



# Live Q&A Nonprofits: Managing Endowments in a Crisis

# Nonprofit Experts

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# Armanino Overview



## CORE PURPOSE

To be the **most innovative** and **entrepreneurial** firm that makes a **positive impact** on the lives of our **clients**, our **people** and our **communities**.

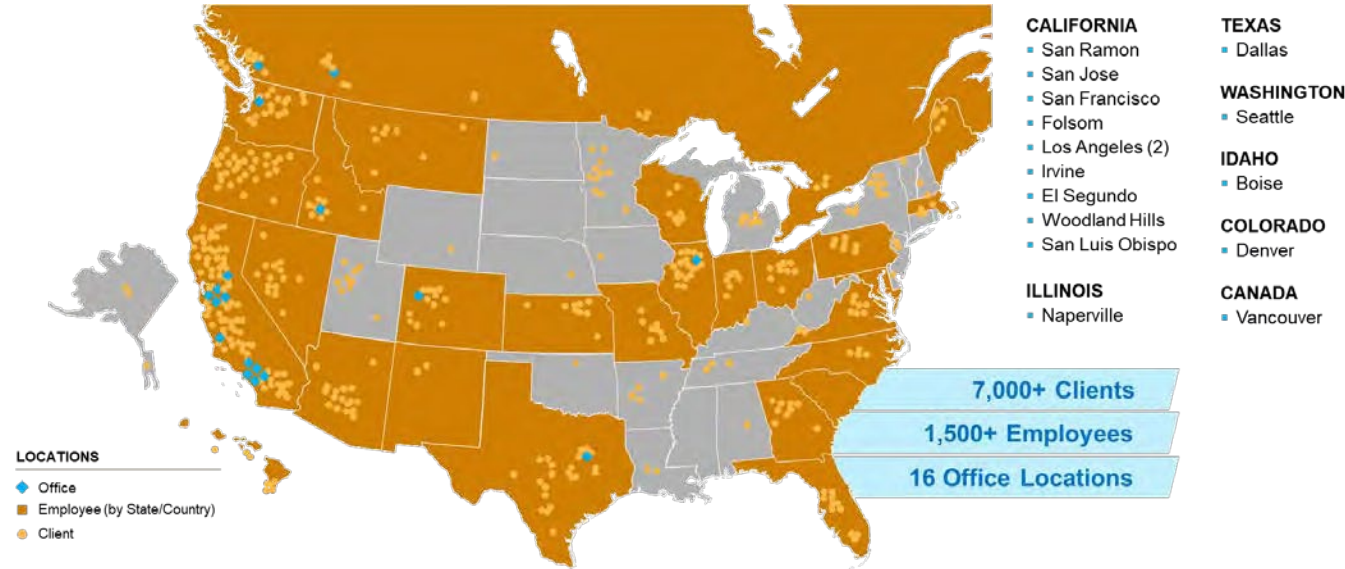


## SNAPSHOT

- 1,500+ Employees
- Team Members in 26 States
- 20<sup>th</sup> Largest CPA & Consulting Firm in the Nation
- Largest California-Based CPA & Consulting Firm



## LOCATIONS



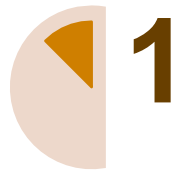
## RECOGNITION & AWARDS



# The 4 **PILLARS** of Crisis Response Management



Nonprofits today should be focusing on these four key areas:



Cash Controls &  
Management



Government Aid  
& Access



HR & Remote  
Workforce



Internal & External  
Communication



# COVID-19

## RESOURCE CENTER

[ACCESS THE  
RESOURCE CENTER](#)



### Cash Controls & Crisis Management

We answer the question, “How do I stay in business given market volatility?”

### Government Aid & Access

We answer the question, “How do I access government assistance?”

### HR & Remote Workforce Enablement

We answer the question, “How do I manage my employees?”

### Internal & External Communications

We answer the question, “How do I manage what is being shared about the pandemic?”

### Industry Solutions

We answer the question, “How do I solve for issues specific to my industry?”

