

# Maximising Your Philanthropy

A guide to Social  
Impact Investing and  
Donor Advised Funds



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# Foreword



**At Big Society Capital our purpose is to help improve people's lives. We do this by connecting investment to social enterprises and charities that create positive change in the UK.**

Your philanthropy in Donor Advised Funds (DAFs) plays a vital role in supporting social enterprises and charities. DAFs represent a growing proportion of the philanthropic capital in the UK. If more of this capital can be mobilised for social impact investment alongside donations, we see the potential for huge positive social impact.

Philanthropists like you are uniquely positioned to make social impact investment, as many social enterprises and charities need patient capital which mainstream investors are usually unable to provide. We are already seeing philanthropists using their DAF for social impact investment: this guide is full of examples of their experiences.

Social impact investment can complement grant making and support social enterprises and charities to become more sustainable and to grow the work which you love. It can help the money which you

have gifted into your DAF work harder and potentially compound the impact of that gift through recycling of an investment once it's been repaid. Many philanthropists have found this an exciting experience.

**Social impact investment can complement grant making and support social enterprises and charities to become more sustainable and to grow the work which you love.**

It's about helping to make your money work harder for the causes you choose.

**Cliff Prior, Chief Executive Officer  
Big Society Capital**

# What is a DAF?

**A Donor Advised Fund, or DAF, is a philanthropic fund which is itself a charity. DAFs are growing in popularity and offer donors an attractive alternative to setting up a charitable foundation.**

Unlike establishing a family foundation, which can be costly and time consuming, a DAF account can be opened almost immediately using an existing DAF provider.

When you gift money to your DAF account, you may receive immediate tax benefit on your contribution with the flexibility to make donations and grants to a cause of your choice in the future<sup>1</sup>. You can gift to your DAF account at any time and make contributions in cash or transfer existing investments as often as you like. Some DAF providers even accept donations of a wide variety of illiquid assets such as art and property.

Once your money is gifted to your DAF, your money can be invested to help grow your philanthropic pot over time. These investments can include traditional investments or social impact investments.

Moreover, beyond donations and grant-making, you may choose to allocate a portion of your philanthropy to social impact investment too. Increasingly, donors recognise social impact investment as an alternate way of supporting social enterprises and charities to deliver better social outcomes and in some cases greater impact.

Donor money has the potential to amplify impact many times over, by investing their funding to go further. This is because financial returns from the social

impact investments can be “recycled” back into other social impact investments or used for grant making in the future.

**I initially made a £1.5m allocation for social impact investment through my DAF account. Since then, the funds have been recycled many times, so that my initial investment has enabled a total commitment of £6.6m in more than 400 deals.**

**Sir Harvey McGrath**

# What is social impact investment?

**Social impact investment is simply an investment that's designed to achieve a social return as well as a financial return – typically made to a social enterprise or charity.**

Social impact investment can help social enterprises and charities become more sustainable and in turn increase their impact on society. For example, by helping them grow their business, providing working capital for contract delivery, or buying assets.

**I think that social impact investment offers more hope to society than traditional philanthropy. It helps organisations to become more sustainable.**

Alexander Hoare

Most DAFs in the UK have made social impact investments. Typically, social impact investment aims to provide financing for organisations that seek to benefit all stakeholders or contribute to social solutions (see The

Spectrum of Capital below). These investments target a range of risk-adjusted returns, from competitive to sub-market as well as capital preservation.

## The Spectrum of Capital

Approach	Traditional	Responsible	Sustainable	Impact	Philanthropy	
Financial goals		Accept competitive risk-adjusted financial returns		Accept disproportionate risk-adjusted returns	Accept partial capital preservation	Accept full loss of capital
Impact goals		A Avoid harm				
			B Benefit all stakeholders			
				C Contribute to solutions		

Source: The Bridges Spectrum of Capital (November, 2015)

## DONOR CASE STUDY:



Alexander Hoare

*Senior Partner of C. Hoare & Co, Alexander upholds the Hoare family's longstanding philanthropic tradition through The Golden Bottle Trust and the bank's own donor-advised fund, the Master Charitable Trust.*

Alexander is an independent donor and social impact investor, and winner of the City Philanthropy Beacon Award. He is Patron of Royal Trinity Hospice and now serves as a founding partner in Project Snowball LLP, an investment organisation that targets social and environmental impact alongside financial return.

### **What was your motivation for setting up a DAF account?**

At the beginning of the year it forces you to think - how much am I going to give to charity? And then you can get the charitable reclaim paid. It's a good mechanism for disciplined giving.

