SONI
Study on Nonprofit Investing

CELEBRATING 5 YEARS

2017 STUDY ON NONPROFIT INVESTING

Associations

Raffa Wealth Management, LLC

The Study on Nonprofit Investing celebrates its fifth anniversary!

Launched in 2012, the annual Study on Nonprofit Investing (SONI) seeks to meet the need for timely, relevant, actionable data about how nonprofits invest their reserves and how their investments perform.

Contents

If considering working with Raffa Wealth Management, please review our disclosure brochure (Download RWM's Disclosure Brochure: **https://goo.gl/O3Aqyh**). This is the document that we file annually with the SEC. It outlines our business practices and material arrangements and is intended, in part, to make you aware of any potential conflicts of interest.

Nonprofits Deserve to Know • www.npinvesting.org

Introduction

For the second year in a row, more than 700 nonprofits participated in the SONI survey, including 204 membership associations, 460 public charities, and 38 private or community foundations. The SONI results are segmented by these three broad nonprofit types. Each type is then segmented into three size cohorts: budget or portfolio size less than $5 million; between $5–$25 million; and more than $25 million.

This report shares the results of the 204 respondents that identified as membership associations. It provides peer benchmarks intended to help associations make better-informed decisions about their organizations' investments. This report answers questions like:

- How do nonprofits segment total cash assets among short and longer-term objectives?
- How much investment risk do nonprofits take with longer-term investments?
- How much do nonprofits pay for investment services?
- How much are nonprofits earning from their investments—and what should they expect?
- How can nonprofits strengthen their investment policy to most effectively guide decision-making?

Budget	Public Charity	Association	Private/Community Foundation*	Overall
<$5M	208	102	7	317
$5-25M	181	71	10	262
>$25M	71	31	21	123
Total	**460**	**204**	**38**	**702**

*Private/Community Foundations presented in this table are segmented by portfolio size as opposed to budget size.

Year-end 2016 was another strong year for the markets as U.S. stocks gained 12.7%, foreign stocks gained 5.1%, and bonds gained 2.65%. In relation to the SONI blended portfolio benchmarks, however, the median 2017 SONI participant underperformed.* This has been a finding in each of the three previous SONI reports (for the years ending 2013, 2014, and 2015). We believe this is a meaningful trend that deserves a deeper look. See our "Underperformance Gap" Trend Alert on page 16.

This year's analysis revealed similar findings from the 2016 SONI report (data as of YE 2015). That is, associations with lower fees and those with specific policy guidelines that force accountability and instill discipline to decision-making generally fared better than associations that focused on other variables.

What's new for the 2017 SONI? This year, we address participants' most frequently asked questions. Several participants asked questions relating to objectively evaluating their organization's investment advisor. Our Advisor Alert on page 11 addresses this topic in detail.

Do you have questions or feedback about this report?

Email SONI@raffawealth.com

* All performance results have been compiled solely by RWM based on information provided by survey respondents. Results have not been independently audited or verified.

About the Authors

Raffa Wealth Management, LLC

Founded in 2005, Raffa Wealth Management (RWM) is an independent investment advisor serving the portfolio management and policy consulting needs of nonprofit organizations—particularly professional societies, trade associations, public charities, and foundations. RWM's approach is intended to help streamline the investment management services provided to nonprofit organizations while focusing on removing wasteful expenses and limiting unnecessary risks. RWM developed the Study on Nonprofit Investing specifically to better serve nonprofits. More information can be found at **www.npinvesting.org** or **www.raffawealth.com**.

Raffa, PC

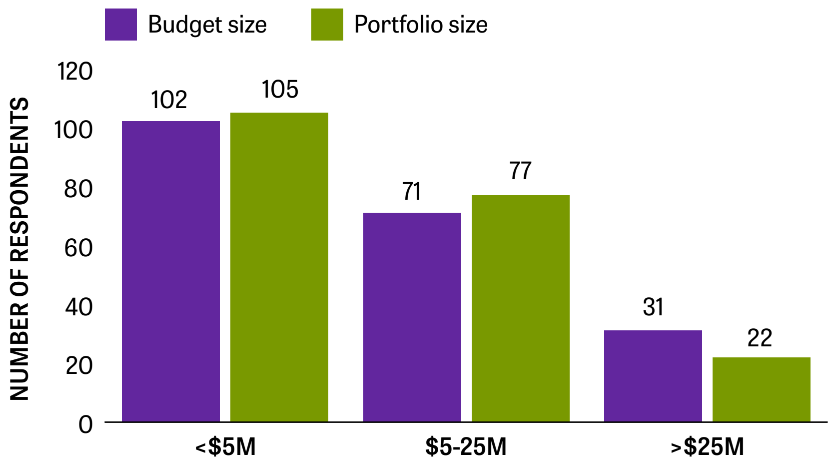
Founded in 1984, Raffa is an accounting, consulting and technology firm based in Washington, D.C., dedicated to service and community. As a B-Corp certified, national Top 100 CPA advisory firm specializing in nonprofits and socially-responsible businesses, Raffa provides support to help organizations across the country effectively and efficiently manage their most critical processes. The firm's specialized professionals provide planning, consulting and compliance services to corporations, entrepreneurs, families, nonprofits, and social enterprises. Offering a deep bench across an array of services, including accounting and tax, human resources, technology, and consulting, Raffa's client-centric, customized approach helps each client meet its potential. Learn more at **www.raffa.com**.

Participation

Participation

Survey participation continued to increase this year with a total of 204 associations partaking in SONI.

Of the participating associations, 40% identified as trade associations, 33% identified as either a professional society or accrediting association; and the remaining 27% identified as "other." Exactly half (50%) of these associations had budgets in excess of $5 million.



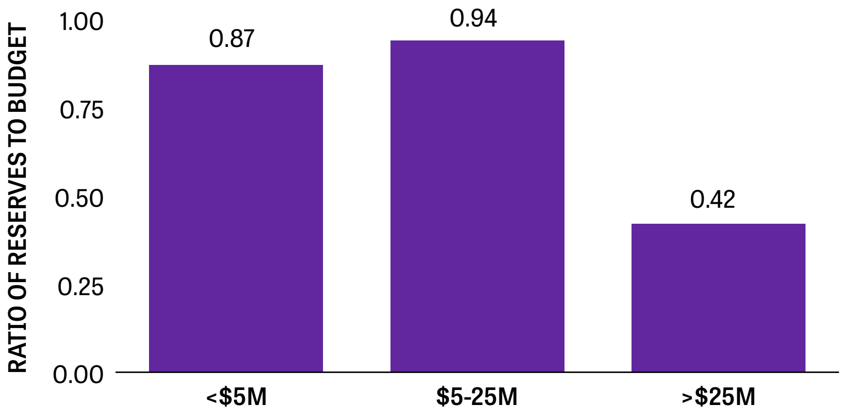
Budget size <$5 million
102 associations participated. The median budget size was $2.2 million and the median portfolio size was $1.90 million.

Budget size $5–25 million
71 associations participated. The median budget size was $9 million and the median portfolio size was $8.5 million.

Budget size >$25 million
31 associations participated. The median budget size was $47 million and the median portfolio size was $19.8 million.

