

# Donor Advised Funds



## TL;DR

A donor advised fund (DAF) is a philanthropic giving vehicle with the flexibility to invest in a variety of asset types.

## What is a DAF?

DAFs started in the US during the 1930s as philanthropic giving vehicles that enabled donors—individuals, families, companies, or institutions—to invest in a variety of asset types while receiving immediate tax benefits. Following a DAF contribution, a donor maintains control over the timing of grant distributions to charitable organizations from that DAF, but they also receive tax benefits for charitable contributions based on the timing of contributions to the DAF.

DAFs are created and administered by a sponsor such as community foundations (e.g., Silicon Valley Community Foundation), national charities (e.g., ImpactAssets and Fidelity Charitable), and single-issue charities (e.g., universities and faith-based charities). As of 2021, DAF sponsors held \$160B+ in assets under management (AUM).

**Here are four proven mechanisms for investors leveraging DAFs to support underrepresented entrepreneurs and fund managers:**

1. Make a grant from DAF to a nonprofit intermediary that supports underrepresented entrepreneurs or fund managers.

2. Make a debt investment from DAF to a nonprofit intermediary that supports underrepresented entrepreneurs or fund managers.
3. Make a grant from DAF to a for-profit organization that qualifies as charitable.
4. Make an equity or debt investment from DAF to a for-profit organization or for-profit intermediary (e.g., Capital Access Lab, MIT Solve Innovation Future, and PRIME Coalition).

## Fund Criteria

### When is a DAF a good fit for capital providers?

**Cheaper & Faster Launch:** Compared to a traditional GP/LP fund structure, a DAF is easier and faster to set up and launch for investors.

**Tax Efficiency:** Taxable investors, including individuals and families, can receive immediate tax benefits and postpone charitable giving by contributing to a DAF.

**Access to Philanthropic Capital:** Many donors leverage DAFs as a way to offset their high income years with flexible charitable giving. DAFs allow donors to have more time to decide when and how they will make distribution to charities. Investors can either launch their own DAF vehicles to attract philanthropic capital or market their funds to DAF platforms.

**Flexible Investment Options:** DAFs have the flexibility to invest in a wide variety of assets, including startups, small businesses, real assets, and fund managers. Additionally, DAF managers have the flexibility to make equity, debt, and innovative investments or grants.

### When is a DAF not a fit for capital providers?

**Raising Capital beyond Donors:** The DAF vehicle allows investors to raise philanthropic capital, but it does not allow investors to raise other types of “LP” capital. Investors need to set up investment vehicles beyond DAFs, such as 506(b) or 506(c) funds, to accept other sources of LP capital.

**Investments outside of Charitable Purpose:** DAF managers need to align their impact investments with the donors’ charitable purpose. Otherwise, the DAF managers and sponsors are subject to excise taxes for investments outside of their charitable purpose.

## What should capital providers look out for with DAFs?

**Philanthropic Signal:** DAFs can be a powerful financing tool for early-stage entrepreneurs and fund managers; however, potential coinvestors and follow-on investors may view DAF capital as a signal for concessionary returns.

**Potential Tax Shelter:** DAFs can be used as a tax shelter for donors, as their contributions sit in DAFs for years before they decide to grant them to charities. Donors do not need to invest their DAF contributions in mission-driven organizations or assets. A small percentage of the \$110B+ in DAF capital across the US was invested for impact.

## Fund Pricing & Terms

### What do DAF sponsors typically charge for DAFs?

**Administrative Fee:** tiered fee levels based on AUM

- First \$100K: 1.00% annual fee
- Next \$400K: 0.75%
- Next \$500K: 0.50%
- Next \$9M: 0.25%
- \$10M+: 0.125%

**Investment Administrative Fee:** additional fees per investment the DAF makes

- First \$100K: 0.80%
- Next \$100K: 0.60%
- \$200K+: 0.40%

# FAQs

## Can a DAF make direct investments or fund investments?

Yes, a DAF can make both direct and fund investments.