**It's part of a big process of looking differently and trying to explore different ways to deploy philanthropic capital.**

What's exciting about our DAF (Master Charitable Trust) is it allows you to put in cash, shares pregnant with capital gains, property and all manner of instruments, and you can manage these instruments in a professional vehicle. At the end of the day, you use the proceeds of that management to go to organisations with a positive social mission.

It's an extremely convenient vehicle for making unusual investments and a lot of people find it a convenient vehicle for making social impact investment. I put in ten percent of my bonus each year, I have for the last few years.

### **What was your motivation for making social impact investments?**

I think that social impact investment offers more hope to society than traditional philanthropy. It

helps organisations to become more sustainable.

### **What type of social impact investments have you made so far using your DAF account?**

My own account has in it four equity-type investments and four bond investments. The equity-type investments are: Thrive Renewables – a community renewable energy project; Ethical Property Company – a company that houses charities; Cook – which is a B-Corporation selling quality frozen food; and a Christian Enterprise called Relationship Analytics.

The bond investments are: Greenwich Leisure; Threadneedle Social Bond Fund; OIKOcredit Depository Receipts; and an Adoption UK loan. All of those are paying considerably more than a bank account and most pay more than inflation.

They are all interesting investments, doing noticeably useful work in the local community which is what a charity should be trying to do.

With the exception of Cook, these are all investments which I may not have been tempted to make because I like to go for different sorts of risk in my own name.



Golden Lane Housing, investment through Threadneedle Social Bond Fund

### **How would you describe your experiences so far?**

It's interesting – and it's an experience of learning and pioneering. You're not always going to get it right but it's much more interesting than just giving and I've got more than 30 years' experience of giving. My experience of lending and investing money is much more rewarding.

### **How has this experience changed your overall approach to philanthropy and impact?**

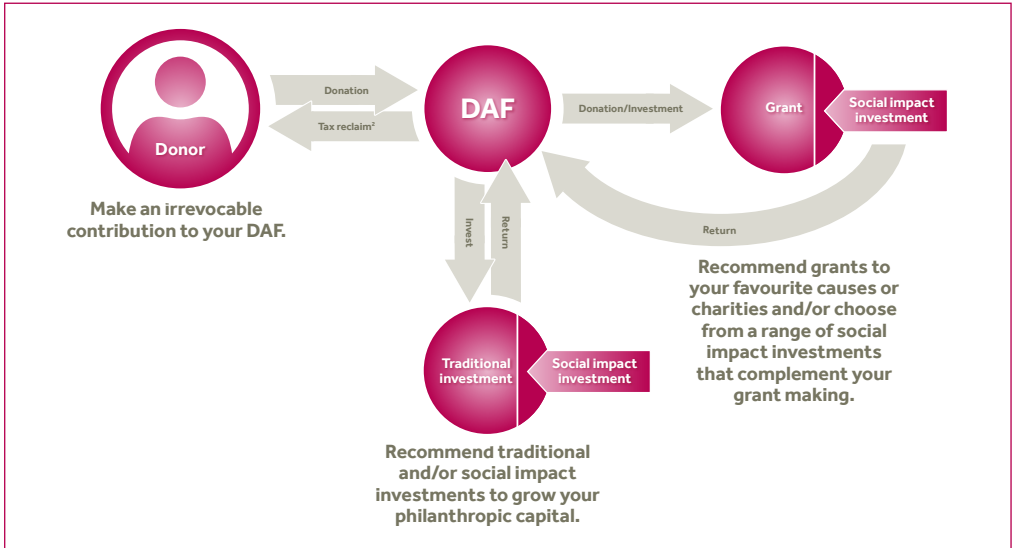
It's part of a big process of looking differently and trying to explore different ways to deploy philanthropic capital. The interesting thing about this is that my wife can carry on after I've gone, and our son can carry on after she's gone, so there is no end.

### **What would make it easier for donors like you to make social impact investment via DAFs?**

The single biggest improvement in making it easy for people is to make them more aware of DAFs. There are people still setting up charitable foundations who don't really need to set them up and they are incurring costs and hassle that they don't really need to incur because they don't know about the quick and simple alternatives.

In respect to social impact investment, we don't yet have a fully flourishing market place, it's quite immature and nascent and it needs to get more mature.

In recent years, donors have been increasingly looking beyond grants to support charities and social enterprises by making social impact investments. Many donors are motivated by the potential for their donated funds to be “recycled” over time and are interested in using all the tools available to create social impact.



Much like traditional investments through your DAF account you can make social impact investments directly or through a pooled fund by investing with a social impact fund manager. There are benefits and disadvantages to both and, if you are unsure which option is best for you, you should seek professional advice from your philanthropy manager or financial adviser.

