HOW NFP BOARDS CAN MANAGE CASHFLOW THROUGH COVID-19

PERPETUAL PRIVATE INSIGHTS
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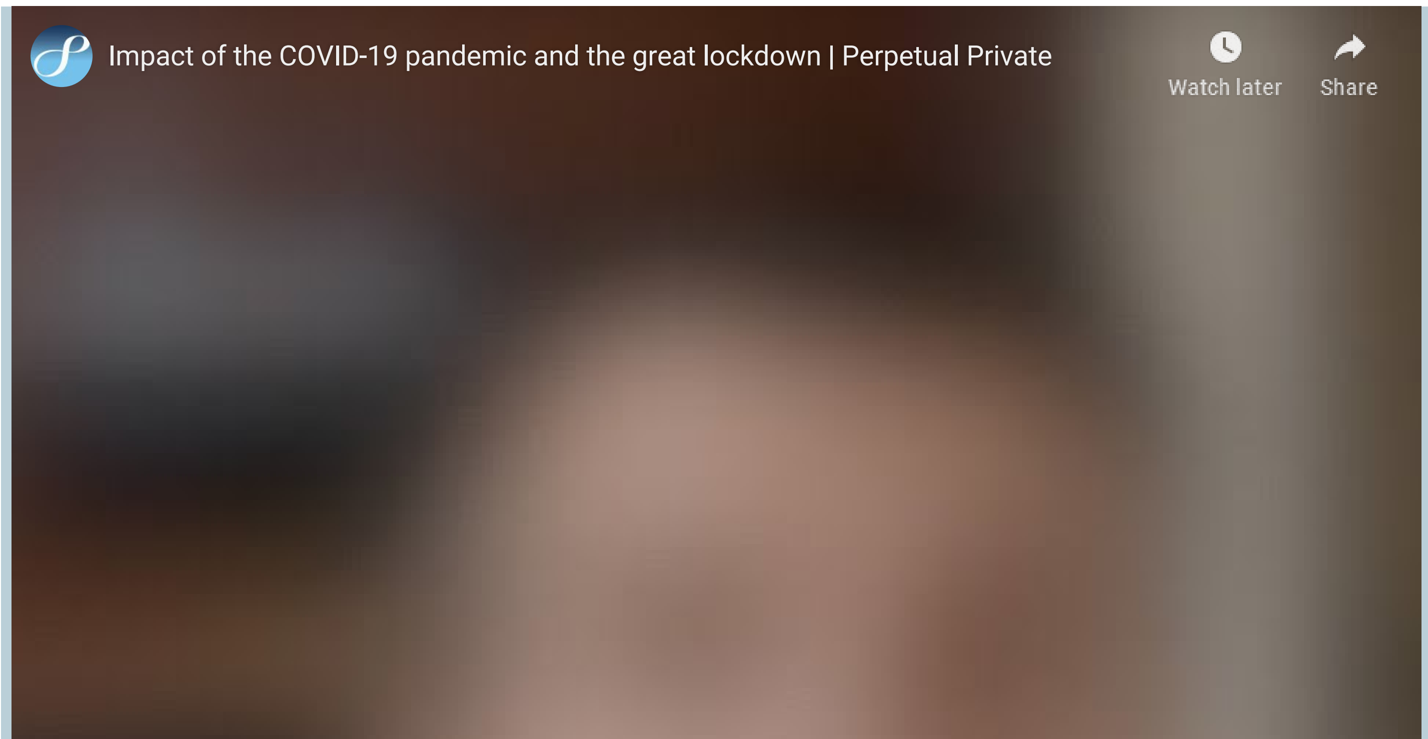
As markets responded to the developing coronavirus (COVID-19) situation, we've seen a wall of monetary and fiscal countermeasures being deployed by central banks and the Australian Government. This included two rate cuts by the Reserve Bank of Australia (RBA) in March 2020 (the official cash rate is now 0.25%) and saw the government introduce a range of economic stimulus measures aimed at supporting economic activity, employment and the ongoing work of many not-for-profits (NFPs).