## What tax liabilities might occur when making investments or distributions from a DAF?

Donors and DAF sponsors might have to pay excise taxes if the DAF investments or distributions do not align with the donors' charitable purpose.

## What are the potential tax benefits associated with DAFs for donors?

Tax benefits for donors include avoiding capital gains taxes and receiving a federal income tax deduction of up to 50% of adjusted gross income (AGI) for cash contributions. More tax advantages are listed below.

	DONOR ADVISED FUND	PRIVATE FOUNDATION
TAX DEDUCTIONS - CASH	60% of AGI/year	30% of AGI/year
TAX DEDUCTIONS - SECURITIES & REAL PROPERTY	30% of AGI/year	20% of AGI/year
GRANT REQUIREMENTS	5% annually suggested	5% annually required
EXCISE TAX ON INVESTMENT INCOME	None	Up to 2% of income
ANONYMITY	Upon request	Taxes - grants are public
SEPERATE TAX RETURN REQUIRED	None	Yes - Form 990
ANNUAL ADMINISTRATIVE COSTS	.125%-1% (for the ImpactAssets Donor Advised Fund)	Variable/High

Source: ImpactAssets

## Can donors make noncash contributions to DAFs?

Yes, donors can contribute noncash assets like real estate, stock, and crypto to DAFs and receive immediate tax benefits.



# Donor Advised Fund Case Studies

**Capital Access Lab | 159**

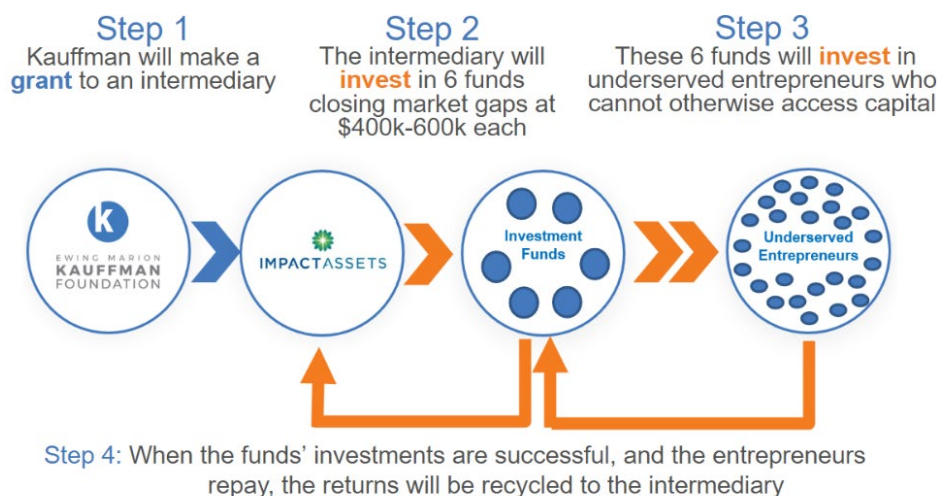
**MIT Solve | 162**



## Overview

Launched in 2019, the [Capital Access Lab](#) is a national pilot initiative that aims to find, promote, and scale innovative fund managers, providing new kinds of capital to the 83%+ of underserved entrepreneurs and communities in the United States.

The Ewing Marion Kauffman Foundation (Kauffman Foundation) committed \$3M to seed this new initiative with follow-on funding of \$500K from the Rockefeller Foundation. CAL was structured as a DAF under the sponsorship of public charity ImpactAssets.



Source: Capital Access Lab

## Investment Strategy

CAL used a fund-of-funds (FoF) approach to seed innovative fund models that do not resemble traditional VC or lending. The FoF aims to spur the formation of new capital products, such as revenue-based loans and redeemable equity, which increase investment to underserved entrepreneurs who have been historically left behind due to their race, ethnicity, gender, socioeconomic class, and/or geographic location. CAL primarily makes anchor LP investments of \$400K to \$600K into emerging fund managers that make direct

investments to underserved entrepreneurs across the US. CAL's pipeline included 120+ funds across 38 states, 60% of which were led by women and 45% of which were led by people of color.