Reserve to budget ratio

Association reserves are being defined as total liquid cash assets—or more specifically the combined total held in checking accounts, excess operating cash, short/intermediate-term accounts, and a long-term portfolio or endowment.

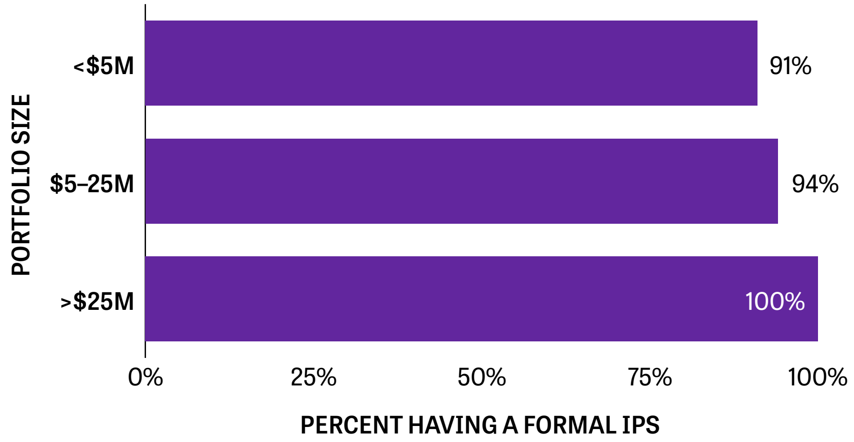


The median reserve to budget ratio was 0.87 (or approximately ten and a half months of their budget in cash assets) for small associations (less than $5 million). Medium sized associations ($5–$25 million) had a median reserve to budget ratio of 0.94, or close to a year's budget in cash assets. Larger associations maintained closer to five months of their budget in liquid assets.

Investment Policy Guidelines

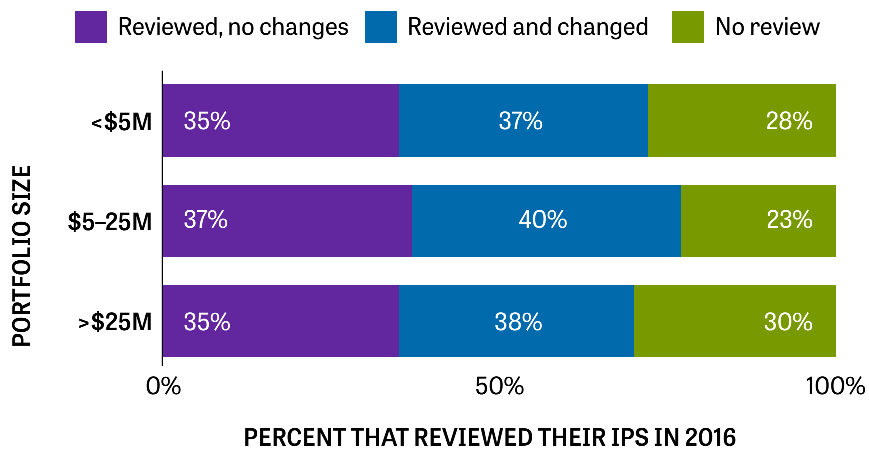
Formal policy election

The vast majority of nonprofits participating in SONI maintain a formal Investment Policy Statement (IPS).



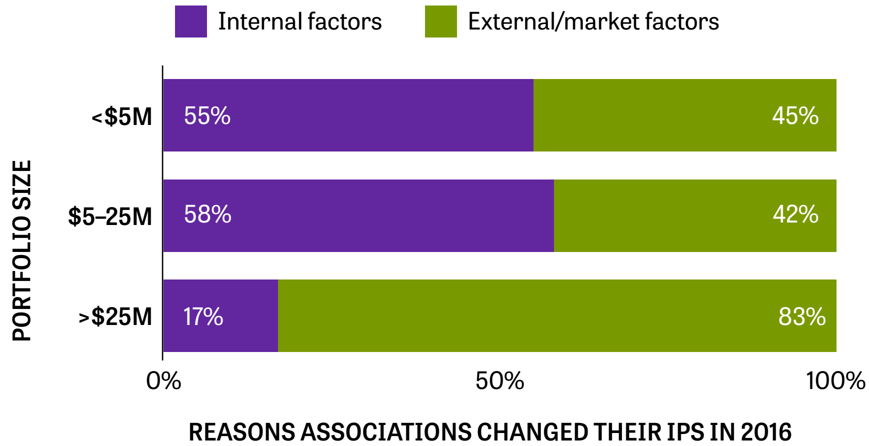
IPS review

Most associations reviewed their policy at some point in 2016. Approximately half of those that reviewed reported making a change to their policy.



Reason for change

Most of the associations that made a change to their policy did so based on internal factors with the exception of larger associations, the majority of which reported making changes due to external/market conditions.

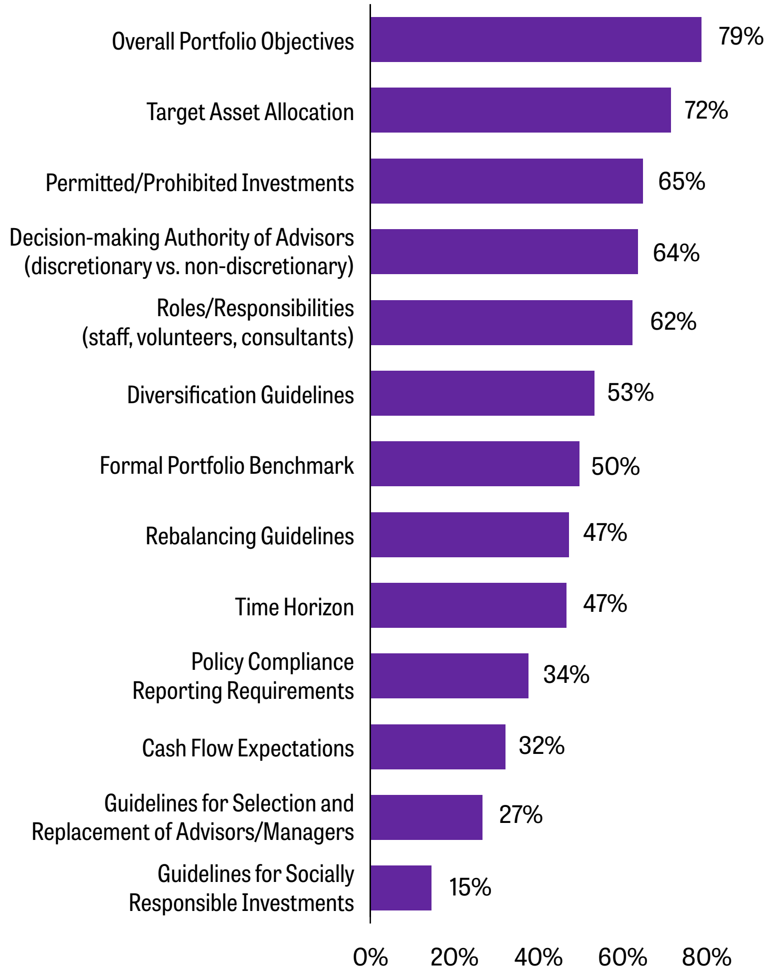


Investment policy components

Of those that maintain a formal IPS, association survey participants were asked to select the components that are formally addressed in their organization's policy.

