How Nonprofits Can Best Weather Financial Storms

While swings in volatility and dramatic sell-offs are periodic occurrences in financial markets, the recent upheaval was stressful for even the most seasoned market-watchers. No doubt, we haven't seen the end of extreme fluctuations related to the global pandemic, recovery efforts and rising debt levels. However, there are steps that every not-for-profit can take to feel better prepared and buttress an endowment against the next round of market stressors. Leadership and investment committees need to take advantage of this timely reprieve and consider these topics.

Investment policy analysis helps align your endowment with your goals and mission and is an important undertaking for all fiduciaries.

<u>Define and discuss</u> the endowment's role with respect to your institution's mission and align your investment policy statement (IPS) accordingly. The most common source of anxiety for nonprofits during periods of heightened market volatility stems from a misalignment between investment policies and the role of the endowment. All institutions have some degree of idiosyncratic considerations; make sure your IPS addresses them.

<u>Define your endowment goals to set appropriate policies and time-horizons.</u> Is your endowment a source of perpetual support, a rainy-day fund or a means to fund future growth? The combination of goals you have established defines your time horizon--the key consideration in codifying your IPS. Each IPS Harpswell helps draft is unique and contains guidance designed to best prepare each institution to fulfill their mission.

<u>Invest according to your established goals</u>. For long-term goals, you can afford to weather downturns and be positioned more aggressively (*e.g.*, more equities than bonds). For nearer-term needs, more conservative positioning is preferred as prospects of recovering from a sudden sell-off are reduced. Further, if you will need to pull funds during market downturns, a more conservatively positioned portfolio is warranted.

<u>Consider your potential cash needs</u>. Institutions with less capacity to weather financial stress need to have an IPS which can yield distributions during downturns. Conversely, a different set of policies should govern institutions that can forgo payouts during market dips.

Harpswell is dedicated to nonprofits. Furthermore, our own civic-engagement means we know what it is like to sit on your side of the table. We welcome the opportunity to help you reflect on how to be positioned for the future.

What now? Steps to help you get through the next crisis.

Despite the extraordinary financial and personal losses across our nation and the world, all organizations, including not-for-profits, can take steps to help them face economic uncertainties.

First, <u>assess your needs and take advantage of the market bounce(s)</u> to raise cash from the portfolio (if warranted). Remaining mindful of restricted funds, taking action to avoid a cash emergency can outweigh the opportunity costs of not being fully invested.

Second, take advantage of the recent turmoil <u>to assess the endowment's performance</u> relative to benchmarks and expectations. Down markets reveal poor strategies and expose those advisors who might have been taking too much risk. As Warren Buffett says, "you can see who is swimming without a bathing suit when the tide goes out." Consider whether a specialized endowment-advisor might benefit your institution.

Third, talk with your endowment advisor and <u>ask questions</u>. At Harpswell, we know that sound communication is a key for successful long-term partnerships and becomes even more crucial in times of crisis. At the height of the volatility, we relied on our regular discussions with the nonprofits we serve to make tactical changes. If you have not heard from your advisor, reach out and propose a Zoom meeting!

Fourth, take stock of your endowment framework and determine if you need to make changes. Is your IPS updated and does it reflect your goals? Is the endowment sustainable and able to deliver what you need? The events of the last several months revealed strengths and weaknesses in investment strategies. Now is a good time to <u>reflect</u> on <u>investment policies as a means to best serve your nonprofit's future</u>.

<u>Do's</u>

- Stick to the plan – A well-reasoned plan anticipates all conditions.
- Minimize risks of cash crunches.
- Study 2020: Learn from these historic swings and align your policies with your goals as well as your comfort levels for volatility.
- Formalize your investment committee's fiduciary obligations with an IPS and a Committee Charter.

<u>Don'ts</u>

- De-risk at the bottom (instead, plan in calm times).
- Take out more cash without planning.
- Panic (trust your endowment advisor).
- Monday morning quarterback in the short term.
- Miss the opportunity for a post-mortem. Downturns can provide clarity on whether your endowment is aligned with your mission and your advisor is serving you well.

Harpswell Capital Advisors is a boutique investment firm dedicated to serving not-for-profits throughout the United States. Harpswell is structured as an Outsourced Chief Investment Office (OCIO) embracing the same approach to investments as larger college and university endowments offices.

The firm was founded with a civic mission to further the impact of the institutions we serve. We are laser focused on the specific needs of non-profits and our hard work and fee levels reinforce Harpswell's unwavering commitment.

"Embracing aggressive goals relating to civic advancement over corporate profits fosters an uncommon culture and a notable impact."

-Jack Moore – Harpswell founder

To learn more about Harpswell Capital Advisors, call 877.427.7227or email: info@harpswelladvisors.com www.harpswelladvisors.com.