phase II: Boom in Popularity from Financial Institutions

NFI v. United States established an impetus for a new type of sponsoring organization: financial institutions. During the 1990's, for-profit financial investment firms began establishing affiliated 501(c)(3) nonprofit organizations – commonly referred to as national sponsoring organizations (NSOs) or national donor-advised funds (NDAFs) – to maintain DAF accounts on behalf of its client base. The first financial institution player, The Fidelity Charitable Gift Fund in 1991, established a new commercial model where the national charity hired the affiliated for-profit investment firm to manage DAF capital allocations. With the new power of a structured sales and marketing force, DAF popularity skyrocketed throughout the 1990's and early 2000's. Today, Fidelity Charitable manages $16B in donor-advised funds, making it the largest charity in the United States and 20% of the total DAF market.[14]

While the participation of financial institutions did wonders in promoting DAFs, it led to significant scrutiny over the ethical and legal authority of DAF management and distribution. Public concerns arose over allegations that financial institutions were incentivized to withhold charitable disbursements in order to accrue more assets under management. President Clinton, in response to public outcry to investigate DAFs, thus called for a proposal to "Clarify Public Charity Status of Donor-Advised Funds" in his FY 2001 budget request.

Five years later, and nearly 80 years since emerging in the philanthropic landscape, Congress recognized DAFs in Title XII of the Pension Protection Act of 2006 (PPA 2006). The federal tax law formally defined donor-advised funds and sponsoring organizations, and enacted a series of excise taxes designed to penalize the improper use of DAFs by DAF managers, sponsoring organizations, donors, or investment advisors. For example, excise taxes are levied when distributions fail to accomplish a charitable purpose, when expenditure responsibility[15] is not exercised for certain distributions, or when disqualified persons receive more than incidental benefit from a distribution.[16]

Phase III: Further Debate, Democratization and Innovation

Today, DAFs are experiencing a period of donor-driven evolution against a backdrop of legal uncertainty.

While investments in DAFs have been growing, overall charitable contribution and distribution levels have remained stagnant as a percent of gross domestic product.[17] There is concern that the immediate needs of charities are being underfunded in part because DAFs are not required to make mandatory disbursements and that absent a mandatory minimum, DAF expenditure thresholds may be needed.[18] A revival in public discourse led to the introduction of the Tax Reform Act of 2014 requiring a five-year DAF payout, but the bill since stalled in Congress. In response, donor-advised fund proponents counter that no minimum is necessary given the high expenditure rates of DAFs (20.7%)[19] and claim that DAFs democratize philanthropy by allowing more than just the affluent to participate in charitable giving.[20] For illustration, many national charities allow accounts to be established with as little as $5,000 and grants to be given out in as little as $50 increments.

Independent of the minimum expenditure debate, DAFs are increasingly being used in innovative ways to support a wide variety of charitable causes. Treasury guidance for DAFs is forthcoming and will likely greatly influence the market depending on whether DAFs are viewed more as quasi-private foundations, as public charity substitutes, or as a catalyst for new charitable giving.[21] However, now ten years removed from PPA 2006, the DAF market is evolving independently of regulatory guidance. Donors leveraging their advisory privileges are requesting DAF accounts be invested into new financial instruments (e.g., social impact bonds or mutual funds) or directly into non-profit and for-profit enterprises as debt or equity in order to meet the donor's long-term charitable goals.

Increasing competition in the donor-advised fund market, driven by low barriers to entry and minimal account switching costs, resulted in a highly-fragmented market and hyper-differentiated DAF offerings. Sponsoring organizations offer varying levels of personalized donor services, management fees, and asset liquidation capabilities to attract and maintain donors. Fidelity Charitable, for instance, liquidated 531 non-publicly traded asset contributions in 2015 while The Boston Foundation prides itself on helping donors draft and review personalized grant applications.[22]

Sponsoring organizations further differentiate in the types of distributions and investments undertaken from DAF accounts. Vanguard Charitable, for example, granted 29% and 21% of its 2015 DAF distributions to education and human services respectively while The Foundation for the Carolinas distributed 51% to environmentally-focused nonprofits. In addition, Silicon Valley Community Foundation allows donors to allocate funds into five prudently-constructed investment pools, including a long-term, short-term, balanced, social impact and capital preservation portfolio.[23] Impact Assets, a national charity differentiated in its ability to support various impact investments, on the other hand issued over $25M in custom direct investments in 2015.[24]

In most cases, sponsoring organizations have established investment and expenditure procedures that reflect the organization's grantmaking experience and administrative capabilities. As a result, no two national charities, community foundations, or single-issue charities manage their DAFs in quite the same manner. While DAFs have evolved over the last 100 years to now support a wide-range of asset contributions, management and services, and charitable causes, there is limited innovation within their approach to grant expenditures. DAFs now provide a potentially transformative opportunity to use philanthropy in support of ultimately impactful S&E-driven solutions.

