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An Introduction to Donor-Advised Funds

A donor-advised fund is a charitable account whereby donors make irrevocable, tax-deductible contributions to a charitable sponsor. Donations to DAFs are not only tax-deductible at the moment they are made, but they also grow tax-free. Donors give up legal control of these donated assets to the DAF sponsor, but donors retain advisory privileges that allow them to recommend how those funds are distributed to the nonprofits of their choosing. Donors can also recommend how funds in the account are invested. Although the ultimate decision-making authority regarding grantmaking and investments resides with the DAF sponsor, as a practical matter, most DAF sponsors defer to the recommendations of their donors as long as they are recommending activities that are permissible by law and regulation.

Donor-advised funds are held at charitable sponsors — tax-exempt nonprofits that include community foundations, national charities (e.g., National Philanthropic Trust, FJC), and those created by large financial institutions (e.g., Fidelity Charitable Foundation, Vanguard Charitable). At least 976 charitable sponsors host over 1 million DAF accounts (National Philanthropic Trust, 2021). On behalf of their donors, DAF sponsors take on the administrative burden, typically for a modest asset-based fee. As a result, donors can focus solely on mission and grantmaking, relying on the sponsor to handle tax filings, audit, compliance, and the mechanics of grant disbursements.

Key Points

- Any discussion of foundations embracing impact investing must include some discussion of one of the largest — and growing — sources of philanthropic capital: donor-advised funds. These philanthropic accounts allow donors of all sizes to access many of the functions of a private foundation, including the potential to invest for impact. Sponsors of these funds, however, face unique challenges in catalyzing impact investments.
- Like the larger institutional foundations that have led the way as mission investors, sponsors must often educate and inspire governance boards and investment committees. Unlike foundations with professional program staff, decisions regarding philanthropic resources at sponsors of donor-advised funds are guided by multiple account holders, often numbering in the hundreds or thousands. This may help to explain why these funds and their sponsors have not yet achieved their potential in investing for impact.
- This article takes a practitioner's view on the issue, reflecting lessons learned by a sponsor of donor-advised funds that has long accommodated the impact investing interests of its donors. Experience demonstrates some promising approaches that build on sponsors' particular strengths: their deep expertise of the nonprofit sector; the scaled platform offering operational efficiency along with technical assistance; and their ability to apply their operational expertise to new areas of collaboration with foundations and other philanthropically minded actors.

On a parallel track to the growth of assets held in DAF accounts, the philanthropic sector has been increasingly adopting innovative approaches to its deployment of capital for positive change. This trend, impact investing, has been adopted at varying levels across the field of philanthropy, including by DAF account holders and their sponsors.

Donor-advised funds share many characteristics with private foundations, but they are set up as individual accounts operating under a single organizational umbrella. Accounts can range in size from a few thousand dollars to multiple millions. At FJC we have seen a number of private foundations decide to close down and open up DAF accounts with their remaining assets, viewing this option as a more cost-effective and efficient approach to managing philanthropic assets. These philanthropists must get comfortable transferring ultimate governance authority to the board of the DAF sponsor, but they generally find that they can retain the same or similar flexibility around grantmaking and investment stewardship.

The DAF industry has undergone a major expansion, particularly over the last five years. The National Philanthropic Trust (2021) releases an annual survey of the DAF industry, for which it analyzes the IRS Form 990 filings of over 900 DAF sponsors. The trust estimates that as of 2020 there were nearly $160 billion in assets in DAF accounts, an amount that has doubled since 2016. To give a further sense of the industry's scale, in 2020, six of the top seven charities receiving the most contributions were sponsors of DAFs, including a number affiliated with large financial institutions such as Fidelity, Schwab, Goldman Sachs, and Vanguard (Collins & Flannery, 2022).

Recent critiques of the industry cite the fact that unlike private foundations, DAF accounts currently do not carry minimum annual payout requirements. But in aggregate, arguably, DAFs deploy funds to nonprofits at a greater rate than private foundations. National Philanthropic Trust notes: "Private foundations hold nearly seven times the assets held by DAFs. Grants from DAFs to qualified charities totaled $34.67 billion in 2020, equating to 54.5 percent of the estimated $63.60 billion granted by independent foundations" (2021, p.12).

