IMPACT

VOLUME ONE

Helping Endowments
& Foundations Succeed

Non-profit organizations face many unique challenges, and sustaining financial viability while achieving your mission is no easy feat. As the Endowment & Foundation Services Team at Manning & Napier, we often hear from non-profit organizations that are anxious about reaching their financial and philanthropic goals. With 89 years of combined experience, we have helped our non-profit clients navigate a diverse range of challenges beyond investment management. We make your mission our mission, with services like fundraising support, board and staff education, and planned giving solutions.

Sustaining financial viability while achieving your mission is no easy feat.

We created this inaugural issue of *Impact* because we believe in helping those who help others. While we recognize that each organization's financial situation is complex in its own unique way, we hope you find value in our resources.

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TAPPING INTO THE

Great Wealth Transfer

It is estimated that over the next 10 years, nearly $9 trillion will transfer from one generation to the next, but the so-called "great wealth transfer" doesn't stop there. Over the next 50 years, a staggering $97 trillion is expected to transfer across generations. Numbers like these are a huge opportunity for charities to fulfill their mission and vision.

At the helm of the great wealth transfer are **women** and **millennials**. They are the largest demographics inheriting this transition of wealth, and they are also transforming giving. Charities should consider modifying their giving strategies to target these key audiences.

Women Are Revolutionizing Giving

Women are driving more philanthropic decisions and increasingly outnumbering men as the household CFO. According to recent studies, women make 83% of household consumer decisions and control $14 trillion in assets.

Not only are women asked to give more often, they are more likely to donate across virtually all income levels. They are also more likely to donate their time to a charitable cause. Knowing this, there are ways charities can adapt their strategies to better appeal to this target audience.

Ensure your campaign has emotional appeal
Donors, especially women, tend to engage with charities that give them an emotional reaction. Consider how your organization can weave emotion into its next campaign.

Be transparent in your communications
Donors want to know how their time and monetary donations are directly impacting the organization. When they know their donation is making an impact, they are more likely to donate again.

Create an event strategy
Create events to benefit your organization with opportunities for donors to invite their own networks and friends. This helps you to expand your donor base.

Include a social media component to your events and campaigns. Since women are more likely to use social media, they are also more likely to share their experiences on their social networks, which could generate positive exposure for your organization.

Millennials Are Changing Philanthropy

Millennials are also revolutionizing charitable giving, but in a different way than women. They prefer to do more good by either investing their time and assets in socially responsible ways or by supporting organizations with views in line with their own. Charities must convey how their organizational mission aligns with millennials' personal values.

Show them it's about more than money
Many millennials have limited funds. This is why it's important for charities to communicate how millennials can make an impact by not only donating their money, but also by donating their time. Show millennials how their volunteer time is a fulfilling and rewarding experience, and how they are impacting the organization and community.

Make it easy to electronically sign up or donate
Millennials grew up with the latest technology and are more comfortable using technology than other generations. Have tablets at events that have technology for credit card donations. This is also a good way to get millennials signed up for your newsletter or volunteer list.

Have a strong social media presence and following
Millennials like to share their experiences with their networks, especially on social media.

Don't miss out on the advantages in store during this revolutionary time. Proactive measures can help you capitalize on the great wealth transfer.

Sources: United Philanthropy Forum, TheStreet, WealthManagement.com, MarketWatch.

10 YEARS LATER

Lessons From the Financial Crisis

By the end of 2008, the investing world was turned upside down. A string of major historic moments, collectively known as the Global Financial Crisis, flooded investors with bad news, with one major catastrophe after another. Between October 2007 and March 2009, the US stock market fell an enormous 46%, and for organizations reliant on investment income for spending, it felt as if the selling was never going to end.

We are now more than 10 years past most of the market-defining crisis-era events, making now a great time for reflection. It is important to evaluate how endowment and foundation investors fared, and what we can learn from this turbulent time period.

Before drawing conclusions, we first conducted a case study in order to put the crisis and subsequent recovery in perspective (see the results on the following page). In constructing the analysis, we wanted to use difficult assumptions, so we established a fixed percent-based quarterly withdrawal rule and chose the beginning of October 2007 as our starting period, only a few days before the eventual pre-crisis peak on 10/09/2007.