Utilization of Donor-Advised Funds to Support S&E Innovation

DAF vehicles, with total assets nearing $80B and 10% of total charitable giving, provide a new and growing opportunity for donors to support underfunded science and engineering-driven solutions. And although sponsoring organizations maintain ultimate decision making authority over DAF investments and distributions, today's current market competitiveness affords donors significant bargaining power to use DAFs to meet their charitable interests.

For private foundations, the regulatory regime establishing program-related investments (PRIs) ignited a philanthropic movement to generate impact by striving for both social and financial returns. The DAF market is ripe for a similar movement in this area; donors and DAF sponsoring organizations only need to understand the mechanics at their disposal.

Mechanics

Option A - Issue a grant from DAF to a non-profit intermediary that supports market-based solutions.

501(c)(3) tax exempt financing intermediaries, if properly managed and impact-focused, can serve as a vehicle for supporting multiple S&E-driven solutions from one DAF distribution. In this scenario, the non-profit intermediary uses the DAF grant distribution to finance the S&E-driven solution, and any financial return accrues to the intermediary to be re-invested to achieve the intermediary's charitable goals.

> Potential Liabilities: Liability for non-compliance with IRS code remains with the non-profit intermediary, and not the donor, sponsoring organization, or fund managers. The sponsoring organization should exercise diligence to ensure there is not more than incidental benefit taken by any one individual.

Option B – Issue debt from DAF to non-profit intermediary that supports market-based

501(c)(3) tax exempt financing intermediaries, if properly managed and impact-focused, can serve as a vehicle for supporting multiple S&E-driven solutions. In this scenario, the intermediary places the funds, via a recoverable grant or loan, to a high-impact S&E organization and takes a subordinated position in the liquidity stack. In the event of a liquidity event, the intermediary is able to repay the loan with interest to the DAF in order to be reinvested or distributed in accordance with the donor's charitable recommendations.

Potential Liabilities: Sponsoring organization and fund management are subject to excise taxes for distributions that don't accomplish a charitable purpose. Further, state law regulates the investment activities of charitable institutions. Sponsoring organization may be liable for not upholding fiduciary standards for the management and investment of funds, however written donor intent may mitigate exposure. Depending on the terms, loans may also be treated as a program related asset under state prudent investor standards such as the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and therefore exempt from prudent investment standards. Some ambiguity exists on how and when "program-related asset" exemptions apply to impact investments from DAFs.

Option C - Issue a grant from DAF to a for-profit S&E organization that qualifies as charitable.