DAF Sponsors and Impact Investing

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In their 2011 book *Impact Investing: Transforming How We Make Money While Making a Difference,* Antony Bugg-Levine and Jed Emerson argue for a broad definition of impact investing, going beyond investors willing to trade off return for social or environmental impacts. They define the impact investing around the notion of blended value: an integration of economic, social, and environmental components, whose impact can be evaluated as more than the sum of their parts. The authors' focus on blended value allows them to create a "broad, rhetorical umbrella" (Bugg-Levine & Emerson, p. 8) that includes investors across many asset classes and return expectations (market rate and below-market): investors in microfinance and affordable housing, shareholder activists shaping corporate culture, venture investors in companies and projects, and many others that seek to create positive impacts alongside various levels of financial return.

The field of philanthropy (particularly foundations in the United States) tends to view this notion of blended value through the lens of Internal Revenue Service rules; in other words, what investment tactics count toward a private foundation's 5% minimum payout requirement. The Mission Investors Exchange (2018) defines a program-related investment (PRI) as "an IRS term of art specifically for foundations that refers to foundation investments made with the primary purpose of accomplishing mission, not the generation of income" (para. 5). PRIs can legally be counted toward a private foundation's annual distribution requirement (5% of assets) and are typically used to provide loans, equity, or other types of investments that are below market rate or offer more flexible terms. On the other hand, a mission-related investment (MRI) is "a foundation-specific term referring typically to risk-adjusted, market-rate impact investments made from the foundation's endowment or corpus" (MIE, 2018, para. 8). Unlike PRIs, MRIs are not an official IRS designation, and they typically seek market-rate returns. PRIs and MRIs are tools by which foundations attempt to achieve the goal of blended value: they seek to create social and economic value alongside various levels of financial return (either market rate or below market).

One might reasonably expect that the DAF industry, which attracts generous donors, might also attract creative impact investors who are seeking blended value in their philanthropic activities. Bugg-Levine and Emerson identified DAFs for their high potential for impact investing:

> Impact investing offers a potentially exciting enhancement to the social value a donor-advised fund can generate. Instead of waiting until the eventual donation for the assets to generate social value, they can generate value along the way if they are placed in impact investments. (2011, p. 229)

The authors predicted "many others will soon follow" the example of first-movers, like RSF Social Finance, on impact investing with DAFs.

Reflecting more recently on this prediction, Bugg-Levine noted that the uptake for impact investing among DAFs has not met his and his co-author's expectations. "It is surprising, given the fact that these are funds that have already been given away for charitable purposes," he said (A. Bugg-Levine, personal communication, June 21, 2022). He noted the emergence of ImpactAssets as a center of gravity for donors interested in impact investing, particularly among the Silicon Valley crowd. By focusing on 100% impact investing as its core identity, ImpactAssets has rapidly grown to over $2 billion in assets.

Bugg-Levine notes that this growth has been fueled in part by initial public offerings of donated stocks in companies like Beyond Meat, whose greater than 20-fold increase in valuation following its initial public offering was captured tax-free by account holders. (Since the securities were held by ImpactAssets for philanthropic purposes, they were exempt from capital gains taxes). In terms of DAFs' adoption of impact investing in the field overall, Bugg-Levine views the rapid growth of ImpactAssets as more the exception than the rule.

In their educational primer, *Mobilizing Donor Advised Funds for Impact Investing,* Katherine Pease and Clara Duffy (2018) provide a dozen case studies across various DAF sponsor types about promising strategies for DAF impact investing, from direct investments in social enterprises to the organization of pooled funds, investments of endowments, loan guarantees, and more. However, they note that "only a minor fraction of donor advised fund assets are invested for positive social and environmental impact"; furthermore, "most donor advised fund providers are only beginning to explore the diverse ways that capital can be used to increase the impact of donor advised funds" (p. 3).