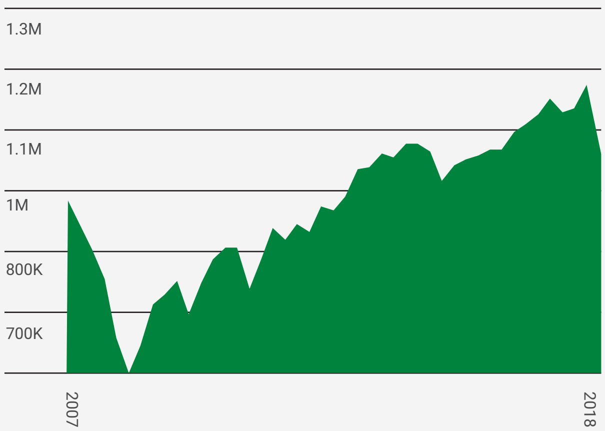
There is no question that the financial crisis was difficult on investment portfolios, but performance proved resilient and the study paints a fairly optimistic picture. For non-profit organizations, we see three important lessons from the crisis and our analysis.

First, a percent-based withdrawal rule helps soften the blow from market volatility while still allowing for significant withdrawals. Second, a well-diversified portfolio of both stocks and bonds provides major cushion during stock market drawdowns. Having a proper asset allocation framework is key. Finally, discipline and patience pays off. Remaining invested in the worst environments allows portfolios to take advantage of subsequent market rebounds.

As you experience ups and downs along the way, remember that investing for the long term requires short-term patience. The key is making sure your organization's portfolio is invested in line with your time horizon and goals.

RUNNING THE NUMBERS
60% Stock/40% Bond Portfolio

PORTFOLIO VALUE
(10/01/2007 – 12/31/2018)



PERFORMANCE METRICS
(ANNUALIZED FROM 10/01/2007 - 12/31/2018)

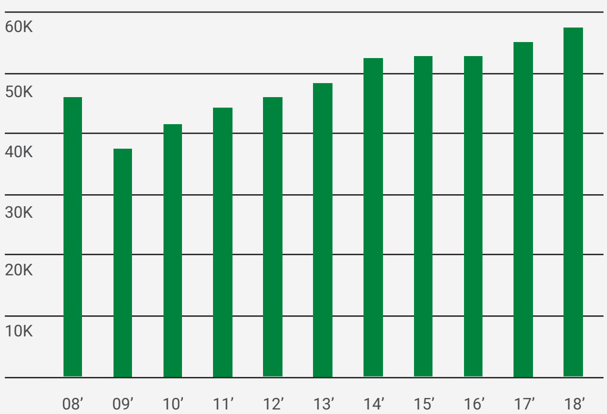
STOCK MARKET RETURNS

6.8%

FIXED INCOME RETURNS

3.3%

ANNUAL WITHDRAWALS
USING A STATIC 5% SPENDING RULE (2008 – 2018)



THE RESULTS

In a historically difficult market environment, the portfolio still managed to return a healthy 5.9% annualized over the time period.

During the depths of the crisis, the portfolio reached a low point in March 2009 at about $697,000.

The portfolio fully and permanently recovered its starting value by the end of 2013 and reached $1.08 million by the end of 2018.

Cumulative withdrawals from 2008 through 2018 totaled approximately $534,000.

For illustrative purposes only.
Source: Morningstar. See last page for important disclosures. Based on a hypothetical traditional portfolio using a static mix of 60% stocks and 40% bonds for the past ten years. Stocks are represented by the S&P 500 Total Return Index; Bonds are represented by the U.S. Intermediate-Term Government Bond Index. We use actual index data to capture all of the market volatility starting on 10/01/2007 (i.e., the approximate start of financial crisis market drawdown) and ending as of 12/31/2018. We assume a starting value of $1 million, an annual spending rule of 5%, taken quarterly, and no contributions.

DEVELOPING A GOVERNANCE STRUCTURE FOR THE AGES

The Trend to Associate Boards

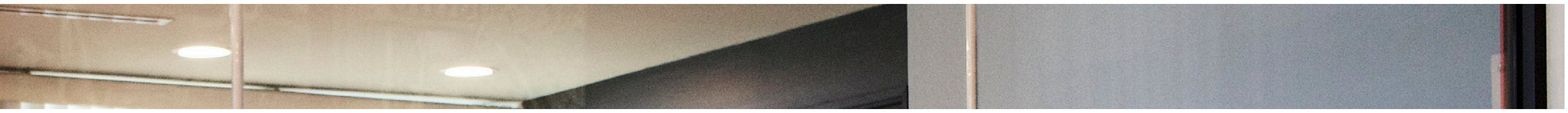
Non-profits are under constant pressure to secure funds that help fulfill organizational goals. It is important to adapt giving strategies and traditional governance structures to stay on track, not only now, but also in the future.