### Direct investment

Direct investment allows you to maintain full control over each individual investment that you make allowing you to select causes that fully align to your personal philanthropic mission. Direct investment can be more time consuming and will require you to monitor the social impact and financial performance of that investment yourself.

### Social impact funds

Alternatively, you could consider investing into a social impact fund where you will typically invest into a portfolio of investments selected at the discretion of a fund manager. This can be an attractive option if you have less time to dedicate to selecting and monitoring individual investments yourself, but will of course come with additional cost as you will typically pay some form of management fee.



# Social impact investment products

Below are some common types of social impact investment products:



## Debt

**Secured loans** a loan secured against an asset (often a building or equipment). Typically used to buy an asset or to raise funds from an existing asset to fund other projects.

**Unsecured loans** a loan not secured against an asset. Used by an organisation that does not have an asset and wants to borrow money to fund working capital.

**Blended finance** a combination of loan and grant. Usually for smaller sums or earlier stage organisations.

**Charity bonds** a tradeable loan from a group of investors over a fixed time with a fixed rate of interest, typically unsecured.

**Quasi-equity** a loan with repayments partly or fully based on future performance, such as profits or income.



## Equity

**Equity** an investment in exchange for shares in an organisation (not applicable for charities).

**Community shares** a withdrawable, non-transferable equity investment into a cooperative or community benefit society (not applicable for charities).



## Outcomes financing

**Social Impact Bonds** a mechanism in which investors pay for a set of interventions to improve a social outcome. If the social outcome improves, the investors receive their initial investment plus a return for the risks they took. The contracted repayment is provided by an outcomes payer, typically government or charitable foundations, and in some cases, philanthropists.

# Examples of organisations taking on social investment



## Best Beginnings

Best Beginnings is a charity that aims to ensure that every child has the best possible start in life. It does this by creating and distributing educational tools to help parents build their knowledge and confidence during their transition to parenthood and beyond.

CAF Venturesome provided Best Beginnings with a loan which provided cash flow support to their operations. The loan supported the charity as it looked to diversify its revenue and become financially sustainable and resilient by growing its trading income.

## Third Space Learning

Third Space Learning is an innovative organisation that uses technology to deliver online one-to-one maths support in schools across the UK. Third Space is specifically aimed at supporting disadvantaged children at risk of failure.

As the organisation has grown, it has received investment from several social impact investors including Ananda Social Venture Fund and Nesta who both participated in a £1.5 million Series A funding round.



## DONOR CASE STUDY:

Ms Alison C

*Alison has been making social investments for over five years. Recently, she has set up a DAF account to make more social investments to support charities and social enterprises in the UK.*

### When did you set up your DAF account?

I set up a DAF account in early 2017. It is set up as a mechanism to contribute to the Charities Aid Foundation (CAF) Development Fund.

### What was your motivation for making social impact investments?

Through my life, I have been making small donations to many charitable causes. Around five years ago, I started to make social impact investments in the form of microloans through platforms set up by KIVA and CARE International UK (Lend with Care). I see it as a part of my philanthropic activities, rather than my investment portfolio.

I believe giving people a hand up is better than just donating. These platforms provide a way forward for individuals and small businesses in developing countries by connecting them with training, local connections and access to finance.

Recently, I have been looking at opportunities to make similar social impact investments to what I have done via KIVA and Lend with Care but closer to home. I did my own research and came across CAF's website and its Development Fund.

### How would you describe your experiences so far?

Being able to recycle my money is a wonderful thing. My initial investment of £2,500 has provided 98 loans to more than 500 individuals and small businesses through the Lend with Care platform over the past five years. After the loans get repaid, I can relend to more people.

I have only set up my DAF account for less than six months, so it is still in the early days. I appreciate CAF's track record and their thorough due diligence on charities and social enterprises.

**Being able to recycle my money is a wonderful thing. After the loans get repaid, I can relend to more people.**

### What would make it easier for more donors to explore using DAF to make social impact investment?

Size of investment is still a barrier for more donors to make social impact investment, as many opportunities have a high minimum investment amount. I think more donors will use part of their donation funds for social impact investment in this way if they can more easily find opportunities online or via social media.

## DONOR CASE STUDY:

Sir Harvey McGrath

*Harvey is the former Chair of both Prudential plc and Man Group plc. He is involved with philanthropy and social impact investment through several roles including as a founding trustee of New Philanthropy Capital and the Chairman of Big Society Capital. He has been making social impact investments through his DAF account for 15 years.*

### **What was your motivation for setting up a DAF account?**

I set up a DAF account with Charities Aid Foundation (CAF) around 15 years ago in the form of a charitable trust under the CAF umbrella, primarily to make donations.

