THE SHORTFALL AND THE LONG FALL: NFP INVESTING IN A LOW RATE WORLD

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Like many other types of investors, NFP boards and investment committees are grappling with what COVID-19 is doing to their investment income. Income that's vital to achieving their mission – and even more vital in a world where many not-for-profits are getting asked for more help every day.

COVID-19 has shuttered economies, sparked major volatility in sharemarkets, forced companies to stop or slash dividends and led to a further decline in cash rates. All these factors make investing hard for not-for-profits, but the cash crash is perhaps the most pressing issue. This is because many not-for-profits use cash and Term Deposits as the first repository for their reserves and investment capital.

As Governments and Central Banks around the world look to re-invigorate their economies, lower rates appear to be the default setting for years to come. So, what can not-for-profits do to replace their lost income?

To help NFPs implement the strategic reset required, Perpetual Private have put together a new White Paper, *The long fall: NFP investment strategies in a low rate world*.

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Let's have a look at some of the key issues discussed in the report.

It's not all about the virus

Key to a strategic reset is a clear understanding of the issues. According to Perpetual Private's investment team, low rates are not a pandemic issue. Rates have been falling since the "emergency measures" Central Banks and Government put in place to defeat the previous global emergency – the GFC.

Spread out is better than cashed up

Over the past five years – and including the early impact of COVID-19 - a diversified portfolio would have provided not-for-profits with more income than they would have generated from a portfolio based on Term Deposits. Not only that, a diversified portfolio would also have boosted the underlying capital – and that means the potential for higher income down the track.

The risk curve can be a slippery slope

Whilst the outlook for cash returns is poor, Perpetual believes not-for-profits need to be careful and strategic in how they switch to higher returning assets. Seeking to fill an income shortfall by dumping cash and Term Deposits in favour of high yield shares may be an option. But it's an option that adds materially to the risk in the NFPs. The White Paper looks at this problem and explores asset classes and investment approaches that add income without adding excess risk.

These are just some of the issues covered in Perpetual Private's new White Paper. It also covers:

- What COVID-19 volatility means for share dividends now and in the future
- The role NFP spending policies can play in more effective investing
- Why not-for-profits need to stop thinking income or growth and start thinking total return

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