# Agenda

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- Overview of endowment and non-endowment assets
- Borrowing from your endowment
- Endowment spending policies
- Investment policies
- Board governance responsibilities for endowments
- Other board responsibilities
- Q&A Session

# Overview of endowment and non-endowment assets



## Donor restricted endowments

- A fund not wholly expendable on a current basis under the terms of the gift instrument.
- A gift instrument is a written record, including email and charitable solicitation material.

## Board designated endowments

- Funds that the charity designates as endowment.
- Also known as “quasi-endowment” funds.

## Other purpose restricted funds

# Endowment spending policies



## Prudent spending policies

A charity may appropriate for expenditure so much of an endowment fund as the charity determines is prudent, taking into account the preservation of the fund, the purposes of the charity and the fund, general economic conditions, inflation/deflation, expected total return, the charity's other resources, and the charity's investment policy.



## Reducing or eliminating spending



## Increasing spending

UPMIFA provides that appropriating more than 7% of the average FMV of an endowment (averaged over the last three years) is presumptively imprudent.

Consider the current crisis, and the UPMIFA factors noted above.



# Borrowing from your endowment

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- Can you borrow from your endowment?
  - A loan is a contract, and a contract requires two parties.
  - Who is the borrower, and who is the lender?
- Can you pledge your endowment as collateral?
  - Endowments, especially those with purpose restrictions, are often seen as being unavailable to creditors.
  - Who will opine to the lender that the endowment is 'valid' collateral?
- Donor release of endowment spending restrictions
  - If the donor consents in writing, a charity can release/modify a gift restriction.
  - Query: who is the donor?
- Donor release of purpose restrictions

# Board Governance for Endowments

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- Fiscal management and donor relationship management
  - Help management of your organization to manage expectations of endowment donors
    - Endowment spending
    - Purpose restrictions
  - Can your board offer additional financial support during this time? Unrestricted support? Board Designated Endowments or reserves
  - Planned Giving
  - New tax benefits to individuals under the CARES Act
    - People who take the standard deduction on their tax return can donate up to \$300 to their favorite charity and claim a new “above-the-line” deduction on their 2020 taxes
    - People who itemize deductions can make charitable contributions up to 100% of their adjusted gross income and receive a full tax deduction for the donation (previously they were capped at 60%)

# Other Board Responsibilities

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- Effective board governance
  - Emergency spending resolutions
  - Can the board function with absent board members who have been impacted
    - Succession plans (management and board)
    - Executive or other rapid response committee
  - Support your CEO or equivalent
  - Board charters – now might be the perfect time to update
  - Understand cash flow

# Other Board Responsibilities, continued

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- How can board support management utilizing professional expertise
  - Attorneys
    - Legal implications of new laws
  - Bankers
    - SBA and PPP loans
  - IT Consultants
    - Preparedness to work remotely
    - Privacy and security issues for employees working from home
  - Investment Advisors
    - Understand short and long-term objectives of your organization's portfolio

# Other Board Responsibilities, continued

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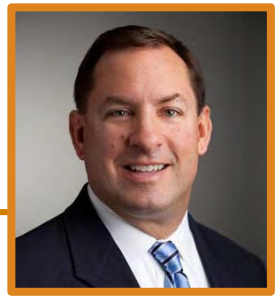


- How can board support management utilizing professional expertise, continued
  - Accountants
    - Cash flow analysis
    - What if scenarios
    - Endowment management
    - Regulatory and compliance audit needs
  - Insurance Brokers
    - Adequate insurance
    - Claims?
  - Others
  - To all board members – understand cash flow impact to your organization!