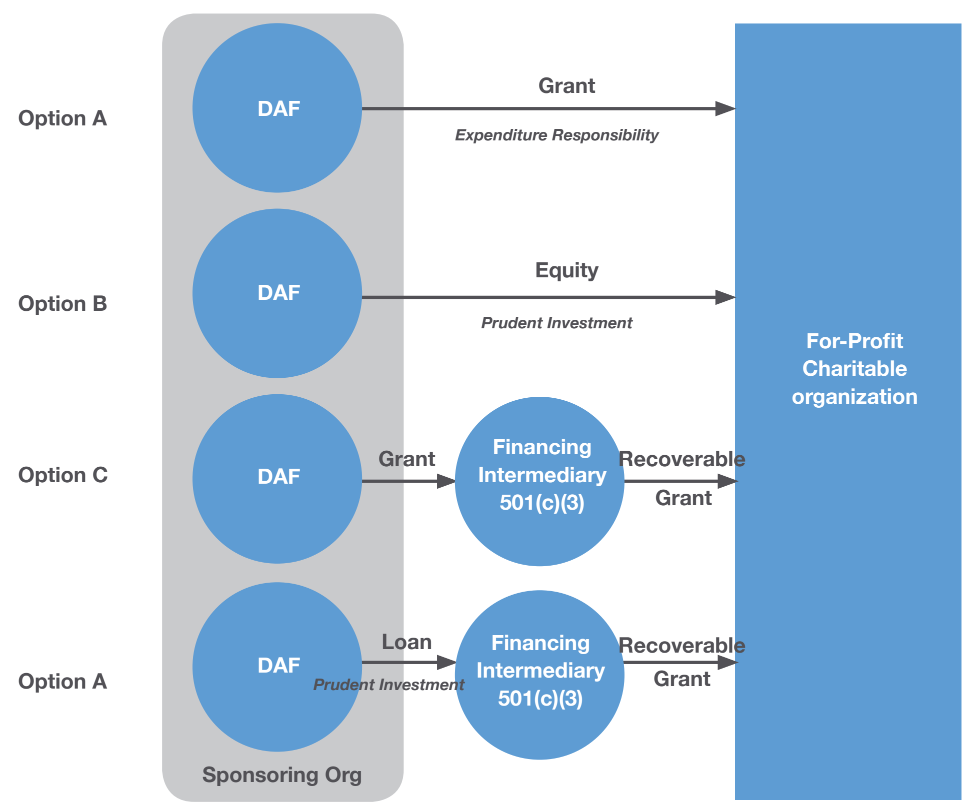
Donors can support S&E-driven solutions directly using a grant, with no expectation of financial return. Grants qualify as charitable when they serve an exempt (i.e., charitable) purpose, and do not provide more than incidental benefit to private interests. In this scenario, the sponsoring organization will need to exercise expenditure responsibility over the grant, although many DAFs are not set up to adequately do so or may charge additional fees.

Potential Liabilities: Sponsoring organization and fund management are subject to excise taxes for distributions that don't accomplish a charitable purpose. Donors, donor advisors, and related persons are subject to excise taxes if they receive more than incidental benefit from the distribution. Expenditure responsibility must be exercised by the sponsoring organization.

Option D – Issue an equity or debt investment from DAF to for-profit S&E organization or for-profit intermediary.

Donors can support S&E-driven solutions directly using debt or equity investments with the expectation of financial return to the DAF account. Absent Treasury guidance, the sponsoring organization will need to ensure the investment is prudent according to state prudent investor standards such as the Uniform Prudent Management of Institutional Funds Act (UPMIFA).[25] Written donor intent and direction via the gift instrument may help to satisfy statutory prudent investment requirements. UPMIFA "program-related asset" exemptions can be exercised, similarly to program related investments for private foundations, if properly built into the sponsoring organization's liquidity thresholds and investment procedures. If treated as a program related asset, the sponsoring organization should treat it as a charitable distribution and exercise expenditure responsibility.

Potential Liabilities: Sponsoring organization may be liable for not upholding fiduciary standards for the management and investment of funds, however written donor intent may help to mitigate exposure. Some ambiguity exists on how and when "program-related asset" exemptions apply to impact investments from DAFs.



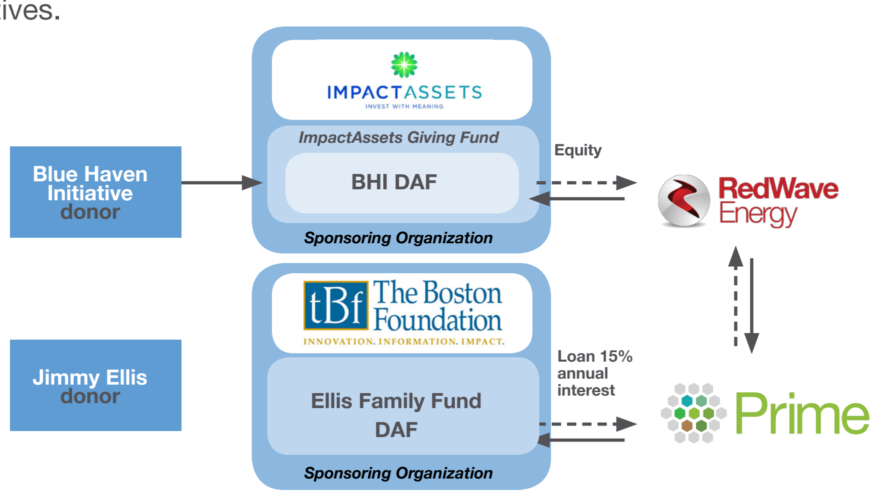
Case Study: RedWave Energy, Inc.