In 2021, the impact finance and advisory nonprofit Social Finance initiated a survey, funded

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by the Rockefeller Foundation, that yielded some promising results about the potential appetite for impact investing among DAFs. It found that 72% of the DAF account holders surveyed indicated interest in making impact-first investments. DAF holders also expressed a willingness to allocate up to 20% of their DAF balance to impact-first investments to augment traditional grantmaking (M. Grossman, personal communication, July 14, 2022). However, it is notable that the survey was far from comprehensive; of the many hundreds of DAF sponsors, only five participated in the survey, and only 269 account holders, of the many hundreds of thousands. Michael Grossman of Social Finance stated that they reached out to 90 DAF sponsors as part of this survey and that many were nonresponsive, citing various reasons: donor survey fatigue, competing organizational priorities, lack of capacity, etc. (M. Grossman, personal communication, July 7, 2022). It is also possible the survey results reflected some selection bias in that there was an inclination toward impact investing among sponsors who volunteered to distribute the survey (including FJC) and the donors who responded. This modest participation may be another indication of the slow uptake of impact investing by the broad DAF industry.

Another indicator of the DAF industry's slow adoption of impact investing: with the exception of several community foundations, the sponsors of DAFs are largely absent from the membership lists of organizations like Global Impact Investing Network or Mission Investors Exchange.[1] These industry affinity groups create spaces where practitioners gather to learn, draw inspiration, and build relationships that result in collaboration or transactions. In general, the sponsors of DAFs have not made a seat for themselves at these tables.

Nonprofit Lending as a First Step

Since its founding FJC has allowed donors to invest some or all of their philanthropic capital in loans to nonprofits, growing donors' philanthropic accounts while putting the funds to work for mission. For sponsors of DAFs eager to offer impact investing opportunities to their account holders, FJC's experience indicates that lending to nonprofits can be an easy point of entry.

FJC was not founded with the specific intent to focus on impact investing. Rather, it was founded in 1995 by donors who were looking in general for more creative philanthropic solutions. At the time, DAFs were invested primarily in low-risk, low-yield financial products like money market funds. FJC's founding donors were business-savvy professionals who wanted their philanthropy to be just as sophisticated as their day jobs in law, business management, and finance. They believed that by more aggressively investing their philanthropic funds, they could grow their accounts and be able to provide even more support to their favorite charities. They also understood that nonprofits were also businesses with unique needs, which

[1] GIIN membership (retrieved April 18, 2023) is available online at https://thegiin.org/current-members/; Mission Investors Exchange membership (retrieved April 18, 2023) is available online at https://drive.google.com/file/d/1XBvysRjZhexzxKzASHA_ujB-IdBOH3-Z/view

could be met with bridge loans, revolving funds, and other vehicles.

From its early days, however, as part of its focus on creative solutions (indeed, long before the term "impact investing" was coined, circa 2007), FJC offered participation in its nonprofit lending program as its own impact investing opportunity. It offered this opportunity to invest in loans made to nonprofits, known as the Agency Loan Fund (ALF), to all donors as part of our core investment menu, alongside a variety of low-cost mutual funds (which offer more traditional stocks, bonds, and money market funds). The ALF typically returns 3% to 4% per annum to donor accounts, depending on the interest rate environment and the fund's utilization. Our donors generally view this return as competitive on a risk-adjusted basis; credit enhancement on the pool provides comfort to donors that risk of principal loss is remote. For our donors, it is just a matter of ticking the box on the FJC investment menu; the staff and board of FJC do the rest: sourcing lending opportunities among nonprofits, underwriting and performing risk analysis, approving, closing, and servicing the loans.

