CELEBRATING 7 YEARS

The Study On Nonprofit Investing

2019 SONI Report

Raffa Wealth Management, LLC

SONI
Study on Nonprofit Investing

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2019 Study On Nonprofit Investing (SONI) Results

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

About the Authors

Raffa Wealth Management

Founded in 2005, Raffa Wealth Management (RWM) is a Registered Investment Adviser serving the portfolio management and policy consulting needs of nonprofit organizations - particularly professional societies, trade associations, public charities, and foundations. RWM's approach involves streamlining the portfolio management process to help nonprofits achieve their financial goals. We promote the idea "Nonprofits Deserve to Know" as a way to highlight the need for transparency, clarity, and accountability in the investing process. RWM developed the Study On Nonprofit Investing (SONI) specifically to help nonprofits make better informed decisions.

Navigating the Report

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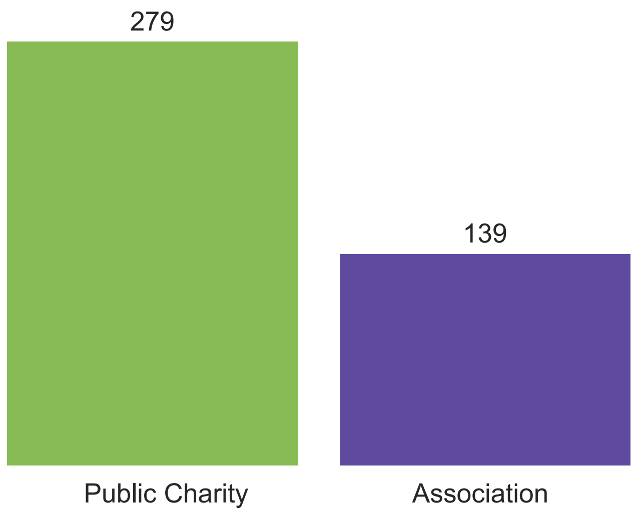
The report is segmented into five parts:

Adviser Alerts

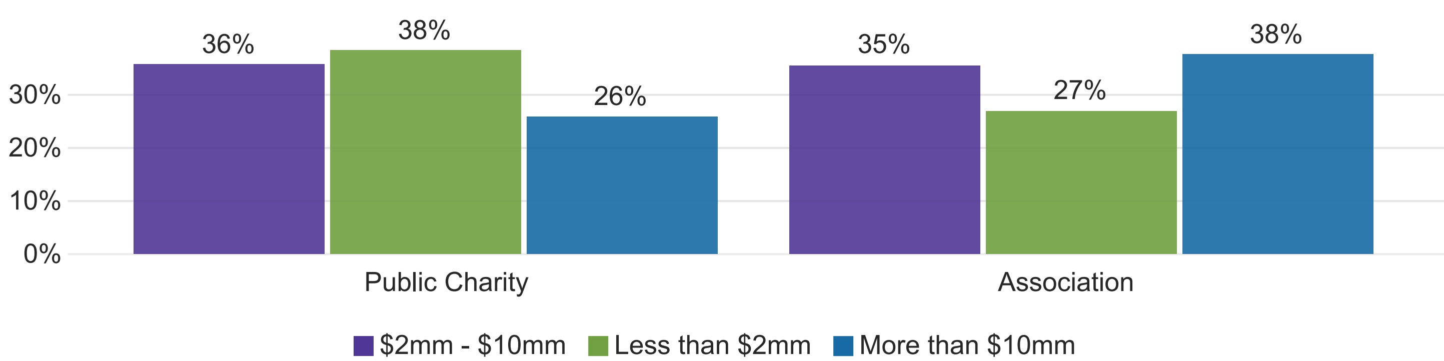
How To Use Them

Throughout the report you will see Adviser Alert icons. These icons are meant to draw your attention to additional analysis and insights at the end of the report. Any time you see one, look for a corresponding title at the end of the report to learn more!