In the Series B financing of RedWave Energy, Inc., a pioneering Chicago-based start-up that generates electricity from inefficient fossil fuel processes using a novel industrial waste heat to energy technology, investments from two donor-advised funds helped unlock a full $5.85M financing round.[26]

ImpactAssets Giving Fund and The Boston Foundation each participated in the philanthropic component of the round facilitated by PRIME Coalition, a 501(c)(3) exempt charity whose mission is to empower philanthropists to place charitable capital into market-based solutions to climate change.

ImpactAssets, the national charity that manages the Blue Haven Initiative DAF, participated as direct equity to RedWave. At the recommendation of its single-family office client, Blue Haven Initiative, ImpactAssets invested the funds as a direct equity investment under the same deal terms as RedWave's lead investor. If the company has a liquidation event, returns from the equity position will be returned to the Blue Haven Initiative DAF to be disbursed as grants or reinvested in other impact investments.

The Boston Foundation, the community foundation managing the Ellis Family Fund DAF, participated by issuing a loan to PRIME. At the request of Jimmy Ellis, a donor advisor of the Ellis Family Fund DAF, The Boston Foundation issued a simple interest loan to PRIME to be explicitly issued as a recoverable grant to RedWave. If the company has a liquidation event and capital is returned to PRIME via the recoverable grant, PRIME will use the funds to repay the loan to the Ellis Family Fund DAF at The Boston Foundation. The returned funds can then be disbursed as grants or reinvested in other donor-driven alternatives.



The donor-advised fund financing facilitated by PRIME served as mandatory matching funds in order to unlock fiduciary co-investment from Enertech (a Kuwaiti Sovereign Wealth Fund), Energy Foundry (a utility-backed fund based in Illinois), and ARPA-E (an agency at the US Dept. of Energy). RedWave is now using the funds from its Series B to build a pilot demonstration project – the first step in achieving its mission to capture and utilize wasted energy at scale.

Recommendations for advancing the field of philanthropic S&E investing

A vast opportunity exists to catalyze philanthropic impact using donor-advised funds. However, preconceived perceptions about reputational risks, administrative burdens, or a seemingly disinterested donor base prevent many sponsoring organizations from actively promoting impact investment options. Taking action on the following recommendations will help unleash the full power of DAF capital in supporting early S&E-based solutions.

For Sponsoring Organizations:

I. Publicize demonstrative investment case studies that showcase effective philanthropic principles with donor clients.

II. Open distribution-level data to foster transparency throughout the DAF ecosystem.[27] Provide visibility into invested capital (stage, type, return profile, etc.) to facilitate investment discourse.

III. Form partnerships with public charities that can serve as impact intermediaries and lower the financial and expertise burden required to support specific charitable initiatives.

For Donors and Advisors:

I. Compare sponsoring organizations before donating and establishing a DAF, as services vary widely across organizations. Discuss investment opportunities and switching costs prior to establishing an account.

II. Incorporate S&E-solution support into overall charitable strategies. Utilize donor advisory privileges to support market-based solutions from the DAF, consistent with DAF rules.

For Legislators:

I. Release PPA 2006 guidance. Clarify that an investment made for charitable pur poses and done so consistent with general DAF rules is a permissible distribution.

The rise in donor-advised funds brings forth an emerging opportunity to use philanthropy in innovative and ultimately impactful ways. The valley of death faced by many of today's most promising ideas in biotechnology, energy, infrastructure, and education requires a patient form of capital only found in philanthropy. Forward-thinking DAF managers are already mobilizing impact investments and unique distribution structures to achieve the charitable goals of their clients. Transitioning more breakthrough ideas from lab bench to market, however, requires DAF participation at scale. By utilizing proven investment and distribution mechanisms at their disposal, donors and DAF managers alike can have a catalytic impact on the world.

Side by Side Comparison: Donor-Advised Funds and Private Foundations[28]