# Investment policies

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GROWTH POLICIES



STAYING THE COURSE



GETTING OUT OF THE  
MARKET



INVESTMENT  
COMMITTEE ROLES  
AND RESPONSIBILITIES



4/13/2020

# BNY MELLON – INVESTMENT OVERVIEW

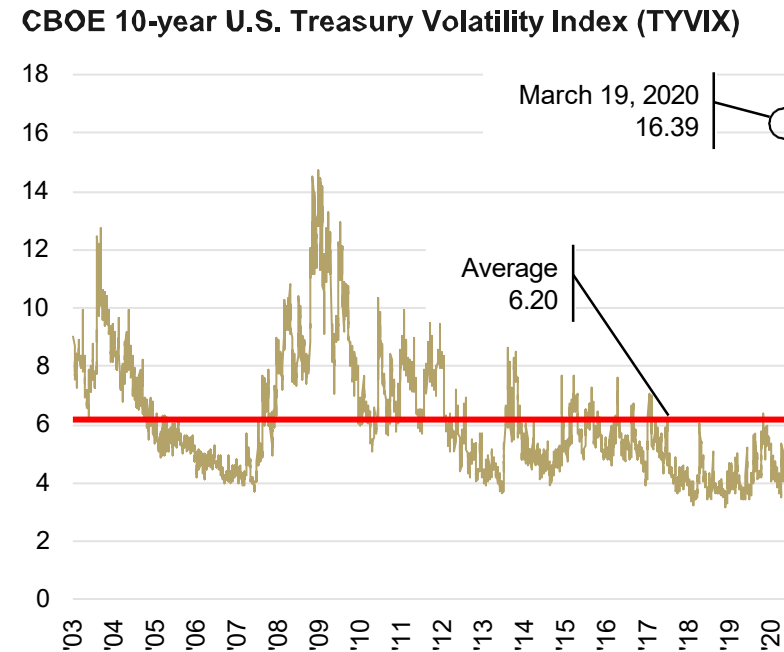