A vast majority of organizations outline overall portfolio objectives in their IPS (79%). Many include specifying a target asset allocation (72%) and permitted or prohibited investments (65%) in their policy.

For the second year in a row, less than 20% of associations reported including guidelines for socially responsible investments in their IPS.



PERCENTAGE OF RESPONDENTS WHO INCLUDE TOPIC IN THEIR IPS

Advisor Alert: Strengthen Your Investment Policy

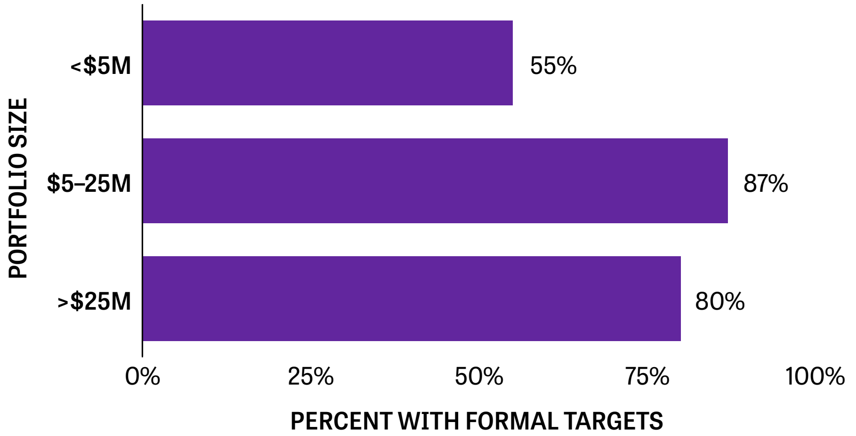
In our professional judgment, maintaining and regularly reviewing your organization's investment policy gives nonprofits their best chance of achieving their investment goals. During your review, ensure the high-level goals and objectives of your investment reserves are clearly stated. Be sure to include governance procedures such as decision-making authority and discretionary/non-discretionary authorization.

As you review your policy or if you are developing it for the first time, document the process by which various policy guidelines have been set. If your organization's financial conditions or key personnel have materially changed, conduct a risk tolerance survey of key stakeholders. Anything you can do to bring discipline to the investment process is wise.

To obtain informational materials such as an investment policy best practice framework or IPS checklist, contact **SONI@raffawealth.com**.

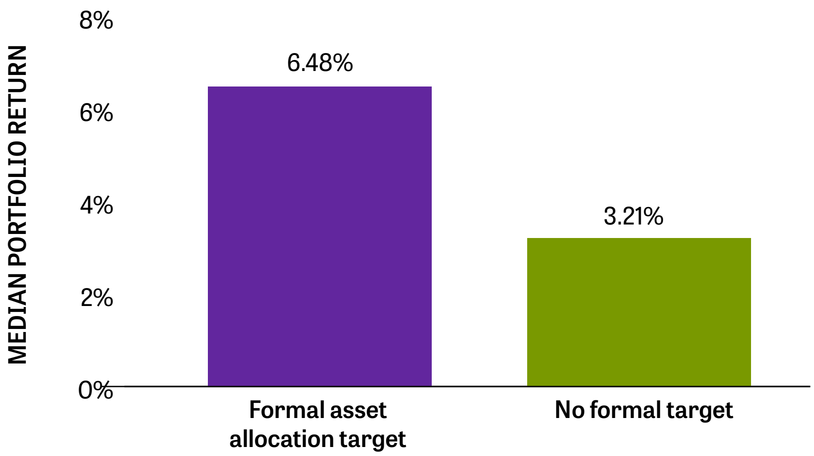
Asset allocation targets

Some associations require investments to be managed at or near specific policy asset class allocation targets (for example, 60% to stocks and 40% to bonds), while others allow more flexibility. The vast majority of larger associations, in particular, reported outlining formal asset allocation targets in their IPS.



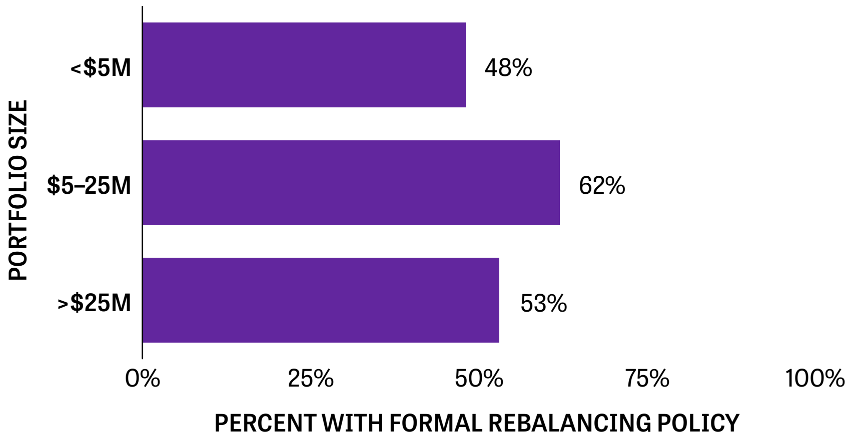
Performance* based on asset allocation targets

The median association that reported having a formal asset allocation target outlined in their IPS indicated better performance by over 3% than the median association that didn't have a target.



Portfolio rebalancing

When it comes to rebalancing, organizations must again decide whether or not guidelines should be outlined in their investment policy or if advisors or volunteer committees should be empowered to make ad hoc rebalancing judgments. A slight majority of larger associations reported maintaining a formal policy to guide rebalancing decisions whereas smaller associations were split.



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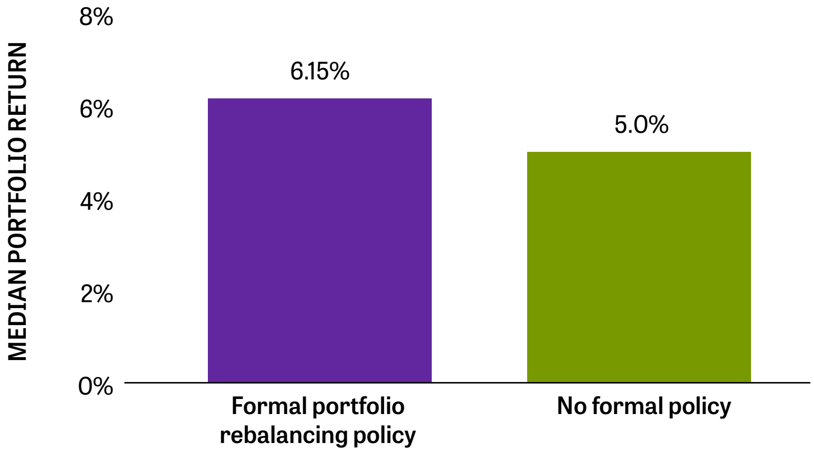
Performance* based on rebalancing policy

For YE 2016, the median association with a formal rebalancing policy outperformed the median association which didn't by over 1%.



Advisor Alert: Successful Investing Requires Discipline

In our professional judgment, removing emotions and instilling discipline into the investment decision-making process gives nonprofits their best chance of achieving their investment goals. We view systematic rebalancing as an ideal way to maintain a portfolio's risk profile. Organizations that lack clear asset allocation targets have nothing to rebalance to. Their portfolio allocation will drift, as does the market, until some judgment to change course is made. On the other hand, organizations with a formal target asset allocation must decide the circumstances that will trigger a move back to the targets. A formal rebalancing policy enables these circumstances to be established in advance, and free from market "noise."