If viewed through a private foundation lens, the ALF would be considered closer to a mission-related investment (investment of a foundation's corpus, seeking market rate returns), rather than a program-related investment; after all, the investment offers a competitive risk-adjusted return with the goal of growing the DAF accounts of participating donors. But there is also a clear mission motivation that delivers blended value. Bridge loans from the ALF help nonprofits achieve their missions in a variety of ways that are similar to community development financial institutions.[2] Loans help nonprofits acquire properties for affordable housing development or community facilities. They bridge public-sector capital commitments or government contracts that are slow to pay. The interest rates are market rate (a floating prime + 3%), which makes the loans' pricing similar to those offered by other nonprofit lenders and CDFIs. Our approach to underwriting is flexible and we can move quickly to make credit decisions and close on loans, in many cases in a matter of weeks from initial inquiry to closing.

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To spark the imagination of our donors and stakeholders we disseminate stories and case studies, inspiring them to learn about entrepreneurial nonprofits. These case studies also serve to educate our donors about the particular challenges nonprofits face as businesses. Over the last year our most impactful loans have included a $4 million emergency bridge loan to the nonprofit legal services organization The Bronx Defenders, to assist with a timing issue related to public-sector contract receivables. The organization's commercial bank had decided not to renew its line of credit, and The Bronx Defenders needed to buy some time while shopping around for a new banking relationship. According to Executive Director Justine Olderman, "the loan could not have come at a better time. We had run out of options and were facing the possibility of having to close our doors and turn away New Yorkers in dire need of our services" (J. Olderman, personal communication, May 31, 2022).

[2] FJC has not sought certification from the U.S. Treasury as a CDFI, but our lending program has qualities similar to many of these institutions.

Another notable example was a loan to PCI Media, a nonprofit media company that partners with local organizations across the world to shift social norms and mobilize communities through culturally resonant radio programs, social media, and interactive communication campaigns. In 2021, the organization has drawn up an ambitious strategic plan, with the goals of increasing impact, developing new partnerships, and achieving economies of scale. What's more, the startup capital to achieve this vision came from out of the blue, in the form of a bequest. A donor who had made occasional grants over the years had passed away and selected PCI Media for a major gift. A $550,000 loan from FJC (and co-lender SeaChange Capital Partners) will bridge a $4 million to $8 million bequest while PCI Media waits for the estate to wind its way through probate. This loan required a specialized nonprofit lender; as PCI Media Executive Director Meesha Brown noted, "bridge lending against donor bequests is not a typical product in the banking sector" (M. Brown, personal communication, September 26, 2021).

These case studies, and many others, underscore the particular business challenges nonprofits face when managing cash flow and strategic growth and acting entrepreneurially in a constrained resource environment. The examples suggest an important role that DAF sponsors can play, not just in bridge lending, but in creating a conceptual bridge between well-resourced account holders (who often have run businesses in their professional lives) and the nonprofit sector. Sponsors of DAFs are well positioned to act as that trusted intermediary, matching targeted resources to the nonprofits that need them. This approach has the added benefit of encouraging donors to consider the impact of their philanthropic resources, not just as grants but as investments.

For Donors, PRI Technical Assistance

Our Agency Loan Fund program socializes our donors to the idea of nonprofit lending and, as a result, from time to time we receive inquiries from donors about nonprofits that need financing. Often, they get to know an organization intimately as a longtime donor or board member and, through their conversations with leadership, may hear about particular challenges the organization is facing. Sometimes these inbound inquiries from donors take the form of referrals to our ALF program. In other cases, the donors may want to take on more risk than our program or they may be willing to provide a loan at a below-market rate of interest (relative to the risk), in essence deploying their DAF funds as program-related investments. In those cases, we provide donors the expertise to collaborate with them from concept to closing, with the goal of deploying funds in the donor's DAF account.

For example, FJC's recent loan to Brighter Tomorrows, a domestic violence organization based on Long Island, N.Y., began with Sandy Wheeler, a longtime donor to the organization. Over time, Wheeler developed a trusted relationship with Dolores Kordon, the executive director, who often lamented the difficulties she faced running an organization that relied heavily on state contracts that were typically slow to pay. "It seemed like the chronic cash flow challenges of Brighter Tomorrow could be creatively addressed with philanthropy," Wheeler said (S. Wheeler, personal communication, July 21, 2020). Within a few weeks, staff at FJC worked with Wheeler to open and fund a new DAF account, review Brighter Tomorrow's financials, and prepare the legal documents with terms customized according to Wheeler's wishes. This DAF account now functions like a zero-interest revolving line of credit, to help Brighter Tomorrows manage its cash flow. (If any portion of the loan was uncollectable for some reason, that portion would be converted to a grant and deducted from Wheeler's DAF account.)