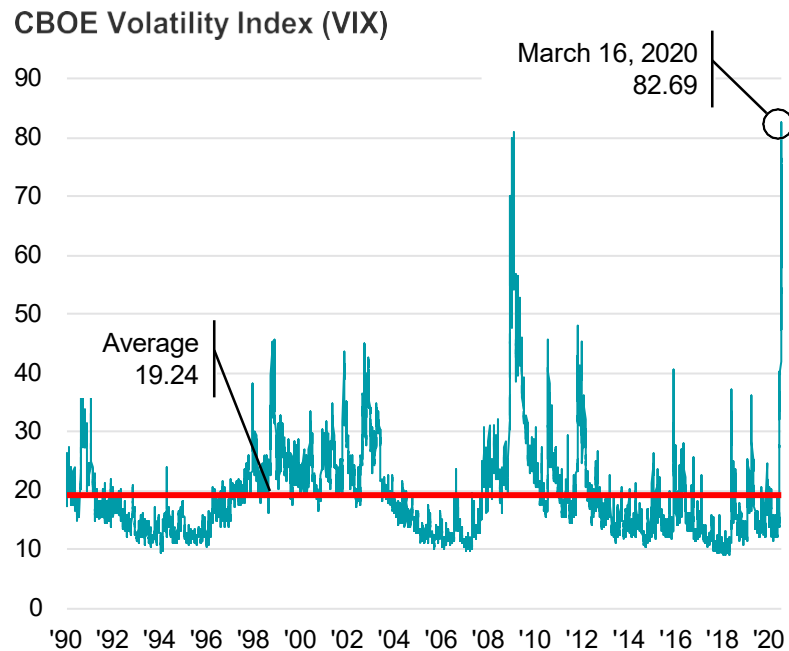
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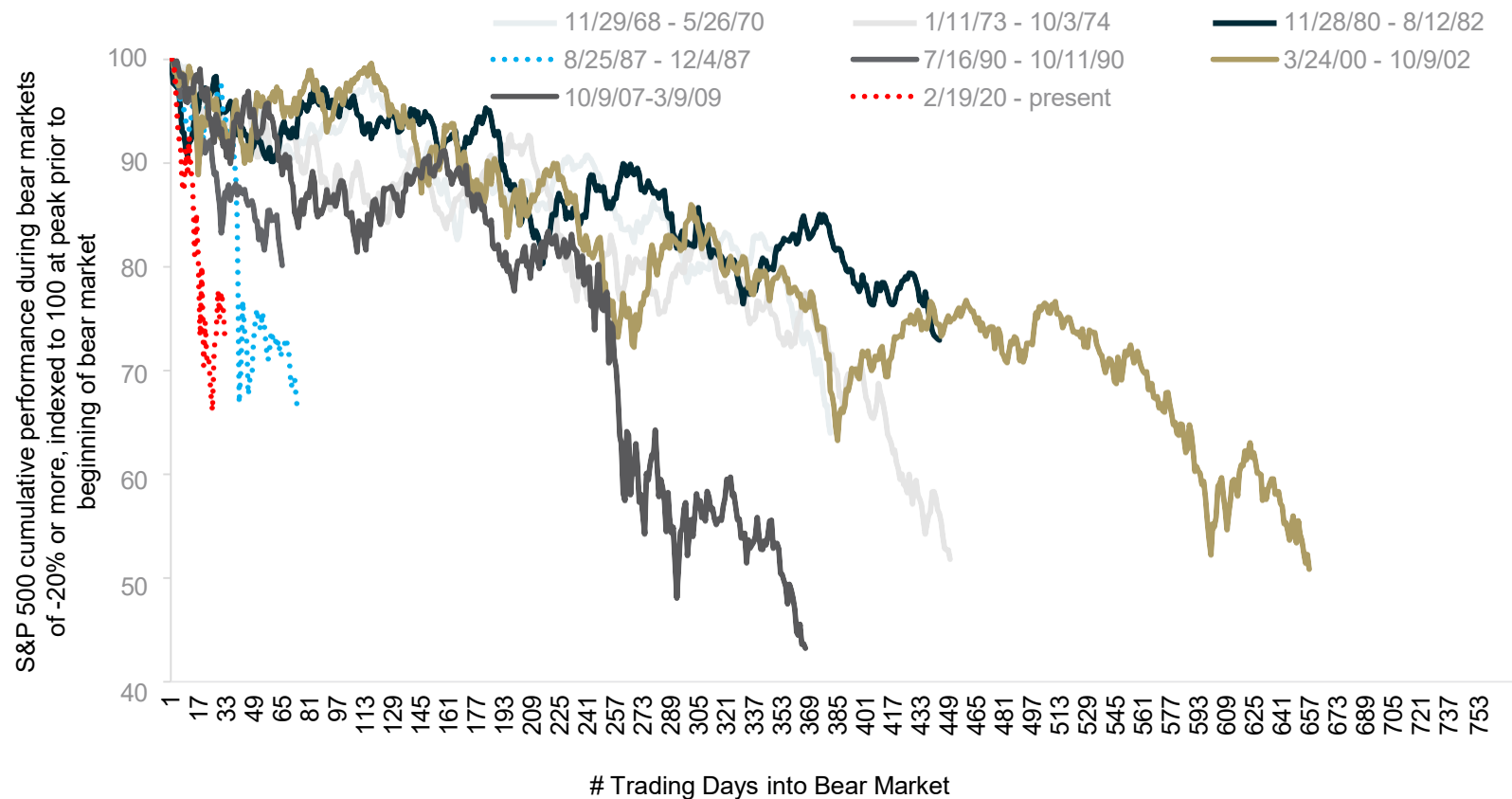
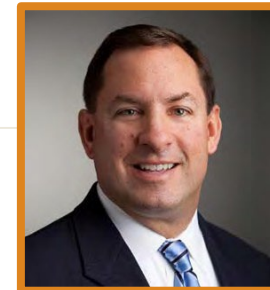
# A TIME OF EXTREME VOLATILITY AND UNCERTAINTY