Rebalancing involves making decisions when markets are volatile. For example, when stocks, are down, it's human nature to believe they are "falling," which assumes there is further to go. Without a clear policy to drive action, investors may allow their portfolio to become more conservative or more aggressive than necessary. Rebalancing to maintain a portfolio's target asset allocation or risk level involves systematically taking profits from market segments that have risen in value and using the proceeds to buy in to market segments that have fallen.

In our opinion, any rebalancing policy is better than not having one at all. Our preference, however, is a policy that allows a certain degree of drift from a target. While asset allocations should be monitored regularly, rebalancing is only necessary when a portfolio has moved too far from its target. Otherwise, the risk profile of the portfolio remains intact and incurring transaction costs is unnecessary.

We don't believe it's possible for anyone to consistently and reliably time markets. Absent some extraordinary ability to see the future, RWM strongly encourages nonprofits of all sizes to maintain clear asset allocation targets, consider the rebalancing strategy that works best for them, formally outline the rebalancing guidelines in their investment policy, and then stick with it.

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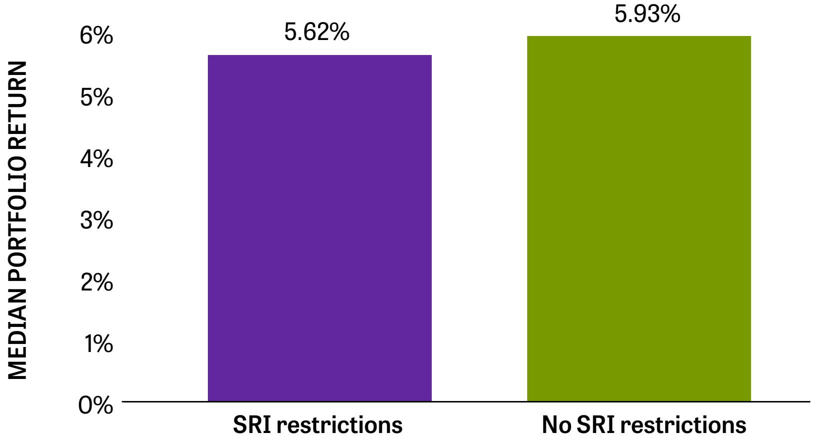
Socially responsible investing guidelines

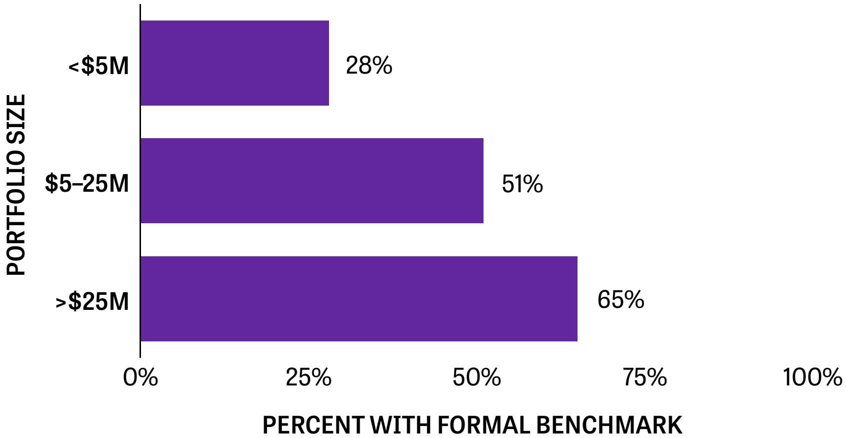
Approximately one in seven (14.5%) association participants reported having policy guidelines for socially responsible investing (SRI). The median association with SRI guidelines reported lower performance* than the median of those without SRI guidelines.



Portfolio benchmark policy

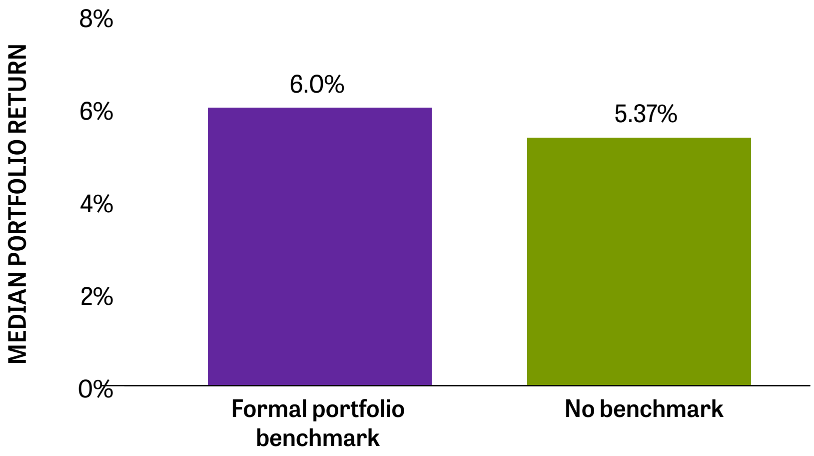
Maintaining a formal investment policy portfolio benchmark is far more common among larger associations than smaller associations. We believe this is a prime example of larger organizations setting a best practice, and we encourage all nonprofits to follow suit.

The purpose of having a formal portfolio benchmark outlined in the IPS is to clarify the portfolio's performance expectation and make it easier to hold all those involved in the investment process accountable for results.



Performance* based on benchmark policy

Overall, associations that reported including a "formal portfolio benchmark that identifies the portfolio's performance expectation" performed better on average than those that didn't.



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Advisor Alert: Objectively Evaluating Your Investment Advisor

Several 2017 survey respondents posted comments and questions about evaluating their investment advisor. One respondent asked "For those actively using investment advisors, [I'd like to know] how satisfied are you with the quality of service you receive?" Another stated "[Provide] more information about assessment of investment advisor performance, factors behind the decision to replace, and procedures for selecting a new advisor."

At RWM, we believe **Nonprofits Deserve To Know**™ if their advisor's investment strategy or recommendations are adding value. If you're not receiving information that enables you to objectively evaluate your advisor, it's likely you can strengthen policies and governance procedures to make this assessment less cumbersome.

To evaluate your advisor objectively, consider the following:

1. Set and stick to a static blended policy benchmark (BPB)

Just as in a scientific experiment, the BPB serves as the "control." Any comparison to the control reflects the gain or loss resulting from a decision to be different than the control.

Your BPB should:

- Contain a high-level blend of broad market indexes that align with your investment policy asset class targets
- Be outlined in your investment policy statement
- Remain constant or static
- Always be included in your investment reporting

Other benchmarks can serve different and meaningful purposes, but they need to be in addition to the policy benchmark, not instead of it. Having a static "stake in the ground" BPB is critical to clarifying performance expectations and making accountability possible. For more information, see Appendix: How to Create a Blended Policy Benchmark.

2. Decide the circumstances under which your advisor will be replaced in advance

In the 2016 SONI survey (data as of YE 2015), we asked survey respondents to indicate what level of underperformance in relation to a suitable portfolio benchmark they deem reasonable for an investment advisor over a five-year period.