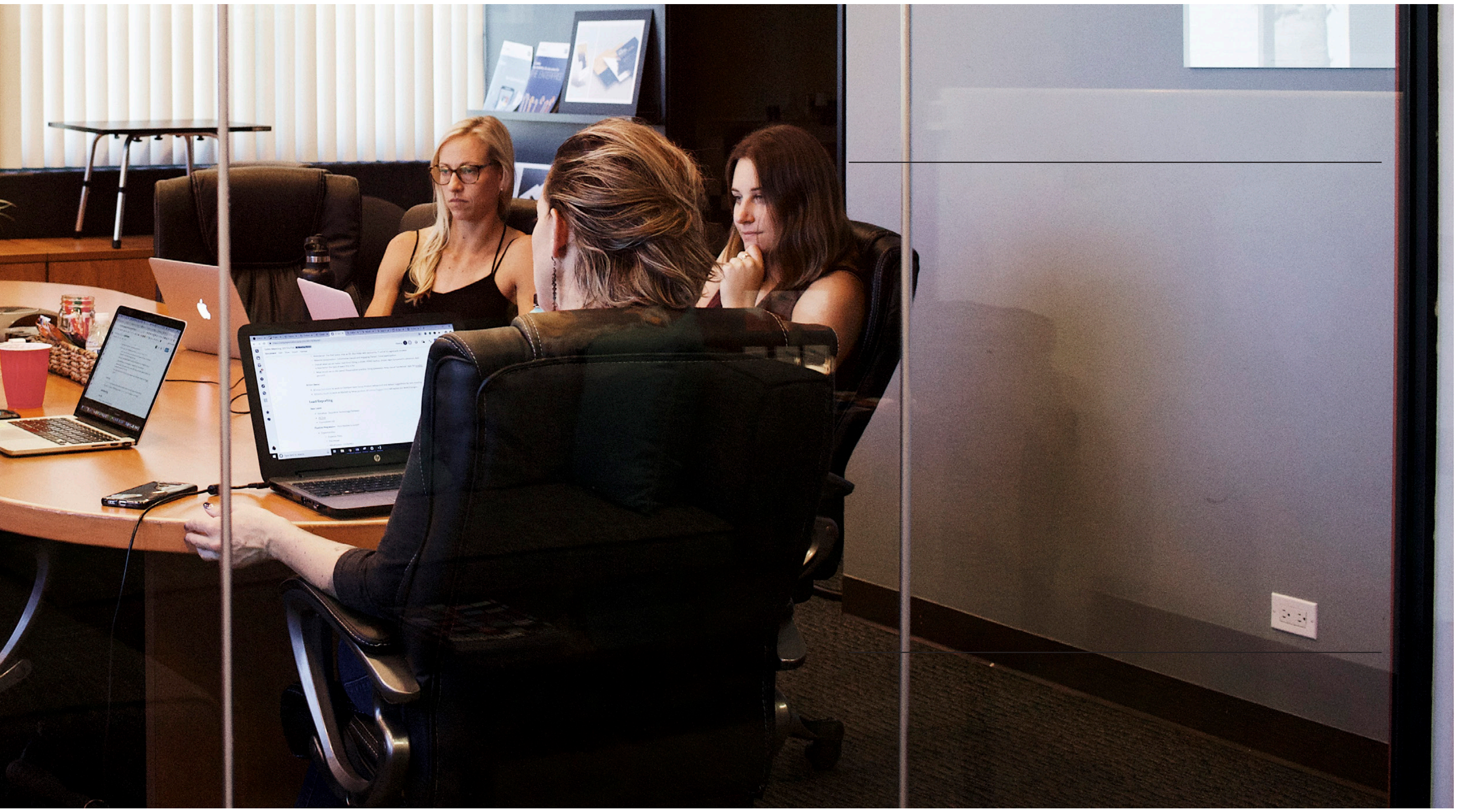
Traditionally, boards operated with members on audit, finance, and fundraising committees. While these are common committees, non-profits are not just limited to these. Recently, non-profit boards are creating associate boards, or young professional boards, in addition to its existing board of directors. These associate boards generally consist of up-and-coming millennials, and are intended to make way for the next generation of leaders and donors.

Millennials bring value to the organization not only through leadership, marketing, and fundraising, but also in their ability to understand and engage their generation. Having millennials on associate boards can help organizations stay relevant in the ever-changing non-profit landscape.

Associate boards are helpful for the organization, but the benefits don't stop there. The experience broadens the associate board members' skill sets and expertise. This prepares them for other board roles in the future and may also be helpful in their own career. In addition, members of associate boards will learn about governance, finance, and what it means to be a fiduciary. There is also often an opportunity for young professionals to graduate from the associate board to the board of directors.

Establishing associate boards will help non-profits have more diverse voices around the table and increase collaboration. It also sets the stage for the next wave of leaders within an organization. As organizations work to remain relevant in the ever-changing non-profit landscape, we encourage the implementation of associate or young professional boards.





Four Considerations for Potential Board or Associate Board Members

Applicable Laws

Three main laws affect non-profits: the Uniform Prudent Management of Institutional Funds Act; non-profit corporate governance laws; and regulation from the IRS. Board members should become familiar with these before joining a board.

