Independent Perspective | Real-World Solutions

Fundraising & Finances

A 2021 RESOURCE FOR ENDOWMENTS & FOUNDATIONS

Selectivity is Key in Today's Market

The market and economic environment is highly dynamic right now and things are moving quickly. Markets have done very well since recovering from the pandemic bottom, but economic activity remains quite depressed. Additionally, sentiment appears to be overly optimistic in many areas of the market, creating near-term risks. We believe endowments and foundations should stay balanced and nimble, focusing on being opportunistic in today's volatile environment.

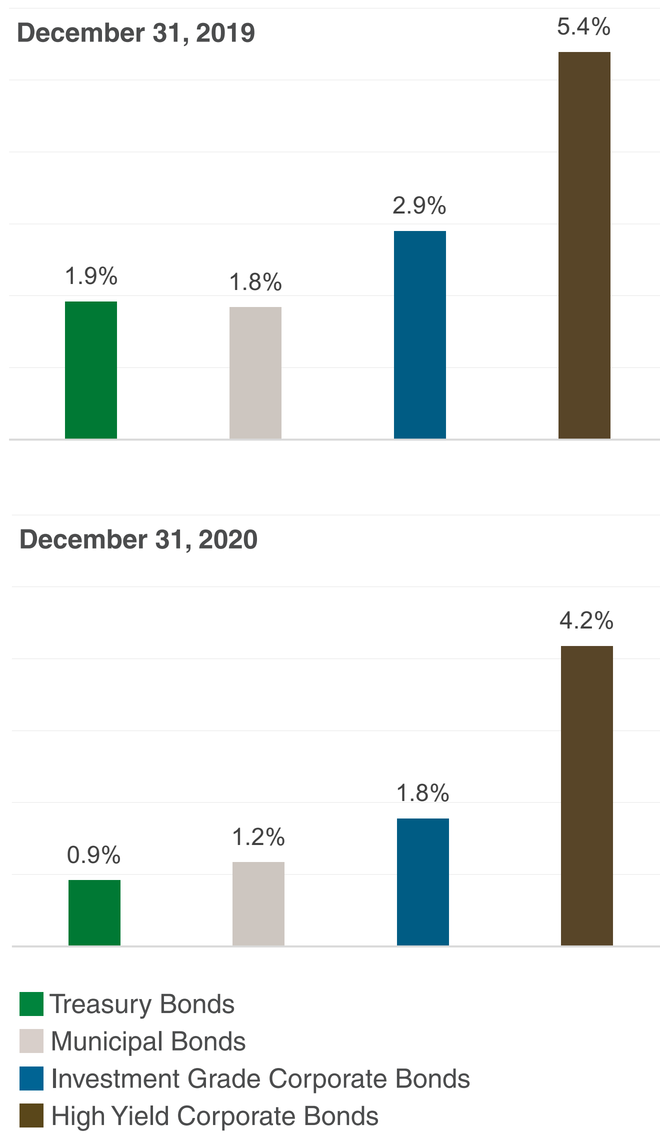
A STACKED DECK OR NO DICE?

The hand we've been dealt features a number of wild cards for the economy. The first is political uncertainty – although the election is over, we still don't know what policies a new administration will be able to enact. Current COVID conditions also lend themselves to business uncertainty. Planning for future projects and expansions remains difficult from a business investment perspective. On top of these ambiguities, economic growth has remained sluggish since the Global Financial Crisis.

VALUATIONS REMAIN ELEVATED

Stock market valuations are elevated, a sure sign that investors are either looking past fundamental issues in the economy, or that sentiment is very optimistic at the moment, or perhaps a mix of both. Meanwhile, bond yields remain near historic lows, and have moved lower since the start of the pandemic. This creates major risks for non-profit investors that need to balance both growth and preservation.

LOW RATES HAVE BECOME EVEN LOWER
(PERCENT YIELD)



Source: Bloomberg and US Treasury. See last page for definitions.

Take Action Today

With today's mix of uncertainty amid a global pandemic, non-profit organizations are best served by focusing on what they can control. Consider the following:

REAFFIRM YOUR LONG-TERM INVESTMENT GOALS, POLICIES, AND ASSET ALLOCATION TARGETS
Investors need to find the right balance between growth and preservation. Long-term sustainability is important, but so is being able to fund ongoing spending commitments.

MANAGE SHORT-TERM MARKET RISKS
Selectivity is key. There are certain segments of the market that we believe offer compelling opportunities. Having a flexible asset allocation process will allow you to adjust your portfolio over time as the market changes.

USE DYNAMIC WITHDRAWALS TO YOUR ADVANTAGE
Consider if your organization has the ability to adjust withdrawals to suit the market environment. For example, if volatility hits and your portfolio's value has fallen, pausing withdrawals temporarily can enable your portfolio to recover more quickly than it otherwise would.

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Can Donors Overcome Continued Uncertainty in 2021?

The name of the game in 2020 was uncertainty. No one was quite sure how donors would react to a global pandemic that upended the normal course of business for most non-profits. Donors have so far been resilient, but challenges remain.