The results varied from "no degree of underperformance is reasonable" to "underperforming by 2% is reasonable." You decide what is reasonable for your organization. Whenever emotions have the potential to cloud judgments, nonprofits will be well served to leverage simple, clear policies to guide decision-making. Outlining such policies in advance of a troubled scenario will save your organization a headache down the line.

3. Improve the clarity and transparency of your investment reporting

Does your investment report display dozens of pages of market predictions with dizzying charts and graphs followed by many pages of portfolio performance, activity, and position detail? If so, you may find it difficult to understand if the investments are in line with your policy and performing as expected.

The following information should be clearly stated within the first three pages of your investment report:

- Overall performance in relation to your BPB
- Actual overall asset allocation in relation to policy targets or ranges
- Verification that other policy guidelines are in compliance (particularly those related to diversification and fixed-income credit quality and maturity)

There is a lot of relevant information in an investment report, such as asset class details, position level performance, and various risk measures, but they are best addressed once high-level performance and policy compliance are verified as in line.

Continued on next page

Given a 5 year time frame...	Portfolio Size $0-5M	 $5-25M	 $25M+
Advisors and managers are expected to outperform market benchmark net of all fees	50%	45%	53%
Advisors and managers are expected to outperform benchmarks gross of their fee, but underperformance by the amount of their fee is reasonable	20%	21%	0%
After considering all fees, trailing benchmarks by 0.50% or less is reasonable	11%	11%	18%
After considering all fees, trailing benchmarks by 1.00% or less is reasonable	4%	11%	12%
After considering all fees, trailing benchmarks by 2.00% or less is reasonable	4%	8%	0%
I don't know	11%	5%	18%

4. If conditions warrant considering a change, conduct a request for proposal (RFP) for an investment advisor

Keep it simple— an RFP process doesn't have to be onerous. Consider what is most important to you and ask several different types of advisors to address your needs. Avoid using someone else's lengthy template and stick to the basics:

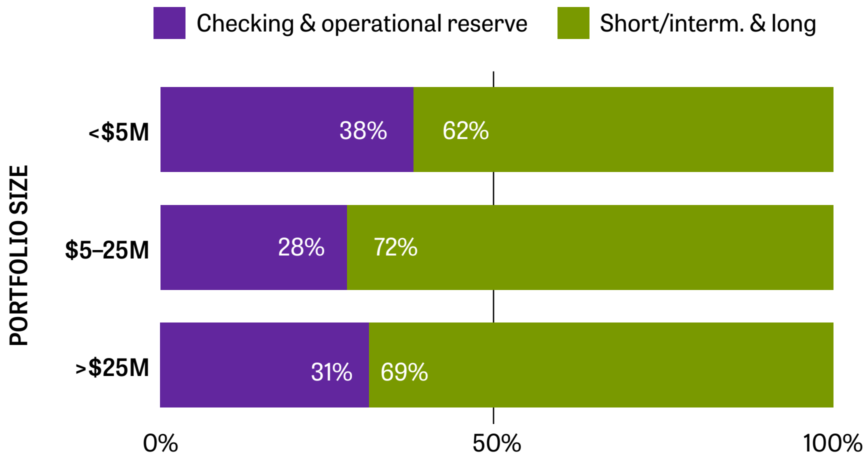
- History and experience
- Business structure
- Affiliations/conflicts of interest
- References (similar to your organization) and representative client list
- Actual aggregate client performance (not hypothetical or model results)
- Fees and expenses
- Sample reports, communications, and educational material
- Fiduciary status

Quantify participant responses so you can select and interview finalists. Document the process along the way to verify that you've avoided conflicts of interest. If you have a clear blended policy benchmark that identifies the portfolio's performance expectation over any time frame, you'll eventually know if you made a good decision. If you have a clear policy related to the degree of underperformance you'll tolerate, you'll also know when it is time to do it again.

To obtain informational materials such as a sample investment policy statement or investment advisor RFP template, contact **SONI@raffawealth.com**.

Segmentation and Asset Allocation

Segmentation of total liquid assets



In order to assess how associations segment their liquid cash assets, we asked survey participants how much they held in assets in the following four buckets:

1. Cash in checking
2. Excess operating cash
3. Short/intermediate-term investments
4. Long-term investments

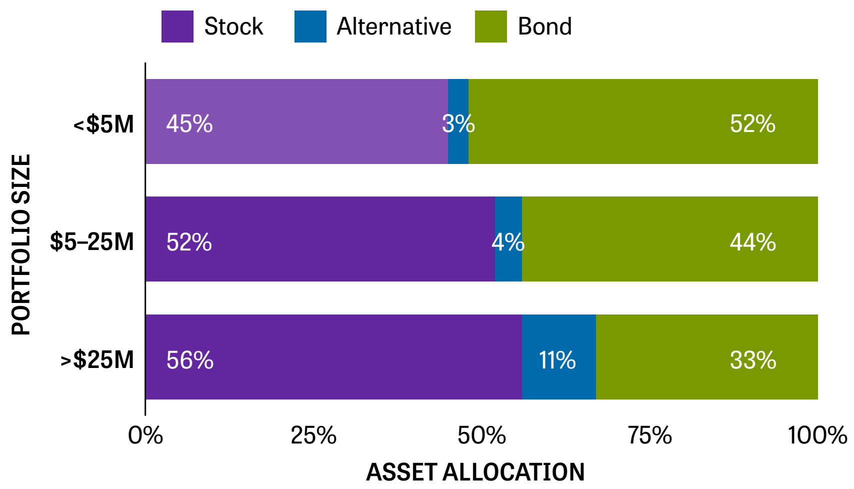
We then grouped the first two buckets and the last two buckets together to show the split among total liquid assets held in cash versus assets invested for longer-term objectives.

Regardless of size, associations reported maintaining a roughly even balance between liquid assets held in cash versus those invested toward longer-term objectives.

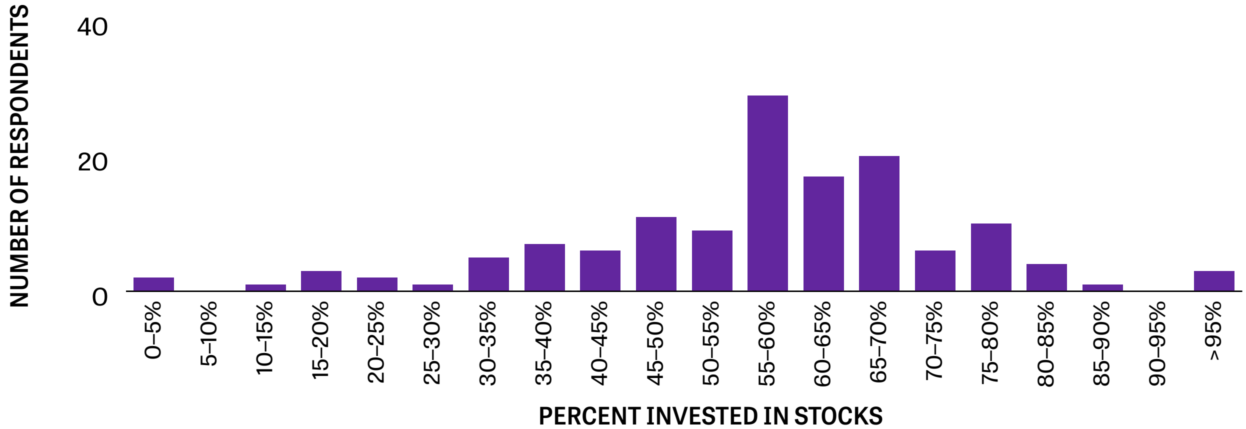
Long-term reserve asset allocation

Participants were asked what percentage of their long-term reserves should be allocated to stocks, bonds/cash, and alternative investments according to their organization's investment policy targets.