This credit resource allowed Brighter Tomorrows to continue meeting the urgent needs of clients, even in the face of slower contract payments. In the first year since the loan was closed, the funds have been fully drawn, repaid, and drawn again. "I can't say enough about the importance of having a donor provide this resource," Kordon said. "It was a godsend for us" (D. Kordon, personal communication, June 16, 2021).

FJC facilitated a more complex transaction with the Tenement Museum, a vital organization that has been researching and telling the stories of immigrant New Yorkers for 25 years. In the early days of the COVID-19 pandemic the organization faced significant financial distress. A New York Times article noted that 75% of the museum's revenue came from earned income, reflecting admissions and gift shop revenue of its 285,000 annual visitors. As a result of the pandemic revenue had dried up, but the museum carried significant fixed costs due to its mortgage, which cost the museum $585,000 per year (Pogrebin, 2020).

One of FJC's donors read the article and reached out to inquire whether he could refinance the museum's mortgage with funds in his DAF account. Upon further conversation with the museum's leadership, it was revealed that the mortgage was in the form of a tax-exempt bond issued by the City of New York. In coordination with the donor, FJC purchased the bond from the bondholder and amended the terms to interest-only at 1% per year, reducing the museum's annual debt service payment from $585,000 per year to $80,000. "We are paying $2.5 million less out of pocket for debt service over these five years," said museum Executive Director Annie Polland. "This has bought us time to figure out how we manage through this pandemic year, but it also freed us up to think of creative ways to operate" (A. Polland, personal communication, June 16, 2021).

In short, this was a donor who had a passion for the work of the Tenement Museum, significant resources in his account, and a creative idea, and who was willing to trade off some investment return for mission. What he needed to execute the transaction, however, was the legal and technical capacity, which FJC could offer through its staff and board.

Just as DAF sponsors provide a scaled approach to managing multiple (sometimes small) philanthropic accounts, they can also provide technical expertise to execute transactions that the donors may not have the capacity to do on their own. After all, lending requires a mindset (and skill set) different from that of a grantmaker. The prospective lender needs to be able to review financial statements and cash flow projections, perform due diligence and assess the risk of repayment, negotiate terms with the prospective borrower, and then move to a legal agreement. Working through a DAF sponsor can reduce transaction costs as well, particularly if the legal work can be done in-house, using standardized loan documents that have a tried-and-true history. In the case of the Tenement Museum bond purchase, the legal expertise required being able to amend the bond documents to allow for a lower interest rate and a forbearance of principal, as well as work with city officials at the agency that issued the bonds to obtain their consent. In both cases, the donors benefited from the financial, technical, and relationship capacities of the sponsor.

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Applying Operational Efficiencies to New Cases

Certainly, providing technical expertise to execute complex transactions is a significant opportunity for DAF sponsors to accelerate impact investing, but we have only just begun to imagine the possible use cases for DAF sponsors. They can also bring significant operational efficiencies to more institutional philanthropy, acting as a financial intermediary. This notion is nothing new; DAFs have long been considered efficient vehicles to donors' philanthropic goals, and it's notable that many DAF sponsors (particularly community foundations) also

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provide fiscal sponsorship services to nonprofit organizations, which entails acting in a financial back-office capacity. In other words, DAF sponsors are routinely executing many hundreds of transactions per week, receiving tax-deductible contributions, receipting donors, disbursing grants and vendor payments, and managing all the related complex accounting, compliance, and reporting functions.