	DAF	Private Foundation
Market		
2015 Total Assets Under Management (AUM)	$78.64B	$781.60B
% Change in AUM from 2014	11.9%	9.7%
Income Tax Deduction		
Total annual limit for gift contributions	Up to 50% AGI	Up to 30% AGI
Tax deduction for cash contributions	Up to 50% AGI	Up to 30% AGI
Tax deduction for contributions of long-term, publicly traded appreciated securities	Fair market value up to 30% AGI	Fair market value up to 20% AGI
Tax deduction for other long-term capital assets, e.g., real property, notes, bonds, privately held stocks	Fair market value up to 30% AGI	Cost basis up to 20% AGI
Carryover	Yes, 5 years	Yes, 5 years
Organizational and Operations		
Allocation control	Resides with the sponsoring organization. Donor maintains advisory privileges.	Remains under the legal and financial control of the family donor.
Payout requirement	Currently none	Yes, 5% of investment assets
Excise tax on investment income	None	Yes, 2% of net annual investment income
Appoint Board of Directors	No	Yes
Engage in collaborative family giving	Varies by sponsoring organization, but many family account privileges in perpetuity.	Yes, may appoint family members to board.
Execution		
Privacy/anonymity	Yes, full anonymity if desired	No, foundation tax filings through IRS Form 990
Make grants to any qualified 501(c)(3) nonprofit	Yes	Yes
Make grants to individuals (scholarships, travel, etc.)	No, but with exemptions	Yes

Make grants to international organizations	Varies by sponsoring organization, usually at a fee; expenditure responsibility would generally be required	Yes, by undertaking expenditure responsibility
Philanthropic Services		
Philanthropic services, such as grant-making consultation, research and evaluation of potential grantees, RFP management, and other philanthropic services.	Not required, but some sponsoring organizations provide consultation services, the degree of which vary organization to organization.	Requires hiring staff or outsourcing consulting services.
Run Direct Charitable Programs or similar programs	No	Yes

Research

The ideas reflected in this white paper originate from a series of phone and in-person interviews with leaders throughout the donor-advised fund market. Interviewees include representation from sponsoring organizations, interested and established DAF donors, and legal counsel.

Name	Organization	DAF Affiliation	Date
Tim Smith	The Boston Foundation	Sponsoring Organization	11/01/2016
Sarah Gelfand	Fidelity Charitable	Sponsoring Organization	11/07/2016
Tim Freundlich	Impact Assets	Sponsoring Organization	10/31/2016
Drew Hastings	National Philanthropic Trust	Sponsoring Organization	11/07/2016
Jimmy Ellis	Ellis Family Fund	Donor / DAF Advisor	11/02/2016
Sorin Grama	MIT / Greentown Labs	Potential Donor	11/02/2016
Christian Braemar	Benefunder	DAF Ecosystem	10/31/2016
Justin Kaster	2100Inc	DAF Ecosystem	11/14/2016
David Levitt	Adler and Cohen	DAF Ecosystem	11/30/2016
Anubha Jain	Silicon Valley Community Foundation	Sponsoring Organization	12/13/2016
Wen-Chin O'Connell	Silicon Valley Community Foundation	Sponsoring Organization	12/13/20016
Liesel Simmons	Blue Haven Initiative	Donor / DAF Advisor	12/15/2016
Tomer Inbar	Patterson, Belknap, Webb & Tyler	DAF Ecosystem	4/18/2016
Jean Shia	Autodesk Foundation	Donor / DAF Advisor	9/30/2016
Joe Speicher	Autodesk Foundation	Donor / DAF Advisor	9/30/2016

Each interview focused on one or many of the following research questions:

History/Background

I. What do you think has led to the increased popularity of DAFs?

II. What was the original impetus for DAFs being created? What was the pain point it addressed for donors? For DAF managers?

III. How have DAFs evolved over time, structurally or operationally?

IV. What is the corporate form(s) of sponsoring organizations? Has DAF managers' corporate form(s) evolved over time?

V. What are new DAF sponsoring organization's biggest obstacles to success?

Policy/Regulation

I. How does the regulatory body view grant capital returning to a DAF? Are their expenditure rules written about how to manage that? What expenditure mechanisms can used? (recoverable grants, equity investments, only grants?)

II. What are the rules that regulate investments with DAF capital? Reporting requirements?

III. What are the regulatory bodies governing DAFs and their investments?

IV. What are the promises that a DAF manager has made to its donor? How is that arrangement captured from a regulatory standpoint?

V. Are there existing examples of grant capital being returned to a DAF? Would a lack of examples make DAF managers/donors less likely to engage in a recoverable grant structure? (similar to the lack of history using PRIs as investment vehicles for early stage energy technologies)

Management

I. What does the grant expenditure process look like? Who has ultimate decision-making authority?

II. How is compensation structured (fees?)

III. How do managers pitch DAFs to donors? How do managers differentiate themselves from other DA managers? Is there competition? Or collaboration - perhaps in certain cause areas?