As expected, larger organizations invest more aggressively, allocating more to stock and alternative investments.



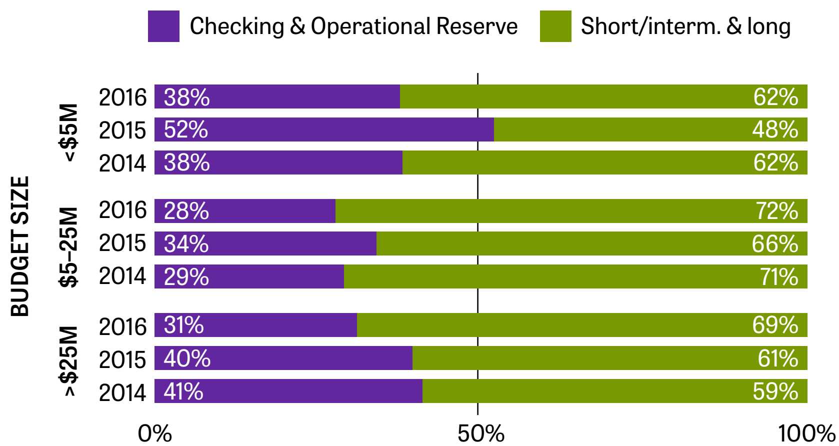
In order to show the "normal" asset allocation range for nonprofits' long-term reserves, we grouped each respondent's allocation to stocks with half of the allocation to alternatives to show the total allocated for growth. As indicated in the graph below, the "normal" range for associations is between 45% and 75% of assets allocated to stocks and to alternative investments intended for long-term growth.



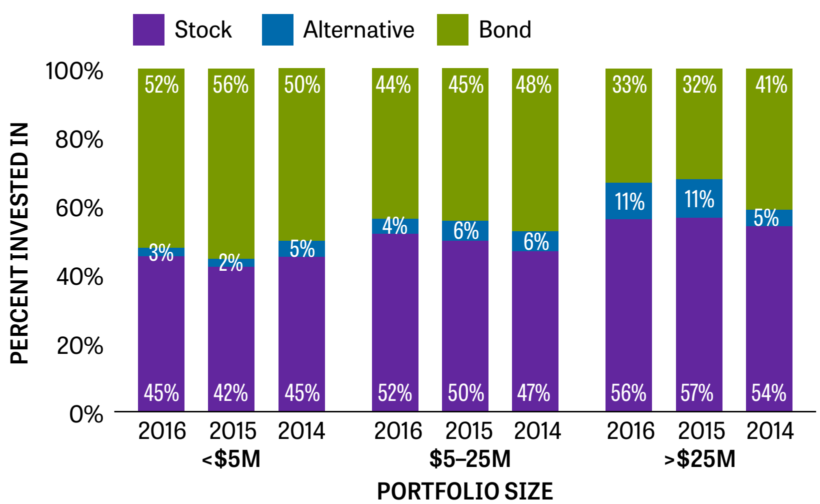
Trend Alert: Asset Allocation Shifts

Compared to the 2016 SONI results (data as of YE 2015), associations of all sizes maintained less of their total assets in cash and invested more for longer-term objectives throughout 2016. This is a shift toward risk and reflects some level of confidence in the future. Similarly, with respect to the investment reserve asset allocation, smaller associations shifted slightly toward riskier investments while larger associations moved modestly toward bonds.

Three-year total liquid cash allocation



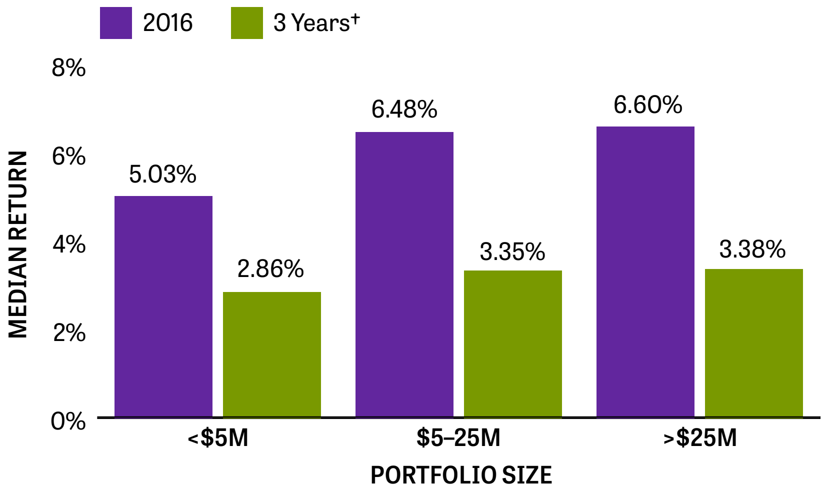
Three-year total liquid cash allocation



Investment Performance and Fees

Performance based on portfolio size

Investment performance* for year-end 2016 was positive across all three association size cohorts. Larger organizations reported better performance than smaller organizations. Over the last three years, larger organizations with more growth-oriented investment policies outperformed smaller organizations. This is expected given market conditions that favored stocks over bonds.



Advisor Alert: Considerations for Underperformance

If your investment strategy is consistent, three years can be a short time to measure the performance of a portfolio. Broad market segments such as U.S. stocks, international stocks, and bonds go through periods of over- and underperformance. Similarly, sub-asset classes such as large cap value, small cap, and emerging markets do as well. A portfolio strategy that emphasizes one class over another will not always be in favor. For example, stocks fell in three consecutive years from 2000 through the end of 2002. Additionally, value stocks, growth stocks, and stocks from emerging markets have historically gone through some periods of underperformance. In most cases, the approach that served investors best was remaining disciplined to their strategy over the long-term.

On the other hand, if a portfolio's strategy changes frequently, rather than maintaining a disciplined and diversified strategy, three years can be a very long time to allow a portfolio to suffer poor market timing or stock picking judgments. Understanding why a portfolio is underperforming is just as important as understanding if it is underperforming.