## Track Record

**Capital Access Lab (2019, \$3.5M):** As of June 2022, CAL has invested \$3.4M in six funds, catalyzing an additional \$166M+ in investments for the funds.

### CAL's portfolio funds include:

[Anzu Partners](#) (DC) is an early-stage investment firm that backs industrial and life science technology companies in manufacturing, materials, modeling, and measurement. Anzu launched a revenue-based fund to expand its product offerings beyond traditional VC.

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[1863 Ventures](#) (DC) is a \$10M revenue-based financing fund for New Majority entrepreneurs.

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[Capacity Capital](#) (Chattanooga, TN) is a \$2M place-based fund providing redeemable equity for local small businesses in Chattanooga.

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[Collab Capital](#) (Atlanta) is a \$52M early-stage fund that uses an innovative profit share model for Black founders in the US.

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[Indie.vc](#) (Salt Lake City, UT) provides seed-stage funding for overlooked startups that do not scale big enough or fast enough for traditional VC.

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[Founders First Capital Partners](#) (San Diego, CA) provides revenue-based funding and business acceleration support to service-based small businesses led by underrepresented founders outside of major capital markets.

## Why was a DAF a good fit for CAL?

The DAF structure was a good fit for CAL because it unlocked grant funding from the Kauffman Foundation and Rockefeller Foundation to make market-rate LP investments in first-time and emerging fund managers with innovative models. The DAF served as a flexible investment vehicle for CAL to launch quickly and enable the team to get creative with the investment strategy. If CAL launched a traditional FoF structure, it would have cost significantly more, taken several years to raise LP capital, and delayed capital flowing to innovative capital models and, ultimately, underserved entrepreneurs across the US.

## Fund Structure

**Donor:** Ewing Marion Kauffman Foundation

**Donor Advisor:** Capital Access Lab

**DAF Sponsor:** ImpactAssets, Inc.

**Fund:** Kauffman Capital Access Fund

**Fund Type:** DAF

**Capital Products:** LP commitments and GP investments

**Launch Date:** December 2018

**Grant Amount:** \$3M

## DAF Fees

**Total Annual Fees:** 0.90%

**Annual Administrative Fee (blended):** 0.38%

**Annual Investment Administrative Fee (blended):** 0.52%

## More Reading & Listening

[Access to Capital for Entrepreneurs: Removing Barriers](#)

[Access to Capital for Entrepreneurs: Removing Barriers Report \(2021 Update\)](#)