### **What was your motivation for making social impact investments?**

Venturesome, part of CAF, and now known as CAF Venturesome, approached me to look at a social investment fund. They were seeking pioneers who were willing to allocate funds to a pooled account that would lend to charities. Although I recognised that some of my funds might not be repaid, I thought it was an interesting way to make my philanthropic funds go further.

In the worst case, in the event that some of the loans were not repaid, I would in effect be making a donation to underlying charities.

I also saw it as an opportunity to be involved in something new, and I was interested to help develop the idea of social investment.

### **What type of social impact investments have you made so far using your DAF account?**

Over the years, I have invested in a number of different funds through my DAF account, ranging from lower risk working capital lending, to high risk development loans, and a fund focused on community housing projects.

### **How would you describe your experiences so far?**

The experience has been positive. I initially made a £1.5m allocation

for social impact investment through my DAF account. Since then, given the low loss ratio on the lending, the funds have been recycled many times, so that my initial investment has enabled a total commitment of £6.6m in more than 400 deals. To me, that is a very good outcome.

**I initially made a £1.5m allocation for social impact investment through my DAF account. Since then, the funds have been recycled many times, so that my initial investment has enabled a total commitment of £6.6m in more than 400 deals.**

## DONOR CASE STUDY:

Makella Benjamin

*Makella is a corporate consultant at a foreign exchange company. She has been making social impact investments through her DAF account for two years.*

### What was your motivation for setting up a DAF account?

I first heard of the concept of DAF at a networking event hosted by SharedImpact. I have always been interested in supporting children and women-related causes in emerging countries. I am not a millionaire, but I do give regularly. I think a DAF is a cool way to give to charities and can make my money go further. I have since used my DAF to give out grants and make social impact investments.

**A project's charitable cause and geographic region are usually the starting points when I consider giving.**

### What was your motivation for making social impact investments?

A project's charitable cause and geographic region are usually the starting points when I consider giving. It just so happens that the charities I would like to support are raising social impact investment at the time

### What type of social impact investments have you made so far using your DAF account?

I have made one social impact investment through my DAF account into Alterfin, an organisation that invests in microfinance institutions and organisations active in sustainable agriculture. Individuals can subscribe to Alterfin shares to enable it to make investments in the southern hemisphere.

### How would you describe your experiences so far?

My contribution has been quite small to date, so even when money does come back, I see it as funds being recycled rather than as an investment that diversifies my portfolio.

My experience has been positive so far and I hope to make more social impact investments on a more regular basis later in life. I would definitely recommend other donors to consider using DAF to make social investment.



Alterfin, direct social impact investment

## DONOR CASE STUDY:

Luke Ding

*Luke is a former currency hedge fund manager. He is now a dedicated investor and philanthropist.*

### **What was your motivation for setting up a DAF account?**

I set up my DAF account with Prism the Gift Fund back in 2010 when I was a hedge fund manager. I was extremely busy with my career at that time, but I knew that one day I would want to focus more on my philanthropic giving. It made sense to set up the account back then as I would benefit from a good level of tax relief and Gift Aid.

### **What type of social impact investments have you made so far using your DAF account?**

I am quite early in my social investment journey. I have put money into 1to4 GiftVest and I am now considering a Development Impact Bond (DIB) in health through UBS.

### **What was your motivation for making social impact investments?**

So far, I have made one social investment through the 1to4 GiftVest Programme. It is actually a donation to the GiftVest account from my Prism DAF account. The money is used by GiftVest to invest in social businesses in emerging markets

and recycles time and time again. I was definitely attracted to the recycling of funds, amplifying economic reach and social impact. I am currently considering a DIB opportunity in health through the UBS Donor Advised Fund. I am excited by this opportunity because it could be a catalyst for alternative sources of capital in the future - from government, institutions and multinational organisations.

**I would like to see my investment catalyse and motivate alternative sources of money.**

It's great to see how institutional investors have embraced investments related to the environment. I would love to see them do more in the social space in the

future once it has built up track record and the risks are better understood. I would like to see my investment catalyse and motivate alternative sources of money.

### **How would you describe your experiences so far?**

The experience has been positive so far. I am learning and I think social impact investing is an exciting field with lots of opportunities. I do think the cost of making social impact investment is high in some cases and I always want to make sure the risk-adjusted impact is worthwhile.

### **How has this experience changed your overall approach to philanthropy and impact?**

I think my approach is changing because of the opportunities I am seeing out there. I am cause agnostic as a person. I care about impact and I can donate or invest in any opportunity, but I want to do a cost benefit analysis on any opportunity.

# How to get started

If you have been inspired by this guide and would like to know how you can start making social impact investment through your DAF, please contact your philanthropy manager or financial adviser.



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