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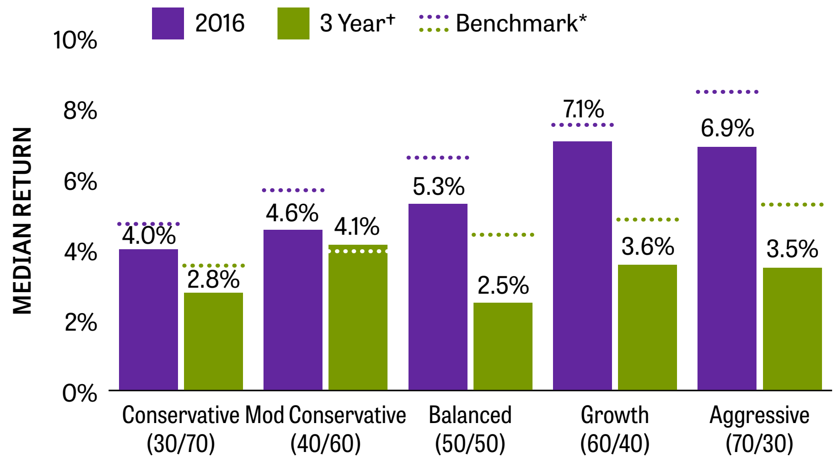
Portfolio benchmarks

To give context to the SONI performance results, five blended portfolio benchmarks were developed ranging from conservative to aggressive. Each portfolio benchmark consists of four traditional broad market indexes reflecting a balanced allocation to U.S. stocks, international stocks, bonds, and cash. SONI participants were separated into five groups based on their target asset allocation and the median performance of each group was compared to the corresponding portfolio benchmark.



For year-end 2016 and over the last three years, the median association investment return in each of the five target asset allocation categories trailed the corresponding blended portfolio benchmark.

Trend Alert: Underperformance Gap

This is our fifth consecutive year producing SONI and analyzing the results. For the past four years (data as of YE 2013, 2014, 2015, and 2016), we have grouped participant responses by their reported asset allocation and compared each asset allocation group's median performance result to a representative SONI blended benchmark. The construction of the SONI blended benchmarks has not changed. The median nonprofit participant has underperformed the representative blended benchmark with remarkable consistency.

The next logical question is why is this "underperformance gap" happening? Is there something fundamentally wrong with how nonprofits invest? Does the error lie within the methodology of the SONI benchmarks? The short answer is that we don't know for sure. This time frame is too short to draw hard conclusions. Here are our best judgments as to why we believe certain nonprofits may have underperformed.

- Pundits have been calling for interest rates to rise over the last four years – and they haven't. The result is intermediate-term bonds have performed better than shorter-term bonds. Nonprofits that have shifted their bond allocations to cash or shorter-term bonds have underperformed.
- Over the last four years, alternative investments have generally underperformed stocks. A shift out of stocks into alternatives would likely lead to lower returns.
- Investment fees reduce returns – particularly for those paying higher-than-median fees.

We will continue to evaluate SONI participant returns and monitor any performance gaps. In the meantime, the SONI results offer a compelling case for keeping things simple. When it comes to investing, simple means setting and rebalancing to asset class targets, reducing fees, and remaining disciplined.

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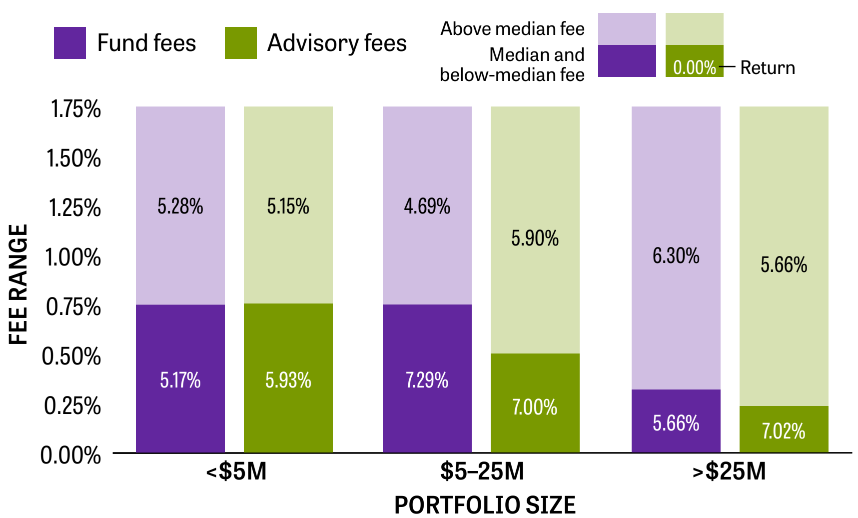
Investment fees

Portfolio Size	Advisor Fees	Fund Fees	Total
<$5M	0.59–0.77%	0.50–0.67%	0.99–1.31%
$5-25M	0.43–0.59%	0.50–0.68%	0.87–1.20%
>$25M	0.21–0.29%	0.35–0.50%	0.58–0.82%

SONI association survey participants were asked to select from a number of fee ranges that were provided. They were asked for their investment advisory fees and fund/manager level fees separately. On average, associations with portfolios between $5 and $25 million, for example, indicated that their advisory fee was in the 0.50%–0.68% range and their average fund/manager level fees fell in the 0.43% to 0.59% range. In total, the full range cohort paid in the 0.87% - 1.20% range. As expected, larger portfolios paid less in asset-based fees than smaller portfolios.

Performance* impact of fees



In an effort to identify how either advisory fees or fund-level fees impact bottom-line results, participant performance returns were segmented into two fee-categories: those with fees at or below the median fee range, and those with fees higher than the median range. The results for year-end 2016 showed associations with lower-than-median fund fees performed better on an overall basis, but the individual cohorts were mixed. However, associations with above-median advisory expenses reported lower performance for the year. When looking at associations' total fees, we continue to see a general pattern where lower fees have tended to indicate higher performance. We will continue to assess the impact of fees on bottom line results over time.

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Analysis

Uncertainty abounds as 2017 unfolds. The Federal Reserve has signaled additional interest rate hikes. The new administration is moving quickly to make changes to financial and economic policies. Investors are nervous. While it is reasonable to feel an urge to run for safety, the SONI results suggest associations, no matter their size, may serve themselves best by acting with discipline. The 2017 SONI findings show us that:

- Fees matter
- Policy guidelines that instill discipline to decision-making are wise
- It's important to clarify benchmarks that will hold all those involved in the management of the portfolio accountable for results

The four most dangerous words in investing are "it's different this time." The markets have withstood countless national and global calamities. Yes, there will come a time when stock prices fall. It's of no use, however, to react after the fact. If you are so fortunate as to sell before the decline, you must also successfully time the move back in. The odds are stacked against consistently timing the markets. Instead, keep it simple. Diversify broadly and inexpensively. Rebalance based on predetermined ranges and thresholds. Bring clarity and transparency to reporting. At RWM, we strongly believe that risk and return are directly related. We encourage associations to embrace this fundamental relationship and focus on what matters.

If you have any questions about this report, please contact us at **SONI@raffawealth.com**.

Would you like to schedule a free consultation to review best practices?

Email SONI@raffawealth.com

Appendix

How to Create a Blended Policy Benchmark

The key to objectively evaluating an investment advisor is developing a simple, high-level blended policy benchmark (BPB). Just as in a scientific experiment, the BPB serves as the "control." The control allows the comparison to the control to reflect the gain or loss resulting from a decision. The BPB should reflect the absence of professional management, so that comparing a portfolio whose outcome is the result of professional management shows a clear distinction—ideally a positive distinction.

It's critical that your BPB remains constant unless the organization, not the advisor, directs changes to your IPS, ultimately reflecting a fundamental change in the target level of risk for your reserves. If your BPB changes to reflect an investment judgment or a change in an advisor's strategy, then comparing your results to your BPB no longer reflects the value of those decisions.