IV. What is the demographic breakdown of DAF clients in the US today? How (by what criteria) are the characterized from the DAF manager point of view? How often does the DAF manager interact with their client(s)? Who initiates interaction and under what circumstances?

V. In today's "impact investment" climate, are donors starting to ask DAF managers to do things that are not in line with managers' business interests? For example, being asked to conduct diligence on complex direct investment opportunities that the DAF manager doesn't have the time/interest/expertise to do?

VI. What is the biggest pain point for DAF managers today? Expanding the client base? Keeping service \ quality high? Something else?

Execution

I. What do DAF managers look to as a resource(s) for internal teams? What do DAF managers read to in form donors/steer dollars?

II. What is the asset distribution for DAF portfolios?

III. What charitable causes are supported? What does the distribution of grant funds look like in terms of amounts by cause area, recipient type (nonprofit, for-profit, etc), geography, outcome metrics, etc. (no and in the past)?

IV. Is there a data tracking organization for DAF data?

V. What makes investing or grantmaking to climate change as a cause most difficult?

VI. What would make a climate grantmaking partner most attractive?

VII. Describe an attractive public charity in the impact investing sector and why it would be easy to advocate for its support to DAF clients.

VIII. Once one client has supported a specific organization, what is the value of sharing or not sharing information about that grant transaction with other DAF clients within the same firm? What would prevent the manager from doing so?

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[2] MIT defines “tough” technologies as those breakthrough ideas that require time and patient capital to commercialize.

[3] See Kearney, S., Seiger, A., Berliner, P., “Impact Investing in the Energy Sector.” October 2014.; Kearney, S., Murray, F., Nordan, M., “A New Vision for Funding Science.” Stanford Social Innovation Review, August 2014.

[4] See Global Impact Investing Network (GIIN); https://thegiin.org/impact-investing; Accessed 12 December 2016.

[5] The IRS defines a “donor-advised fund” as: (1) a fund or account owned and controlled by a sponsoring organization, (2) which is separately identified by reference to contributions of the donor or donors, and (3) where the donor (or a person appointed or designated by the donor) has or reasonably expects to have advisory privileges over the distribution or investments of the assets. All three prongs of the definition must be met in order for a fund or account to be treated as a donor-advised fund.

[6] National Philanthropic Trust, “2016 Donor-Advised Fund Report.” 2016.

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[8] Pension Protection Act of 2006, Public Law 109-280, 17 August, 2006. https://www.gpo.gov/fdsys/pkg/PLAW-109publ280/pdf/PLAW-109publ280.pdf, Accessed 12 December, 2016.

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[16] Expenditure responsibility rules require organizations to (1) exert all reasonable efforts and establish procedures to see that distributions are spent solely for the purposes for which they are made, (2) obtain reports from distribute on how the funds are spent, and (3) make detailed reports with regard to such expenditures to the [IRS].

[17] The Treasury Department issued a preliminary findings analysis in 2011 stating that: (1) DAFs and sponsoring organizations play an important role in the charitable sector, (2) DAFs have higher payout rates than private foundations, (3) Donors to DAF sponsoring organizations should enjoy the same deductibility rates as donors to other public charities, and that (4) PPA 2006 appears to have provided a good legal structure that addresses potential abuses of DAFs and sponsoring organizations while “accommodating innovations without creating any undue burdens on charities or new opportunities for abuse.” US Department of Treasury, “Report to Congress on Supporting Organizations and Donor Advised Funds,” December 2011.

[18] Pickering, A., “Gross Domestic Philanthropy: An international analysis of GDP, tax and giving.” Future World Giving, 2 February, 2016. https://futureworldgiving.org/2016/02/02/gross-domestic-philanthropy-an-international-analysis-of-gdp-tax-and-giving/. Accessed 18 December, 2016.

[19] Ray Madoff, Professor at Boston College Law School, launched the modern DAF debate by calling for minimum expenditure payouts. According to Madoff, “donors get all the same tax benefits giving to a DAF that they would get giving to the Red Cross or a local food bank and yet the funds can sit in the Donor-Advised Funds and are subject to no payout obligation at all. They can sit there for years, decades, or even centuries.” Hennessey, S., “Boston College Experts.” BC Office of News & Public Affairs, 27 October, 2016. https://www.bc.edu/content/bc-web/bcnews/boston-college-experts/daf-top-charity.html. Accessed 18 December, 2016.

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