- The first quarter of 2020 produced the **worst** month (March) for US equities since the financial crisis, as well the **best** three-day stretch since the 1930s.
- Volatility skyrocketed across equities, with the CBOE Volatility Index (VIX) closing at its highest level on record at 82.69 on March 16, 2020.
- Volatility was not limited to equities though, as US Treasuries also saw huge swings.
  - The CBOE 10-year U.S. Treasury Note Volatility Index (TYVIX) closed at 16.39 on March 19, 2020, its highest value since the creation of the index in 2003



# HISTORY OF BEAR MARKETS



\*Dashed lines correspond to non-recessionary bear markets, all others correspond with recessions.

# POLICY RESPONSE: AN ARRAY OF TOOLS



- US Central Bank response has greatly exceeded that of 2008 in terms of both value and speed.
  - Fed policy during the 2008 downturn spanned over roughly 16 months, from late 2007 through early 2009.
  - In 2008, quantitative easing was not implemented until 3 months following Lehman's collapse, while other liquidity measures took 6+ months to begin.
- In response to the current market and economic turmoil, the US Central Bank has implemented a dramatic series of programs within less than a months time.

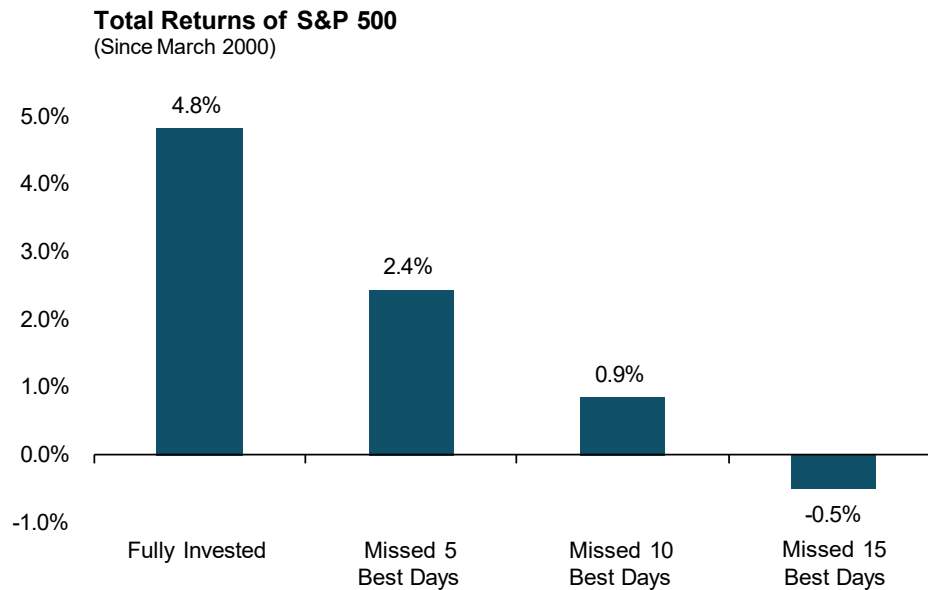
SUPPORT	INITIATIVES	
Low Interest Rates	Cut fed funds rate to 0-0.25% (150 bp cut)	Provide forward guidance on future rates
Support Financial Market Functions	Securities purchases (QE), open-ended	Backstop money market funds (MMLF)
	Low interest lending to securities firms	Expanded repo operations
Encourage Bank Lending	Direct lending to banks	Relaxing regulatory requirements
Support Businesses	Direct lending to major corporate employers	Main street business lending program
	Commercial Paper Funding Facility (CPFF)	
Support Consumers	Term Asset-Backed Securities Loan Facility (TALF)	
Support Municipal Borrowing	Two credit facilities to backstop municipal bonds	
Support US Money Markets	International swap lines, making U.S. dollars available to other central banks	



# THE IMPORTANCE OF STRATEGIC ALLOCATION



- Missing out on only a handful of the best performing days over the last twenty years could have significantly hindered overall performance.
- Timing when the best and worst days will occur is a difficult exercise.
- As seen in the tables on the right, some of the best and worst days of the past 20 years have occurred within weeks of one another (October 2008, November 2008, March 2020)



Note: Returns are annualized  
Source: Bloomberg Barclays

10 Best Trading Days Since Mar 2000*	
Date	Return
October 13, 2008	11.58%
October 28, 2008	10.79%
March 24, 2020	9.39%
March 13, 2020	9.32%
March 23, 2009	7.10%
November 13, 2008	6.93%
November 24, 2008	6.47%
March 10, 2009	6.37%
November 21, 2008	6.35%
March 26, 2020	6.25%

10 Worst Trading Days Since Mar 2000*	
Date	Return
March 16, 2020	-11.98%
March 12, 2020	-9.49%
October 15, 2008	-9.03%
December 1, 2008	-8.92%
September 29, 2008	-8.79%
October 9, 2008	-7.62%
March 9, 2020	-7.59%
November 20, 2008	-6.71%
August 8, 2011	-6.65%
November 19, 2008	-6.11%