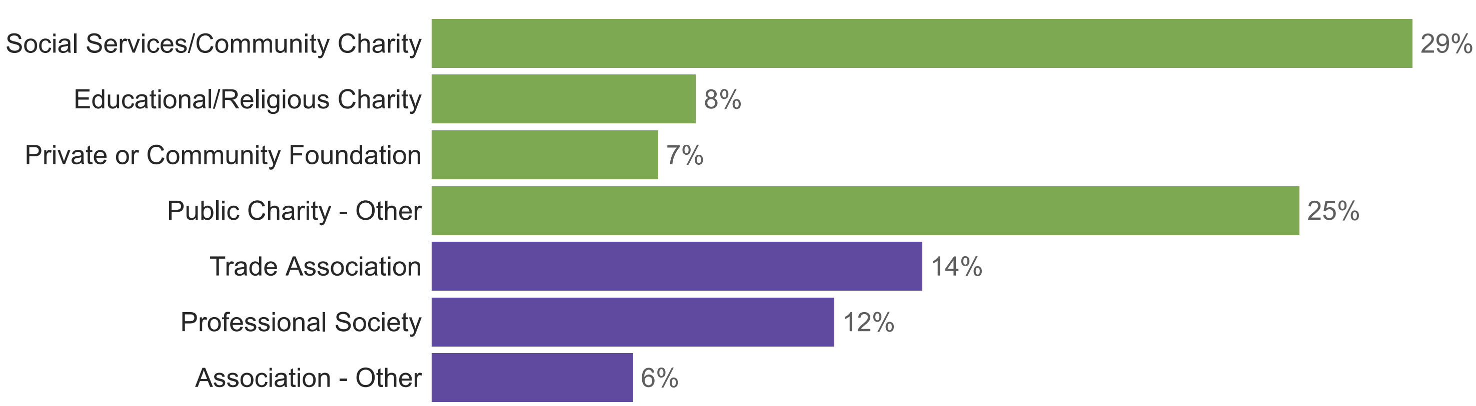
Participation of Nonprofits & Associations