<https://www.kauffman.org/capital-access-lab/news/>

**For more tools and resources, visit [innovative.finance/resources](https://www.innovative.finance/resources).**



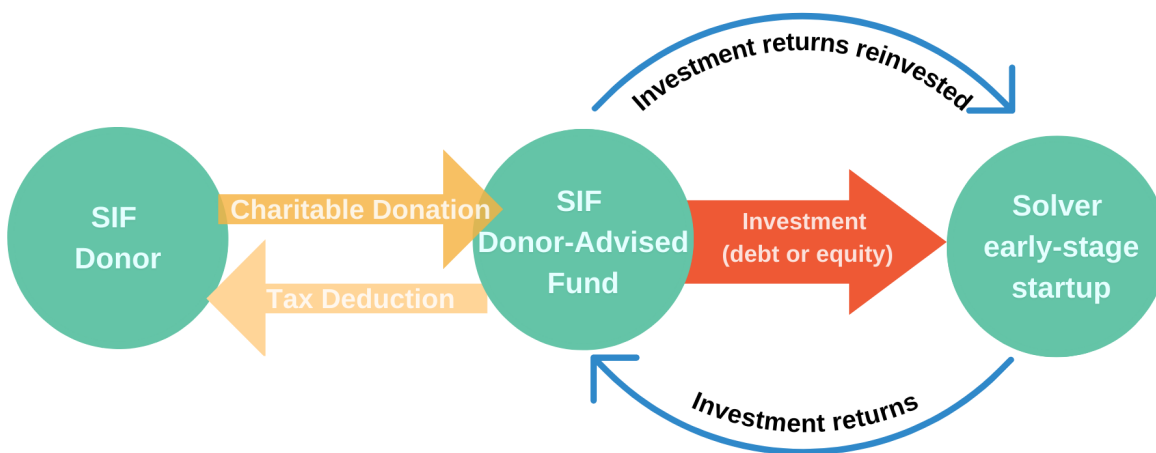


## Overview

[MIT Solve](#) is a global initiative of the Massachusetts Institute of Technology (MIT) in Cambridge, Massachusetts, with a mission to solve world challenges. Launched in 2016, MIT Solve is a tech incubator and marketplace for social impact innovation. In 2019, MIT Solve launched the [Solve Innovation Future](#) venture fund to provide flexible, early-stage capital for social entrepreneurs through its open innovation Global Challenges that focus on sustainability, health, economics, and education.

Solve Innovation Future was set up as a DAF under the sponsorship of US public charity ImpactAssets. The fund is led by Principal Casey van der Stricht and is targeting \$30M from donors through tax-deductible gifts to MIT. The DAF received up to \$3M in anchor funding from Founder and CEO Noubar Afeyan of Flagship Pioneering.

Powered by philanthropic capital, Solve Innovation Future (SIF) is an evergreen venture vehicle: driving impactful investing in game-changing innovations and fueling the future of philanthropy.



Source: MIT Solve

## Investment Strategy

Solve Innovation Future makes seed- and early-stage investments in social entrepreneurs with a mix of equity, debt, and innovative capital. The DAF will make \$100K to \$250K investments for five or more companies annually that participate in their global “Solver” events. The evergreen-like philanthropic vehicle allows the Solve team to reinvest proceeds from the DAF into the next generation of social entrepreneurs.

## Track Record

**Solve Innovation Future (2019, \$30M target):** As of June 2022, Solve Innovation Future has catalyzed nearly 4x its investment in additional investment capital toward its Solver teams.

### Its portfolio includes:

[Access Afya](#) (Nairobi) is a social enterprise that provides high quality, affordable primary healthcare in Nairobi's informal settlements.

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[Algramo](#) (Santiago, Chile) is building a high-tech reusable packaging system to counter plastic waste.

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[CENTURY Tech](#) (London) is an AI-powered platform that personalizes education and improves learning outcomes.

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[eggXYt](#) (Jerusalem) is developing the ultrasound technology for eggs to enable a sustainable future in the livestock industry.

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[Kinedu](#) (Monterrey, Mexico) is on a mission to improve the beginning of every small child's story by fostering quality learning experiences at home, at school, and everywhere in between.

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[Queen of Raw](#) (NYC) enables fashion brands and retailers to buy and sell unused textiles with its global network, providing businesses a quick and easy way to secure discounted materials based on real-time location and availability while generating revenue and offloading excess stock.

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[Someone Somewhere](#) (Mexico City) is a digitally native brand on a mission to lift millions of artisans out of poverty.

Here are more details on its [portfolio companies](#).

## Fund Structure

**Donors:** Various individuals & institutions

<b>Donor Advisor:</b> MIT Solve	<b>DAF Sponsor:</b> ImpactAssets, Inc.
<b>Fund:</b> Solve Innovation Future	<b>Fund Type:</b> DAF

**Capital Products:** SAFE, convertible notes, equity, loans, redeemable equity, and revenue-based loans

**Launch Date:** May 2019

**Target Size:** \$30M