# PERFORMANCE FOLLOWING S&P 500 WORST QUARTERS



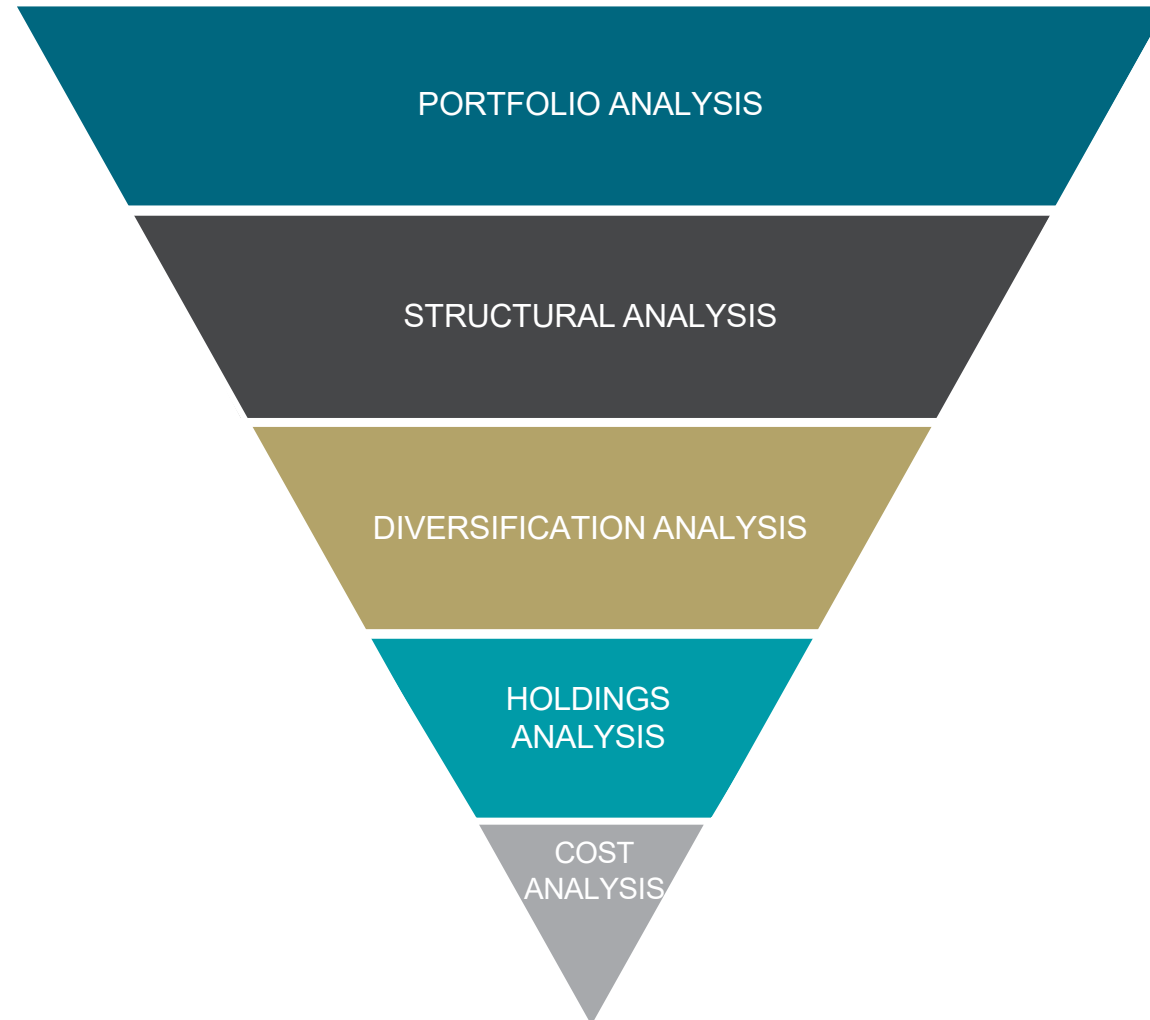
Date	Performance	+1 Quarter	+2 Quarters
3Q 1974	-26.1%	7.9%	31.2%
4Q 1987	-23.2%	4.8%	10.7%
4Q2008	-22.6%	-11.7%	1.8%
2Q 1962	-21.3%	2.8%	15.3%
<b>1Q 2020</b>	<b>-20.0%</b>	<b>?</b>	<b>?</b>
2Q 1970	-18.9%	15.8%	26.7%
Q3 2002	-17.6%	7.9%	4.0%
Q3 2001	-15.0%	10.3%	10.2%
Q3 1990	-14.5%	7.9%	22.6%
Q3 2011	-14.3%	11.2%	24.5%

