Dealing with Inflation as a Non-Profit

Provided by Manning & Napier

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Earlier this year, the Consumer Price Index reported a more than 8% inflation rate, a remarkable rise and the highest reading in the US in over 40 years. But you probably don't need us to tell you that prices are on the rise.

Everything from food and groceries to gas and travel costs are all soaring right now. The implications are obvious. Higher expenses are making everyone's day-to-day more difficult, but the impacts go beyond just family finances. Non-profit organizations and their missions, their fundraising ability, and their endowments are all feeling the bind.

Prices and wages are hard to fix, driving up operational expenses and cutting into monies that can be allocated to the services non-profits provide. While inflation will likely cool from here, non-profits have to compete for people, buy materials, and run their organizations like any other business.

Many donors are aware of these issues too. They either see it in their own personal lives, or they are sympathetic to the impact inflation can have. For fundraising, non-profits should appeal to donor sympathies and be open and transparent about the impact inflation can have. For capital campaigns and other reoccurring initiatives, non-profits should consider increasing standardized gift sizes. For example, non-profits may increase asks from $50 to $75 in order to counter inflationary pressures.

Beyond the Day-to-Day

Inflation is always a key risk to financial markets. Along with long-term growth, one of the most basic goals for almost every investor is to maintain the purchasing power of your assets over time.

For non-profits, inflation's impact on endowments and foundations is a little different because the mission for most organizations is perpetual. Unlike an individual who is looking to save until retirement and then spend down from there, non-profit organizations have an infinite time horizon, and instead, usually measure their goals in terms of spending rates.

The basic formula is spending rate plus inflation equals real return target, such that as inflation goes up, the real rate of growth required rises as well. Depending on how your organization is managing your funds, changes might need to be made to meet that new, higher return hurdle. To help, organizations can use these three tools to mitigate the impacts of inflation on their financial situation.

1. The first tool is to manage your withdrawal rate. While it could lead to a temporary reduction in funding for your mission today, cash flow modeling can help regulate this impact.
2. Second is to recognize that strong growth during good times is essential for this reason, and that there can be no growth without some amount of risk.
3. The final and third tool is to actively manage inflation risk within the portfolio itself. This could require changes to the asset allocation, the broader positioning, or to the individual securities themselves.

Non-profits may want to include an allocation to active management in investment portfolios for times like these so that they can assist in volatile and inflationary market conditions.

The Non-Profit Investment Advantage

The perpetual nature of non-profits is a powerful advantage. Investing is most effective when done over time, with long-term goals and a long-term focus, giving the power of compounding the most time to work its magic.

By leveraging the advantages described above, and using tools such as cash flow modeling, non-profits are uniquely well positioned to not only ride out difficult times in markets—such as downturns or inflationary periods—but they can deploy that long-term focus to capitalize on buying opportunities as well.

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