FEG Insight

THE ’80s ARE BACK

Cash Enhancement Opportunities

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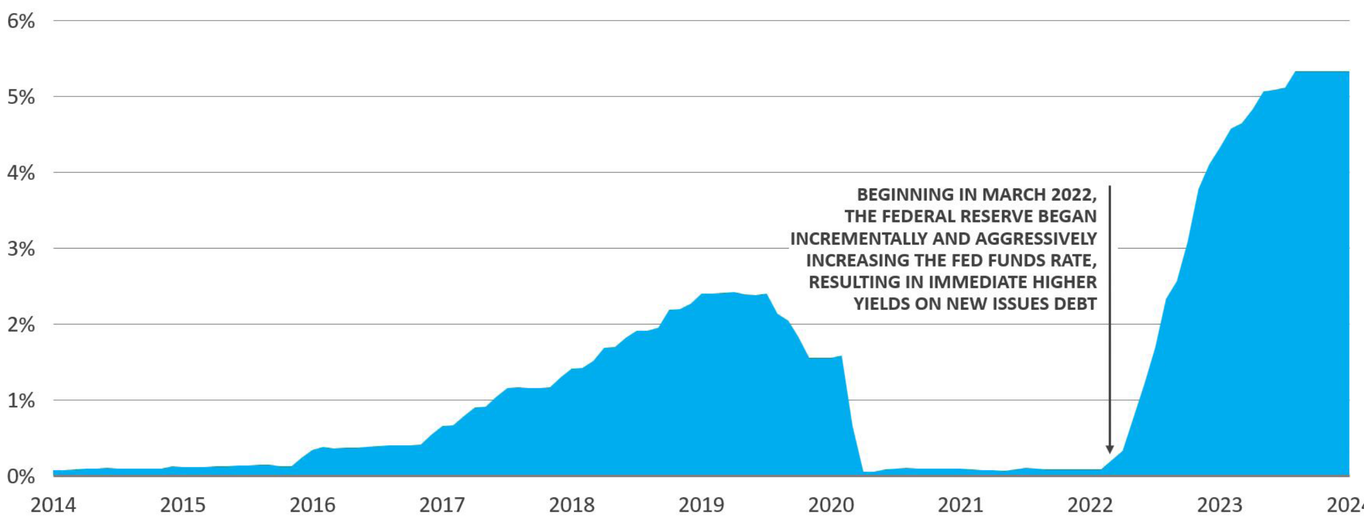
The 1980s was an era known for Nintendo games, shoulder pads, and skyrocketing interest rates. Given recent fashion trends, 2023's The Super Mario Bros. Movie *and a persistently unaffordable housing market, one cannot help but wonder if the '80s are back.*

The '80s Are Back: Cash Enhancement Opportunities

Over the past few decades investors have experienced a secular bull market in interest rates, with short-term Federal Funds Rates near 0%, making investments in short-term instruments like money markets or Treasuries unappealing from a return perspective. After more than a decade of nearly imperceptible returns on cash, the Federal Reserve (Fed) policy of increased rates has created opportunities for these short-term instruments to generate more serious returns. Cash portfolios that were quick to adjust their strategies have benefitted from returns of 5% or more. Now that the Fed has pivoted away from its rate-hiking stance to one of probable declines later in 2024, investors are left questioning how to reposition their cash. Rising rates since 2022 have made cash an interesting opportunity, a topic FEG recently explored during the annual conference held by Council for Advancement and Support of Education (CASE).

FEDERAL FUNDS RATE – PAST 10 YEARS



Data source: St. Louis Federal Reserve; data as of January 2024

CASE CONFERENCE AT A GLANCE

Every spring, hundreds of attendees come together at CASE's Conference for College and University Foundations. The agenda is always robust, and this year's event included two and a half days of sessions on topics such as cash segmentation, fundraising and donor strategies and trends, governance, and risk management, as well as the ever-popular Legislative Update. In case you missed it, this paper will unveil the highlights from FEG's Enhanced Cash and Cash Segmentation presentation, followed by a brief addendum with key takeaways from this year's conference.