With the immediate outlook unclear and the inevitable emergence of new issues arising from both the medical and economic responses, Andrew Garrett, National Investment Specialist, Perpetual Private discusses the investment implications for NFPs. He asserts that while it's hard to foresee the full effects of the pandemic, having a good solid plan in place will help ensure that NFP boards maintain cashflow and preserve the value of investment portfolios.

IMPACT OF THE COVID-19 PANDEMIC AND THE 'GREAT LOCKDOWN'



Undeniably COVID-19 has significantly impacted the way we can now live as well as the performance of financial markets, which go hand-in-hand. What we've seen is the genesis of a medical crisis. The impact of the virus was first seen in China in November 2019 and has now developed into a widespread economic crisis as governments around the world have restricted travel and implemented a range of measures to stimulate growth and minimise the economic and social impact of the rising pandemic.

In this environment, the task at hand is significant. Never before have economies been intentionally placed into hibernation. In the words of the International Monetary Fund: "This requires substantial targeted fiscal, monetary, and financial measures to maintain the economic ties between workers and firms and lenders and borrowers, keeping intact the economic and financial infrastructure of society[1]. Restarting economies will be a challenge. The idea is to try and move past the medical crisis with the hope that we can then transition and deal effectively with the economic crisis.

c Only time will tell if the cure has been worse than the disease. As the presence of the virus begins to subside over the coming months, we will increasingly have to reckon with the economic aftershocks. This will likely cascade from first order effects (such as the impact to the global travel industry), to second and third order effects which, by their very nature are less predictable.

PLANNING FOR LIQUIDITY AND CASHFLOW REQUIREMENTS IS A CRITICAL PART OF DEVELOPING AN EFFECTIVE INVESTMENT STRATEGY

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Within our not for profit segment, we're seeing some questions come from our clients broadly around liquidity. NFPs all have unique missions, structures and stakeholders but what unites them is the need to do some sort of good on a continuing basis. In order to achieve this purpose, they need to have liquidity; that is, cash in the bank ready to go. Clients can be confident that the liquidity that they believe is in their investment portfolio is there because this requirement has been built into the investment strategy and portfolio's asset allocation.

We believe that when a NFP board first start looking at investing, it's crucial to spend time on understanding what they need to achieve; so really understanding the demands of the investment mission. That's why we do a lot of work with our clients on spending policy and getting a clear picture of cashflow requirements; what can be saved or locked away for a rainy day and what can be invested.