Liability

Board members are fiduciaries and are exposed to personal liability for any breach in conduct. It's important to become familiar with what's applicable to your organization, and know these protections almost never apply to deliberate acts of willful misconduct.

Conflicts of Interest

New board members should familiarize themselves with the organization's conflict of interest policy and find out what is required in terms of disclosure and settlement of conflicts. Potential conflicts could include financial self-dealing or serving on multiple boards.

Time and Expertise

Potential board members should understand the time commitment and what the existing board composition is. There may be an opportunity for organizations to train to broaden the board's skill set.

DO WELL WHILE DOING GOOD

Considering Socially Responsible Investing

A socially responsible investment (SRI) is one that strives for not only a financial return, but a social benefit as well. Socially responsible investing is even more important for non-profits in ensuring that their organization's investments are fully supporting their mission.

Although there's no precise definition of what constitutes SRI, investor interest in these strategies has boomed over the last several years. It's been estimated that total US-domiciled assets using SRI strategies grew from about $8.7 trillion at the start of 2016 to $12 trillion at the start of 2018.

In our view, organizations that want to incorporate SRI into their portfolio should have a clear understanding of the ethical concerns they want to address, as well as the range of different investment options available.

The key is to match your ethical motivations and organization's mission with an appropriate investment strategy. To help with this, we've defined three broad approaches to SRI and provided examples of each below.

Negative Screening

What is it? The exclusion of certain securities or companies based on business practices or industries that fail to meet your organization's ideals.

Examples: Avoiding companies that derive a significant amount of revenue from "sin" industries such as weapons, alcohol, adult entertainment, etc. Avoiding entire industries such as coal mining or defense contractors that your organization does not wish to be associated with.

Investment Considerations: Screens can generally be applied across many different investment strategies and processes. However, it's important to note the impact screens might have on reducing the options in an investible universe.

Integrated Environmental, Social, and Governance (ESG) Factors

What is it? The inclusion of specific ESG factors when selecting securities for investment. The idea is to give an explicit preference within an investment process to securities that exhibit favorable ESG characteristics in the hope that investors can avoid unforeseen risks that less favorable companies might be exposed to.

Examples: Many data providers score companies on ESG issues. Common factors include environmental (climate change impact, history of fines and regulatory compliance, policies), social (human rights policies, workplace and product safety, workplace diversity, animal testing), and governance (board compensation and independence, board diversity, corporate transparency).

Investment Considerations: Like negative screening, ESG factors can be applied to many different investment strategies. Unlike screening, however, the investment manager integrates ESG considerations directly into their investment process, choosing which factors to apply and in what ways. This means that while the investment manager places an emphasis on ESG within the portfolio, the investor may have less involvement in what is specifically included in or excluded from the portfolio.

Impact Investing

What is it? Targeted investments aimed at directly tackling social or environmental problems. The biggest distinction is that investors are more directly involved in achieving a specific goal with their investment.

Examples: An equity or debt investment might be directed toward a business targeting under-served individuals or communities in the areas of housing, energy, microfinance, food security, or education.

Investment Considerations: Impact investing is most akin to private equity or direct loans. Significant due diligence might be required to effectively vet, monitor, and value investments. Liquidity constraints may make it difficult to move assets on short notice.

As an organization that solely functions on the premise of its mission, getting the lay of the land in SRI investing is important. However, it is far from the only factor to consider. Strong fundamentals such as cash flow, profitability, stable sales, and healthy balance sheets are also important, as well as price factors including valuations and yields.

We believe it is best to consider SRI as part of a broader process for identifying attractive investment opportunities and mitigating risk. This will allow your organization the opportunity to do well financially and ethically.

Source: Report on US Sustainable, Responsible and Impact Investing Trends 2018, The Forum for Sustainable and Responsible Investment.

STEPS TO DETERMINING IF SOCIALLY RESPONSIBLE INVESTING IS A GOOD FIT FOR YOUR ORGANIZATION

1) Understand the different options that are available
2) Choose an approach that best balances your philanthropic and financial goals
3) Publicize how your investments support your philanthropic mission

Helping Endowments & Foundations Succeed

Manning & Napier has a team dedicated to helping non-profits, endowments, and foundations reach their goals. For more content like this and to learn more about how our team can help your organization, visit

www.manning-napier.com/EFservices

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Ibbotson Associates SBBI U.S. Intermediate-Term Government Bond Index (U.S. Intermediate-Term Government Bond Index) is an unmanaged index representing the U.S. intermediate-term government bond market. The index is constructed as a one bond portfolio consisting of the shortest-term non-callable government bond with not less than 5 years to maturity.

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