VIRTUAL REALITY IS REALITY

Operating virtually took on a new level of importance in 2020. It began out of necessity, as the COVID-19 lockdowns forced organizations to operate remotely and cancel or postpone in-person events. As the year went on, virtual engagement was forced to become the new normal. Many organizations have reported that they may continue to utilize the benefits that virtual events and operating remotely can provide. There will always be a place for large in-person events, but at the very least, virtual tools have given non-profits the ability to stay in touch more often and therefore be more in tune with their donors.

THINKING OUTSIDE OF THE BOX

Organizations have also had to become much more creative to effectively fundraise and engage their donors. First, we witnessed in-person events pivot to socially distant events. Rather than cancel or postpone large fundraisers organizations began to think outside of the box. Annual dinner galas became virtual cooking lessons, 5K races shifted to individual time trials, live auctions were streamed from home, and virtual trivia proved to satisfy donors' competitive itch. This may have been a silver lining among the pandemic because these events felt more thought-out and unique to the donor experience.

NEW LEGISLATION AND TAX POLICY CHANGES MAY BE ON THE HORIZON

A new president and potential congressional support for his administration means there may be policy changes in the near future. President Biden has proposed additional COVID-19 relief including direct payments to many Americans, increasing unemployment benefits, increasing the federal minimum wage, extending the eviction and foreclosure moratorium, and additional funding for state and local governments.

During his campaign President Biden also proposed significant changes to tax policy, including generally higher taxes on income, capital gains, and estates, as well as changes to the structure of how wealthier taxpayers itemize deductions and pass on assets to heirs.

These have only been proposals up to this point. But what is certain is that President Biden and Congress will spend a significant part of 2021 crafting legislation that could change the charitable planning calculus for many donors.

Take Action Today

The pandemic, economy, tax policy. With so much uncertainty, how might donors react? We can't know for sure, but here are some items organizations can consider to help guide them through these headwinds.

FOCUS ON LONG-TERM TRENDS

Whatever happens over the short-term, it likely won't change what we've known for years has been coming over the long-term: demographics are shifting, our country is becoming older, and there's a tremendous amount of wealth that will be changing hands over the next 20+ years. Preparing for these trends now can help your organization recover more quickly from any short-term disruptions.

TAKE STOCK OF YOUR VULNERABILITIES AND DIVERSIFY

Is your organization overly dependent on larger donors? This year may be an excellent opportunity to diversify. Smaller donors where the largest growing segment of giving last year. Technology is more effective in the smaller donor space, and by some measures, it may cost less to pursue smaller donors by leveraging your time and resources. It doesn't pay to be overly focused on any single segment of donors, but finding an effective balance between different audiences and channels is going to make your organization more resilient.

FIND A MESSAGE THAT RESONATES

During a crisis, donor priorities can shift quickly, especially for larger and more sophisticated philanthropists. Some organizations might have built in advantages in 2021 based on their mission, but everyone has a role to play in guiding their communities through crisis. Don't be afraid to adapt your message to make it relevant today. Consider stepping into the shoes of your donors and stakeholders and ask: how has the pandemic disrupted their lives? Fine tune your message so that it resonates in today's world.

STAY UP-TO-DATE ON CURRENT EVENTS

Use the resources around you to help you stay informed and adjust your messaging as needed to reach your donors. Manning & Napier provides ongoing thought leadership on current events and legislative changes. Visit our manning-napier.com/insights to learn more.

How can we help?

Investment solutions to manage to endowment and foundation objectives

Training and templates for our Advisor partners

Thought leadership and resources to keep you informed


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To learn more about our services, please contact us:

(800)-551-0224 | info@manning-napier.com | www.manning-napier.com

Sources: Rate data indices are as follows: 10-Year US Treasury Note, ICE BofA U.S. Municipal Securities Index, ICE BofA U.S. Corporate Index, ICE BofA U.S. Cash Pay High Yield Index.

The Intercontinental Exchange (ICE) Bank of America (BofA) U.S. Municipal Securities Index tracks the performance of U.S. dollar denominated investment grade tax-exempt debt publicly issued by U.S. states, territories, and their political subdivisions. Qualifying securities must have at least one year remaining term to final maturity, at least 18 months to final maturity at the time of issuance, a fixed coupon schedule and an investment grade rating. The Index returns do not reflect any fees or expenses.

The Intercontinental Exchange (ICE) Bank of America (BofA) U.S. Corporate Index is an index that tracks the performance of investment-grade corporate debt publicly issued in the U.S. domestic market. The securities must have at least one year remaining term to final maturity as of the rebalancing date, at least 18 months to final maturity at the time of issuance, a fixed coupon schedule, and a minimum amount outstanding of $250 million. The Index returns do not reflect any fees or expenses.

The Intercontinental Exchange (ICE) Bank of America (BofA) U.S. Cash Pay High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt, currently in a coupon paying period, issued in the U.S. domestic market. Qualifying securities must have at least one year remaining term to final maturity as of the rebalancing date, at least 18 months to final maturity at the time of issuance, a fixed coupon schedule, and a minimum amount outstanding of $250 million. The Index returns do not reflect any fees or expenses.

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