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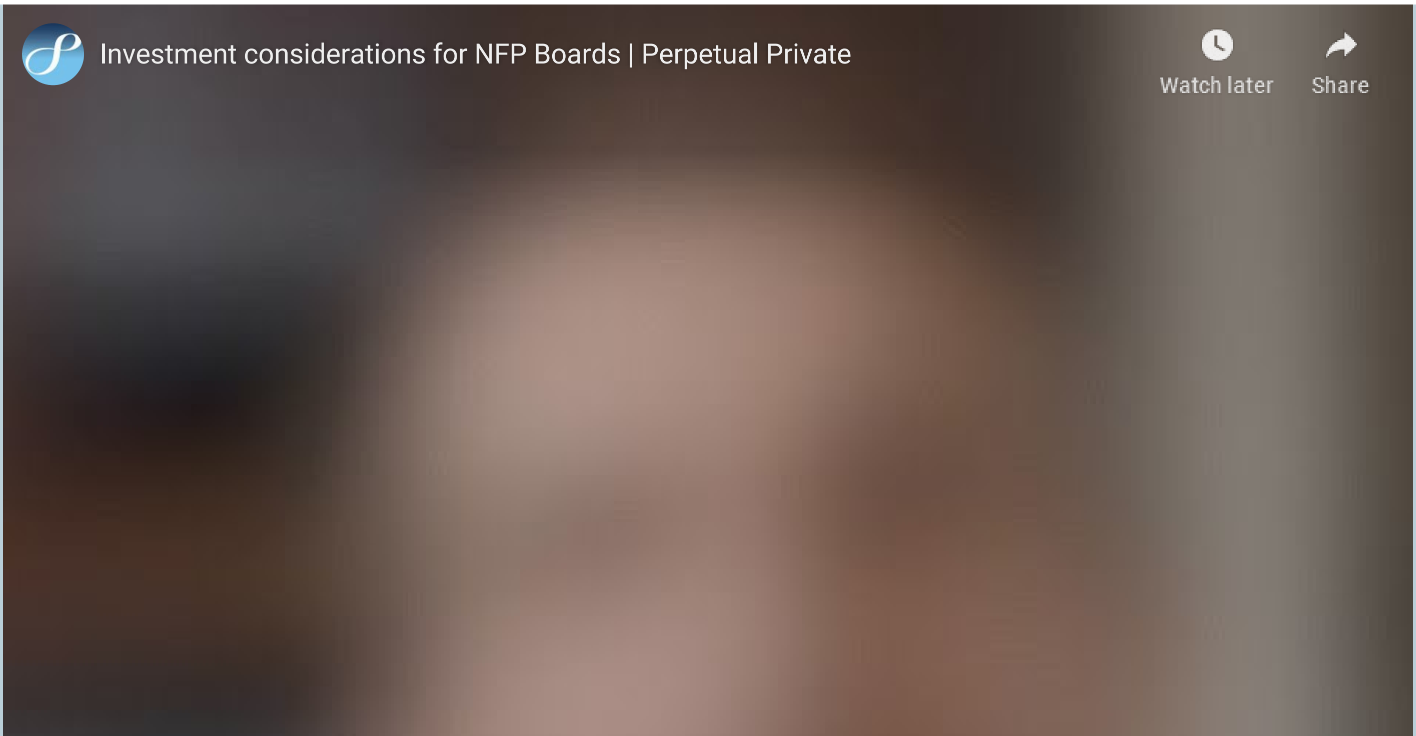
How NFPs can manage cashflow requirements

In order to plan for liquidity, NFP boards need to address:

- Why are we investing?
- How much can we safely invest?
- What are the requirements for this money?

An effective plan can then be developed to last for the long term. This stands true at any point in the investment cycle.

INVESTMENT CONSIDERATIONS FOR NFP BOARDS



[illegible] history may provide some guidance on how to navigate the coming months and years. Though the current situation is unique in many ways, the behaviour of markets during periods such as these bear many similarities across time. When NFP boards think about how to respond in times such as these, the following rules can serve them well:

1. **Stay calm** – This too shall pass. Studies have shown that investors tend to overtrade and destroy value when reacting to market events in the heat of the moment.
2. **Stick to the plan** – Investment strategies have been devised for the long term; asset allocations have been optimised using many years of data which include numerous periods like this.
3. **Rebalance** – Where asset exposures have moved meaningfully away from their long-term target, there is potential to add long-term value by re[illegible]cing expensive assets in favour of cheap assets.
4. **[illegible] the market** – Whilst we don't seek to trade heavily during times like these, the extreme levels of volatility may provide opportunities for active asset management in client portfolios.

[illegible] policy statement or investment management statement means that many NFPs can be feel [illegible] that they're in a strong position to weather the impact of the COVD-19 crisis; this plan serves as the bedrock for a [illegible] investment mindset throughout time.

More information

If you would like to discuss your organisation's investment needs contact Scott Hawker, Perpetual's National Manager for Not-for-Profit Endowments on email: scott.hawker@perpetual.com.au or phone 02 9229 9319 or Andrew Garrett, National Investment Specialist, Perpetual Private on email: andrew.garrett@perpetual.com.au or phone 03 8628 0448.

> FURTHER READING - COVID-19

Visit our COVID-19 Insights Hub for economic and market updates to keep you informed as the situation evolves.

1. As at 31 March 2020