To create your BPB, consider the following scenario:

ABC Nonprofit (ABC) targets an approximately 50/50 mix of stocks and bonds for its reserve portfolio. ABC believes it is reasonable to invest a small part of the stock allocation to foreign stocks. ABC wants the bond allocation to be safe and stable. ABC is not adverse to some small allocation to alternative investments, although it is not required.

ABC seeks to develop a static (i.e., permanent) blended policy benchmark to set the portfolio's performance expectation based on market conditions and its high-level 50/50 target allocation.

ABC considers five reasonable BPB constructions (see table on page 20).

The "right" BPB for you depends on your organization's starting point for investing. The starting point reflects no professional judgment. Just as in a scientific experiment, the starting point (the BPB) is the "control," such that any comparison to it reflects the gain or loss resulting from a decision.

- **BPB 1.** Assumes the starting point for investing is U.S. stocks and intermediate-term bonds and any decision to move beyond this very basic portfolio is a strategy for which an advisor should be held accountable.
- **BPB 2.** Assumes that the starting point (the BPB) includes some reasonable allocation to foreign stocks. Among SONI participants, the median allocation to foreign stocks is between 5% and 15%. This is obviously not an exact science. The purpose is not to reflect your advisor's strategy related to investing in foreign stocks. The purpose is to set some control that reflects the absence of professional judgment. It matters less exactly what it is, than whether it is kept constant.
- **BPB 3.** Assumes that the starting point includes some reasonable allocation to foreign stocks and that the average maturity of the allocation to bonds should be shorter or that the credit quality should be higher.
- **BPB 4.** Assumes the same starting point as BPB 3 with the additional understanding that your organization is directing an allocation to alternative investments. A key understanding here is that by including an allocation to alternatives in your control (BPB), comparing your portfolio results to your BPB does not reflect the value added or subtracted of the decision to include alternative investments in your portfolio. Two indexes are listed as "alternatives," which may mean different things to different organizations.
- **BPB 5.** Assumes the same starting point as BPB 4 but includes an allocation to cash. The cash allocation is funded by a shift away from short-term bonds. We don't typically recommend that a long-term portfolio direct a target to cash. Your advisor may chose to tactically hold more cash but you want to be able to hold them accountable for this decision.

Asset Class	Index	BPB 1	BPB 2	BPB 3	BPB 4	BPB 5
U.S. Stocks	Russell 3000	50%	40%	40%	35%	35%
Foreign Stocks	MSCI All Country World Ex U.S.	0%	10%	10%	5%	5%
Alternative Investments	HFRI Fund-of-Funds Composite or Bloomberg Commodity TR	0%	0%	0%	20%	20%
Intermediate-term Bonds	BarCap Aggregate Bond	50%	50%	25%	25%	25%
Short-term Bonds	BarCap 1-5 year Gov't	0%	0%	25%	15%	10%
Cash	3 Month U.S. T-Bill	0%	0%	0%	0%	5%
TOTAL		**100%**	**100%**	**100%**	**100%**	**100%**

Index Selection

We recommend using the broadest index available to represent the allocation to each asset class.

- The **Russell 3000** stock index seeks to represent the total return of U.S. stocks—including large, mid, and small cap and value and growth styles. The Russell 3000 includes a "market neutral" allocation to Real Estate Investment Trusts (REITS).
- The **MSCI All Country World Ex U.S.** stock index seeks to represent the total international stock market, including developed and emerging markets.
- The **HFRI Fund-of-Funds Composite** is not an index. It seeks to reflect the aggregate hedge fund performance of fund managers who report their performance to HFRI.
- The **Bloomberg Commodity Total Return** index seeks to reflect the total return of a diversified basket of commodities (natural resources and precious metals).
- The **BarCap Aggregate Bond** index seeks to represent the total U.S. investment grade bond market. The average credit quality is AA and the average maturity is approximately seven years.
- The **BarCap 1-5 year Government Bond** index seeks to represent the market for U.S. Treasury and Government agency bonds with maturities less than five years.
- The **3 Month U.S. T-Bill** seeks to represent cash.

These indexes were selected because we believe they are the most broadly diversified and/or most well-known in each broad category. You cannot invest directly in an index. Indexes do not reflect the fees associated with actual investments and such fees would reduce the performance illustrated.

Disclosure

This report summarizes the results of an informal study compiled by analyzing the results of 702 surveys completed by nonprofit finance executives. All performance data cited is as of December 31, 2016. The views expressed herein are opinions reflecting the best professional judgment of Raffa Wealth Management, LLC. This report is for informational purposes only. Participant responses have not been verified or audited. The information contained has been gathered from sources we believe to be reliable, but we do not guarantee the accuracy or completeness of such information. Data analysis was performed by Raffa Wealth Management. When stating "nonprofit responses" it should be noted that all responses are limited to the nonprofits that participated in the survey. No broader indications should be assumed. Nonprofits from Raffa's internal marketing database and a national external nonprofit database were solicited by direct email to participate in the SONI survey.

Different types of investments involve varying degrees of risk. There can be no assurance that the future performance of any specific investment, investment strategy, or product referenced directly or indirectly in this report, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your nonprofit's portfolio. Moreover, you should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from Raffa Wealth Management, LLC or from any other investment professional. To the extent that you have any questions regarding the applicability of any specific issue discussed above to your nonprofit's unique situation, you are encouraged to consult with Raffa Wealth Management, LLC or the professional advisor of your choosing.

Performance disclaimer

Performance results have been compared to a balanced benchmark portfolio comprising four broad market indexes. The indexes were selected because we believe they are the most broadly diversified and/or most well known in each broad category.

By segmenting each participant's performance returns by the respondent's target asset allocation, we have sought to account for differences in a nonprofit's risk posture and allow for a meaningful comparison across a variety of investment policy objectives. However, inconsistencies remain that may render comparing any particular association's performance return to the SONI blended portfolio benchmarks inappropriate. It may be perfectly acceptable for an association to underperform the SONI blended portfolio benchmarks. Underperformance may be reasonable, for example, if an organization has experienced changes in asset allocation policy, if an organization takes a materially different risk posture than any of the SONI blended portfolio benchmarks, or if the asset classes emphasized by the portfolio's strategy have been out of favor.

The construction of the SONI blended portfolio benchmarks is outlined below:

Blended Portfolio Sample Benchmarks

	30/70	40/60	50/50	60/40	70/30
Russell 3000	20%	29%	38%	47%	56%
MSCI AW ExU.S.	10%	11%	12%	13%	14%
BarCap Agg Bond	65%	55%	45%	35%	25%
3 Month U.S. T-Bills	5%	5%	5%	5%	5%
HFRI Fund-of-Funds	0%	0%	0%	0%	0%

The Russell 3000 stock index seeks to represent the total return of U.S. stocks—including large, mid, and small cap and value and growth styles. The MSCI ACW Ex U.S. stock index seeks to represent the total international stock market, including developed and emerging markets. The BarCap Agg Bond index seeks to represent the total U.S. investment grade bond market. The 3 Month U.S. T-Bill seeks to represent cash. These indexes were selected for comparison purposes only because we believe they are the most broadly diversified and/or most well-known in each broad category. You cannot invest directly in an index. Indexes do not reflect the fees associated with actual investments and such fees would reduce the performance illustrated.

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