FJC recently initiated a new application of these operational capabilities: facilitating foundation microloans to underserved small businesses that are taking advantage of a crowdsourced lending program. This loan participation fund vehicle was designed by FJC in partnership with Honeycomb Credit, a loan crowdfunding platform, with input from Upstart Co-Lab, a nonprofit focused on increasing impact investment for arts and creativity. Honeycomb Credit essentially allows small business owners to raise debt capital in small increments from "the crowd" — small, local investors including family, friends, customers, and other stakeholders.

Through the loan participation fund, three foundations — the Builders Initiative, the A.L. Mailman Foundation, and the Souls Grown Deep Foundation — will invest $600,000 with Honeycomb Credit. The capital will be used to provide loans to small businesses across the United States that have been underserved by traditional financial institutions. The foundations will participate alongside "the crowd."

The foundations agreed that providing loan capital to underserved small businesses fit their missions, but none of the foundations was set up to efficiently disburse loan capital in small, $5,000 to $10,000 increments (as well as receive loan repayments). Upstart Co-Lab and Honeycomb Credit invited FJC to arrange loan participation funds, a customized solution that provides efficient financial intermediation for any foundations participating in the initiative.

The three investments have specific areas of focus. The capital from Souls Grown Deep and the A.L. Mailman Family Foundation, for example, will be invested in Black-owned businesses in nine southern states. Loans from these foundations have supported the campaigns of Black-owned bakeries, breweries, and other creative endeavors, like Dope Pieces Puzzles, an artistic puzzle business in Atlanta, Georgia.

Each of the foundation participants considers the transactions as MRIs, although at least one additional foundation is considering participating as a PRI. The loan participation fund accounts are not technically DAF accounts; they are structured as fiduciary accounts where the participating foundations maintain ownership of the funds they place there. FJC simply acts as the financial intermediary, efficiently moving funds to the small businesses for their crowdfunding campaigns and upstreaming regular interest and principal payments back to the foundations as needed.

Impact Investing Opportunities That Open a 'DAF Lane'

Apart from the efforts of DAF sponsors, the entities that structure impact investing opportunities can also make efforts to accelerate adoption by DAFs. The national impact investing nonprofit Social Finance, for example, has taken this on as a strategic priority. As Social Finance co-founder and CEO Tracy Palandjian put it, "the DAF market represents a significant pool of assets already earmarked for charitable purposes that largely remain in traditional market-rate investments without a mandate to generate social and/or environmental outcomes" (T. Palandjian, personal communication, January 20, 2022). Social Finance has taken proactive steps to focus on this potential market for impact capital, and has intentionally engaged DAF sponsors and account holders.

For example, it intentionally created a mechanism for DAF participation in its UP Fund, a $50 million pool of catalytic capital raised by Social Finance. The goal of the UP Fund is to help low-wage earners secure good jobs in a changing economy, using a model called the career impact bond (CIB). Through the CIB, impact investors fund training programs that enable students to enroll free of charge. Students complete their training with the aid of wraparound supports, like an option to finance living expenses. If their salary after the program exceeds a certain threshold, they repay program costs as a fixed percentage of their income, capped at a set dollar amount and fixed number of months. Those who do not obtain meaningful employment following graduation pay nothing.

Social Finance partners with high-quality training programs that upskill workers and help place them in good-paying jobs. Programs include training for entry-level diesel technicians, mostly for trucking companies and dealerships, increasing access to software development careers for those who have traditionally been locked out. The program also aims to increase diversity in the technology sector, particularly for people of color, women, and LGBTQIA+ individuals.

The majority of capital raised for the UP Fund comes from institutional impact investing foundations: Blue Meridian Partners, the John D. and Catherine T. MacArthur Foundation, the W.K. Kellogg Foundation, and many others. However, Social Finance created a special "lane" for investors whose funds are in DAF accounts. The goal was to allow DAF account holders to participate in the UP Fund with terms similar to those for limited partners, but at smaller dollar increments, and through a recoverable grant agreement that structured the investment as more grant-like than investment-like. This structure facilitated an easier approval process for DAF sponsors, because they could be considered disbursements similar to a typical grant.