# MARKETS REBOUND BEFORE THE ECONOMY



Recession Start	Market Low	Recession End	Market Bottom	S&P Performance from Low to Recession End
July 1953	September 1953	May 1954	8 months prior	25.8%
August 1957	October 1957	April 1958	6 months prior	11.4%
April 1960	October 1960	February 1961	4 months prior	21.3%
December 1969	May 1970	November 1970	6 months prior	25.8%
November 1973	October 1974	March 1975	5 months prior	33.8%
January 1980	March 1980	July 1980	4 months prior	23.9%
July 1981	August 1982	November 1982	3 months prior	35.3%
July 1990	October 1990	March 1991	5 months prior	27.0%
March 2001	October 2002	November 2001	11 months after	-
December 2007	March 2009	June 2009	3 months prior	35.9%
		<b>Average</b>	<b>4 months prior</b>	<b>24.9%</b>

# HIDDEN RISKS, MISSED OPPORTUNITIES, ADDITIONAL FEES



# THE BOTTOMING PROCESS: WHAT WE ARE WATCHING



Fiscal Stimulus	●	Unprecedented amount of fiscal stimulus. Three relief packages to date with discussion of another round.
Monetary Stimulus	●	Fed has stepped in as buyer of last resort providing liquidity across a number of markets.
COVID-19 Curve	●	Incrementally better news on the COVID-19 front, with a slowdown in cases and hospitalizations decelerating.
Global Economic Activity	●	Early on-set countries, such as China, are beginning to see an uptick in economic activity.
U.S Economic Activity	●	Shutdown evident in recent jobless claims data. Expect data to get worse before it gets better.
Credit Spreads	●	Credit spreads have responded positively to Fed actions with investment grade and high yield spreads tightening from their peaks in March.
Earnings	●	1Q earnings season expected to show a strong hit to profits and uncertain forward guidance. How much is already priced in?

● Positive ● Improving ● Uncertain



# ASSET CLASS POSITIONING: INVESTMENT STRATEGY COMMITTEE RECOMMENDATIONS



	Underweight	Small Underweight	Neutral	Small Overweight	Overweight
<b>Equity</b>			◆		
Large Cap					◆
Mid Cap			◆		
Small Cap			◆		
International Developed Large Cap	◆				
International Developed Small Cap			◆		
Emerging Markets		◆			
Private Equity			◆		
Private Equity-Real Estate			◆		
<b>Fixed Income</b>		◆			
Treasuries	◆				
Investment-grade Corporate			◆		
Tax-exempt		◆			
High Yield			◆		
<b>Diversifiers</b>				◆	
Real Estate (REITs)		◆			
Long/Short Hedge				◆	
Absolute Return Hedge				◆	
Managed Futures			◆		
Commodities	◆				

# Disclosure Appendix

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# FAQ

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1. Should our organization consider pausing our endowment draw/spending per our spending policy during an economic downturn?
2. What are some alternate/hybrid endowment calculations being used in these volatile markets?
3. Are there protocols for modifying donor restrictions from deceased donors who leave no administrating successors?
4. What is the best way to have conversations with endowment donors about repurposing restrictions or allowing additional spend and possible spend of the corpus?
5. What is the best way for a board member to support management of the organization during this time?
6. Should we be looking to build additional endowment reserves during this time?
7. What are some of the other investment trends and opportunities your firm is researching for your endowment & foundation clients?
8. Aside from increasing spending from the endowment, what are some other ways your nonprofit clients are accessing capital and closing funding gaps?
9. Could you talk more about what OCIO is and why it's a growing trend?
10. Who enforces the rules on spending or purpose limitations? Is my charity's 501(c)(3) status at risk?
11. If we write the AG or petition the court to change the purpose restriction on our endowment, can we ask them to make it for general purposes?



## **Reach Out | Contact Us!**

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