FEG's presentation, Enhanced Cash – How to Position Cash Post Fed-Pivot, explored the different types of short-term, non-endowed pools—e.g., operating cash or reserves, enhanced cash, or short-term cash—frequently utilized by nonprofit organizations. Notably, a quick survey of the room revealed that a surprising majority of the attendees each had over $50 million in such pools.

Converting the recent rise in rates to short-term returns is appealing, with short-term yields in the 5% range, whether using a barbell strategy of varying maturities—like a laddered portfolio which holds securities until maturity to coincide with the cash flow needs of the organization—or a simple money market account.

CURRENT RETURN EXPECTATIONS

ENHANCED CASH DYNAMICALLY MANAGED EXAMPLE

U.S. TREASURIES	WEIGHT	YTM (%)	CONTRIBUTION
3 month	30%	5.26%	1.578%
6 month	30%	5.28%	1.584%
9 month	15%	5.12%	0.768%
12 month	15%	4.94%	0.741%
18 month	10%	4.40%	0.440%
TOTAL YTM			**5.11%**

MONEY MARKET FUND (SCOXX) EXAMPLE

MMF	WEIGHT	YTM (%)	CONTRIBUTION
SCOXX	100%	4.95%	4.95%
TOTAL YTM			**4.95%**

Note: Treasuries ranging from 1 month to 2 years as of April 2, 2024
Data source: Schwab, SCOXX 7-day yield; data as of April 2, 2024

POTENTIALLY LOWER COSTS FOR ENHANCED CASH

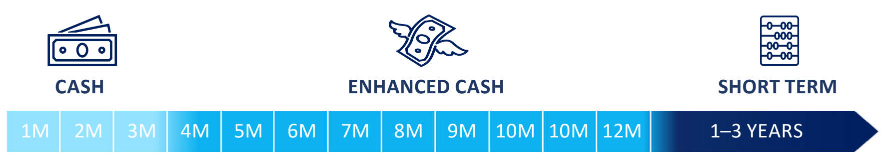
In addition to higher interest rates leading to higher return expectations, there may be potentially lower costs for enhanced cash as the competitive landscape thickens. From a risk management perspective, many of these instruments are tied to a risk-free rate and offer the benefit of insurance from organizations such as the FDIC or instruments backed by the U.S. Treasury.

MONEY MARKET	TREASURIES–ACTIVELY MANAGED	ETFs PASSIVE	ACTIVE MANAGED FUNDS
0.10% – 0.35%	0.10% – 0.18%	0.07% – 0.12%	0.25% – 0.49%

Data source: Schwab, Treasuries; data as of April 2, 2024

DEFINING CASH SEGMENTATION

FEG has developed a useful framework for defining different types of cash segmentation and corresponding roles, as shown in the corresponding graphic. Depending on an organization's specific structure and situation, some or all of these descriptions may be relevant. The idea is to segment each cash strategy to optimize overall cash management, where cash balances are aligned by purpose, time horizon, and risk profile; the naming convention is less relevant. Think of it as asset allocation for cash that allows an organization to dynamically shift as market conditions and cash needs change.



	CASH	ENHANCED CASH	SHORT TERM
TIME FRAME	0 – 3 months	3 – 12 months	1 – 3 years
PURPOSE	Support operating needs	Acquisitions/stock repurchase	Cash not historically used
LIQUIDITY	Daily	Limited	Limited
RISK/RETURN	Little to no principal loss/credit risk Low return potential	Limited principal loss Better-than-Cash earning potential	Small risk of principal loss Better-then-Enhanced-Cash earning potential
INVESTMENT VEHICLE	**Cash Only** Checking account sweeps money market funds	**Expand from Cash** Treasuries and short-duration fixed income	**Expand from Enhanced Cash** Include government and corporate securities

Source: FEG

The five steps to establishing a cash segmentation strategy are listed below. These are described in more detail in the full presentation, authored by FEG's Kathryn Mawer, Managing Director, and Sarah Wessling, Vice President, Strategic Growth.