The initiative caught the attention of FJC donor Ted Huber, a longtime investment professional who has been interested in supporting initiatives that anticipate recycling philanthropic dollars, providing both social and financial returns. Huber recommended an investment in the fund via his DAF account and, following approval by FJC's board committee, the staff at FJC worked with him to execute the investment through Social Finance. "I like how the UP Fund aligns incentives to give people a leg up," Huber said:

> Workers looking for better skills and higher-paying work, the schools that can train them, and us funding the education are all pulling in the same direction. The UP Fund is helping people who otherwise couldn't afford these training programs. (T. Huber, personal communication, January 20, 2022)

Huber participated alongside 23 other DAF account holders in the UP Fund, eventually comprising 17% of the $50 million in total committed capital. The successful uptake of the UP Fund by DAF account holders suggests that arrangers of funds and impact investment opportunities also have a role to play, marketing directly to DAF sponsors and their account holders, and created mechanisms and specialized documents that making it easy for DAFs to participate.

Advancing DAF Impacting Investing: The Work To Come

Despite the case studies outlined in this article, FJC's donor base reflects the DAF industry as a whole: we have a small number of committed philanthropists who are excited about investing for impact, seek out opportunities to do so, and engage us for the expertise and technical capacity to help them execute. The vast majority, however, view themselves as grantmakers first, and recommend investments for their account that they believe will increase their giving capacity. In other words, like many foundation boards and members of endowment investment committees, our donors continue to think about maximizing profit first and grantmaking after the fact.

In the end, the potential for DAF sponsors to accelerate impact investments may also come from their ability to aggregate not just dollars but inspiration.

For example, at FJC we aim to be maximally responsive to donors who have customized approaches to their philanthropy, whether it's the type of assets they want to donate, or the investment approaches. These requests tend to come from our larger and more sophisticated donors, and they typically involve bringing on their preferred wealth advisor to manage the funds in their accounts, or investing in alternative investments, hedge funds, or other esoteric vehicles. As the end of our fiscal year 2022 (March 31), approximately 40% of FJC's assets by dollar volume were invested in these types of customized investments. The donors who take advantage of our ability to customize, however, are doing so because they expect to increase their returns and grow their accounts more aggressively than our core investment menu, which is largely comprised of low-cost mutual funds. By contrast, only approximately 2.5% of our assets are invested in customized loans to nonprofits. As another data-point comparison, DAF account holders at FJC recommended 6,343 grants in fiscal year 2022 (ending March 31), but we had only five customized impact investments on our books at fiscal year-end that same period.

So, like the field at large, the demand is quite modest from our donors to customize investments for the purposes of driving social impact. However, where we can make impact investing easy (and provide a decent risk-adjusted return) a large portion of them participate, as our Agency Loan Fund demonstrates. Over half of our DAF accounts have chosen to invest some of their account in our ALF (comprising about 12% of our DAF assets).

In the end, the potential for DAF sponsors to accelerate impact investments may also come from their ability to aggregate not just dollars but inspiration. In reflecting on the adoption of impact investing by foundations, Matt Onek, the chief executive officer of Mission Investors Exchange, has found that the social and educational aspects of his organization have been major drivers of moving the field of philanthropy at large:

> This is purely anecdotal, but we hear time and time again from our members that the most effective aspect of what we offer to accelerate adoption of impact investing is a peer-to-peer network. People want to hear from their peers, hear what they have overcome. What helps is hearing what's worked, what hasn't, and having a safe space to really share what's working. (M. Onek, personal communication, June 1, 2022)

In fact, developing peer networks and communities of practice around impact investing is a major priority for FJC in the coming years. A new initiative we launched this fall involving a handful of our more imaginative donors is a test case for this approach. A number of our donors have joined forces to create a revolving fund to be used by Fortune Society, a New York City nonprofit developer of affordable and supportive housing.