Nonprofits by Portfolio Size

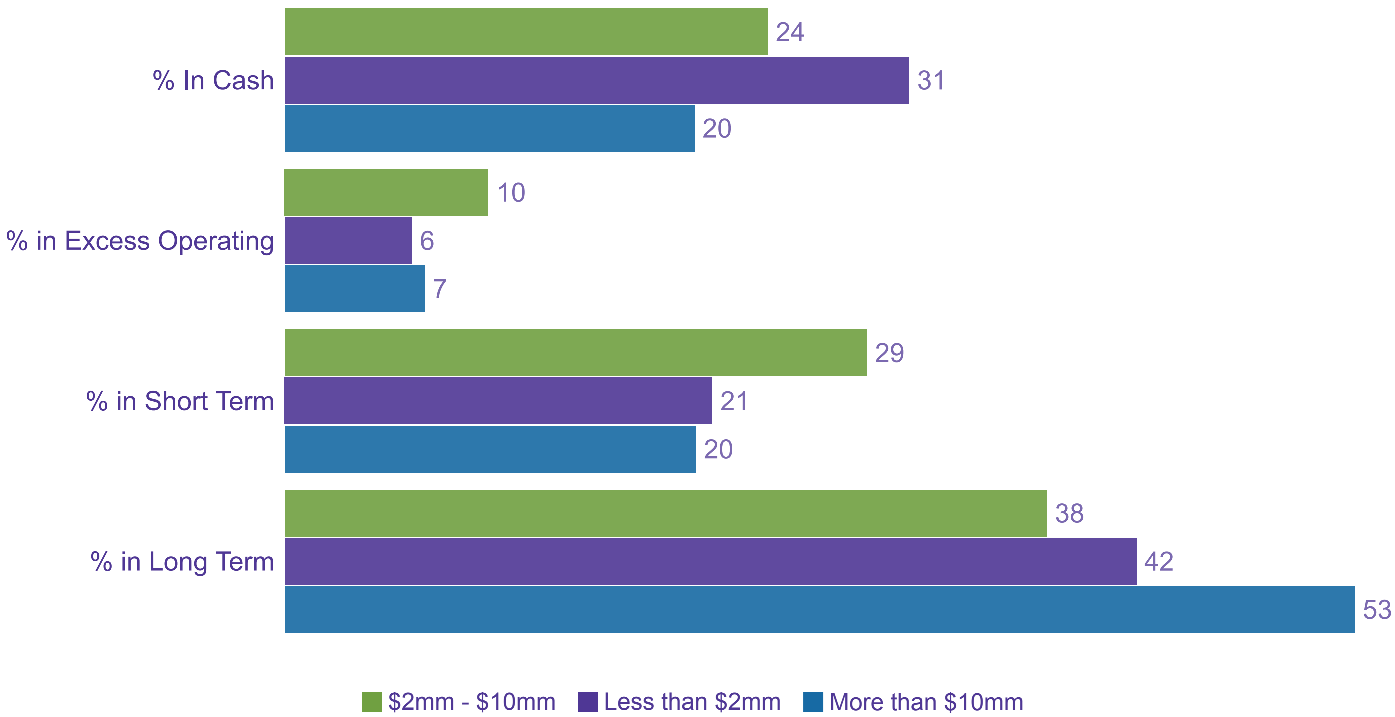


Nonprofit Type

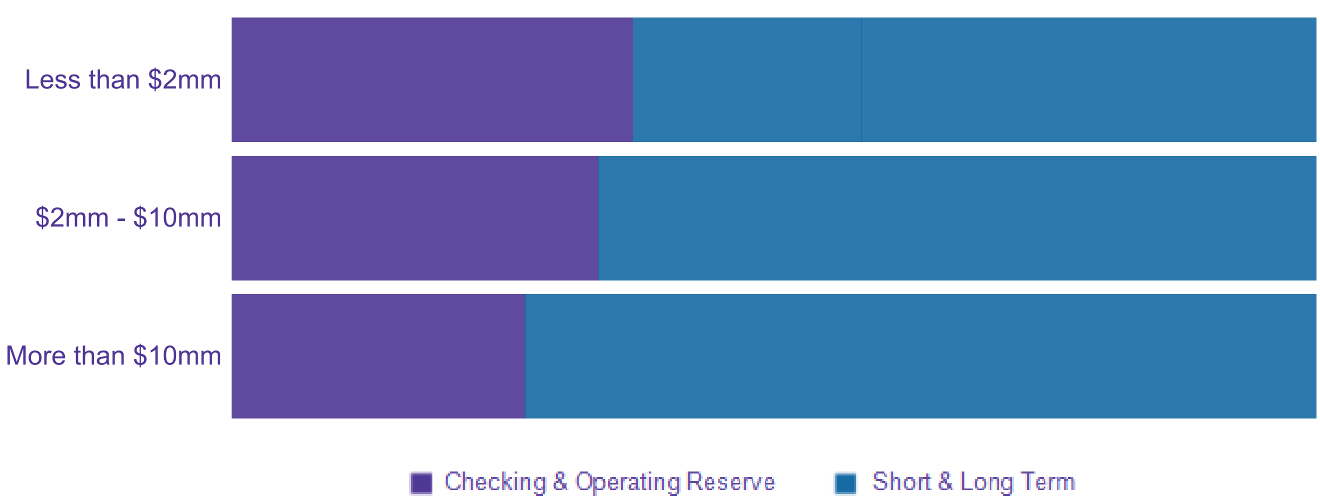


Segmentation & Asset Allocation

How Much of an Organization's Total Cash Assets are Held in Operating, Short-term, or Long-term Accounts