FIVE STEPS TO A CASH SEGMENTATION STRATEGY

1) Assess current operating cash needs and assets
2) Define cash segments
3) Identify investment strategy for each segment
4) Define roles and responsibilities
5) Document cash segmentation strategy (policies)

CONCLUSION

The intricacies of effectively running the operations, investment, and fundraising functions of a foundation are vast. These foundations support colleges and universities and are instrumental in shaping the future of educational communities. While the ’80s may have reentered to showcase its sequins, the market will ride the wave, and FEG will continue supporting the unique needs of each client. Whether an organization is focusing on cash enhancement or any of the other relevant topics showcased at CASE, FEG seeks to assist higher education clients in aligning investments with organizational goals.

To learn more about cash enhancement, please visit the full presentation located here.

ADDENDUM: HIGHLIGHTING OTHER TOPICS FROM THE CASE CONFERENCE

In case you missed it, we also want to share some of the highlights and key takeaways from this year's Conference for College and University Foundations. More than two days of presentations yielded a plethora of information, with many valuable insights. Additional details on the conference and its presentations can be obtained directly from CASE at community.case.org.

LEGISLATIVE UPDATE

CASE works diligently to represent their members in Washington, and keeps members apprised of pending issues that might impact higher education's fundraising efforts. The key takeaway from this session was that a weakening perception of higher education could result in becoming a target for lawmakers, whether the intent be to take away tax benefits from donors, such as the sunsetting of the higher standard deductions allowed since 2017, or potentially more aggressive excise taxes on more institutions. However, due to severe division in the House and Senate, consensus is difficult to achieve, making decisions unlikely to be approved before November. As a result, many decisions will be dependent on the outcome of the elections. For more information, visit community.case.org.

FUNDRAISING AND DONOR STRATEGIES AND TRENDS

Many sessions indicated it is well worth the effort to gather and analyze donor analytics. The advantages include improving donor engagement and outcomes by creating more compelling and relevant content while also leading to more personalized interactions. This, in turn, can lead to better understanding donor attitudes, expanding reach, and building more long-lasting donor relationships to yield higher success rates. From the perspective of the foundation, tools like dashboards can be helpful for both internal and external communications, to communicate key points across in an environment already crowded with distractions.

GOVERNANCE

Leaning into leadership was a primary focal point of many sessions, with topics ranging from mergers, to ongoing board education, to leveraging leaders in advancement strategies. One of the most critical factors highlighted was the depth of the coordination between foundations and institutions during campaigns. For a university to maintain a strong approach, sessions recommended that leaders of a campaign establish a strategic plan to launch that includes strong coordination, planning and feedback between the foundation and institution, established timelines, primer messages, and a plan for internal and external communication.

RISK MANAGEMENT

The risk management sessions at CASE were heavily attended, with a key takeaway focused on the reality of cyber risk. Information is constantly changing, so staying up to date on the latest developments is essential. Additionally, fire drills were said to be extremely helpful in enabling staff to understand how critical reaction time is to thwarting invasion. Coordinating various key risks across the enterprise was strongly recommended, reiterating the importance of solid relationships across the foundation and institution. In order to take a holistic approach to enterprise risk, risk management teams were advised to create strategic plans that include identifying, analyzing, and responding to institutional risks broadly, including compliance, financial, operational, reputational, and strategic risks.

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The National Association of College and University Business Officers (NACUBO) is a membership organization representing more than 1900 colleges, universities and higher education service providers across the country. The NACUBO data was obtained from the 2023 NACUBO-TIAA Study of Endowments (NTSE), an independent third-party. The study includes a survey of 688 U.S. colleges and universities. The study divided the data into seven categories according to size of endowment, ranging from institutions with endowment assets under $25 million to those with assets in excess of $1 billion. The study data is for the 2023 fiscal year (July 1, 2022 - June 30, 2022) and based on the responses provided by the participants and is meant for illustration and educational purposes only. The average and median returns presented in this presentation are taken directly from the NACUBO study and were not calculated by or achieved by FEG or its clients. FEG is not affiliated with the organization and did not pay for the survey results.

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