The Fortune Society offers a comprehensive array of in-house social services to over 7,000 people each year to support their successful reentry from incarceration. The organization has a regular presence in four borough courthouses, on Rikers Island, and in numerous New York State prisons, but they also own and operate housing. Finding housing is, unfortunately, a significant challenge for people coming out of prison, with homelessness being much more prevalent for formerly incarcerated people than it is for the general public — estimates range from 7.5 times to 11.3 times more prevalent (Greenberg & Rosenheck, 2008). As a result, the Fortune Society has made the development of temporary and permanent supportive housing core to its mission.

The Fortune Society will use the revolving fund at FJC for early-stage, predevelopment expenses related to affordable and supportive housing development that have a high likelihood of recovery. The intent is to make the fund a resource that can be deployed quickly, at below-market pricing (1% interest), to be used for the Fortune Society to pay for zoning analyses, architectural fees, deposits, environmental reviews, and other eligible project costs. The revolving fund, which will operate for five years, comprises funds from DAF accounts of four FJC donors, which will be matched dollar for dollar by the Fortune Society and its major donors for a total of $600,000 at launch.

In addition to facilitating the development of housing with services for people coming out of incarceration, the initiative is also creating shared conception of blended value among a cohort of our donors. Shortly after Fortune Society CEO JoAnne Page and I conceived of this fund, I began shopping it around to a handful of FJC donors. I began with Ted Huber, who had demonstrated an interest in impact investing with Social Finance's UP Fund. He was interested, and brought the fund to the attention of his friend and former business colleague Jeff Kaplan, also an FJC donor, who is a principal and co-founder of A to Z Impact. The initiative also sparked the interest of Gary Hattem, who began his career in affordable housing nonprofits before spending decades at Deutsche Bank (and its U.S. predecessor, Bankers Trust), building its global impact investing and community development practice. The involvement of these finance and impact investing professionals made the initiative appealing to a fourth donor, a next-generation accountholder at FJC whose family has initiated some of our most imaginative uses of philanthropic funds as impact investments over the years.

As part of the process of due diligence, a number of these donors visited the Fortune Society's existing housing developments in Harlem. We spent the morning with Deputy CEO Stanley Richards, an expert in reentry with decades of criminal justice experience. (Richards was incarcerated on Rikers Island in the 1980s for two and a half years, and his professional perspective is informed by that formative experience.) We toured Fortune Society's emergency shelter building and met a resident who had just arrived at the residence and shared his positive first impressions. We visited its adjoining Castle Gardens housing development and met a tenant in one of the permanent supportive housing units, who spoke about the life-changing impact of the Fortune Society's job training and placement services. The donors were already inclined to participate in the revolving fund, but hearing the personal experiences of the individuals being affected by the Fortune Society's housing provided them with a renewed sense of commitment and inspiration. In this way, FJC has been able to provide not just blended value in terms of economic and social impacts of the transaction itself, but a social experience for its donors that made the work personally meaningful.

[D]eveloping peer networks and communities of practice around impact investing is a major priority for FJC in the coming years.

The Fortune Society initiative has brought together a small number of our donors that are early adopters of impact investing, but who may not have yet collaborated or joined together yet in collective action. Our hope is to use these donors as evangelists to expand the notion to the "impact curious," starting with the hundreds of donors who already invest in our Agency Loan Fund pool.

For academics and researchers, there are a number of empirical questions the answers to which may influence the velocity of impact investing's adoption by philanthropic actors, including DAF accountholders. For example, in a resource-constrained nonprofit environment, when does an impact investment make more sense than a general operating support grant? How does one measure the impact of a dollar granted to serve immediate needs against a dollar invested (and leveraged) to create a long-term asset that serves mission (like a unit of supportive housing)?

Practitioners, however, need not wait for clear answers to these questions. To spark the imagination of donors, practitioners can design opportunities for the "impact curious" to easily collaborate with entrepreneurial nonprofits that can put capital to work in compelling projects and initiatives. For DAF sponsors to play that role, the technical and financial acumen is a necessary first step. But changing hearts and minds, moving donors to learn and work together in collective action — that's a longer game.

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