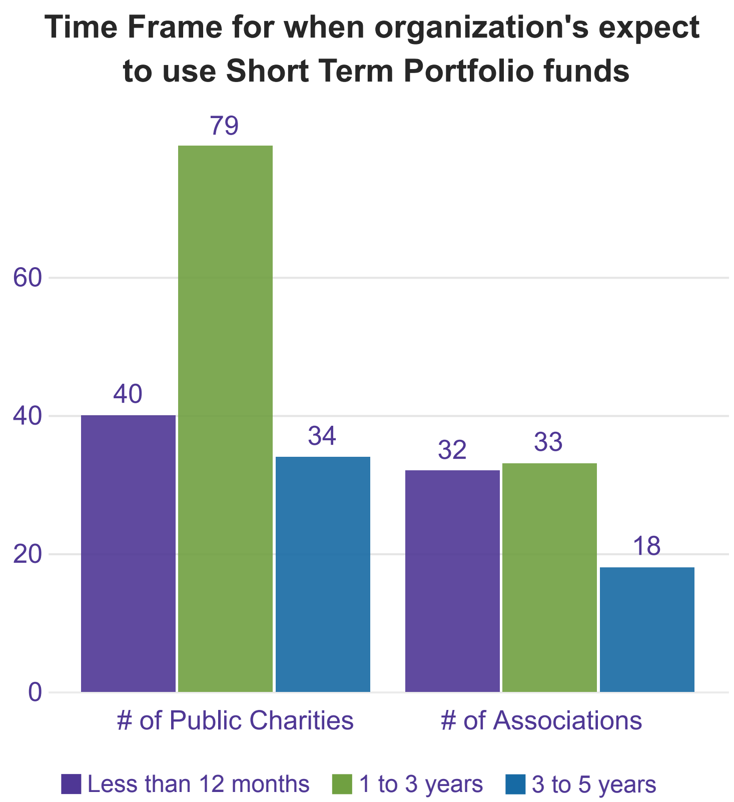


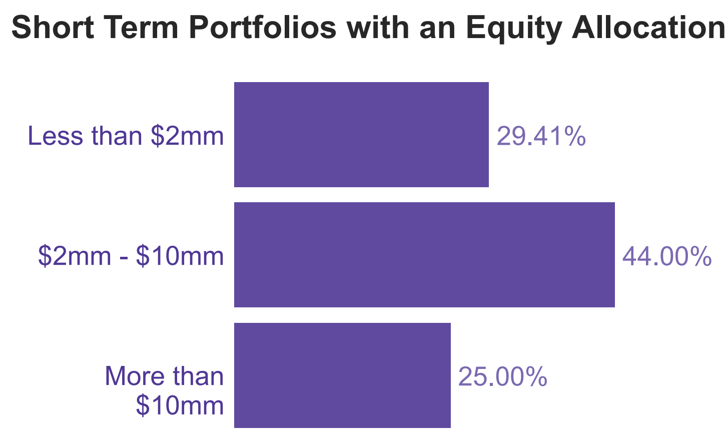
Segmentation of Total Liquid Assets



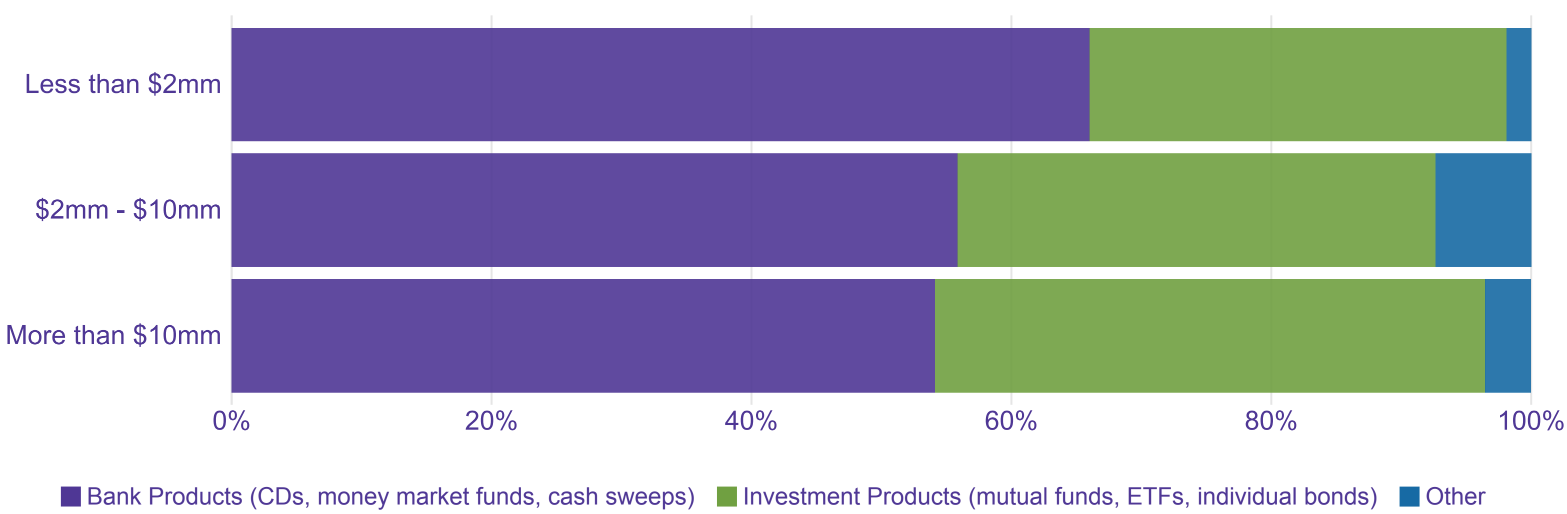
2019 Study On Nonprofit Investing (SONI) Results

Short Term Investments





Investment Products Used in Short Term Portfolios

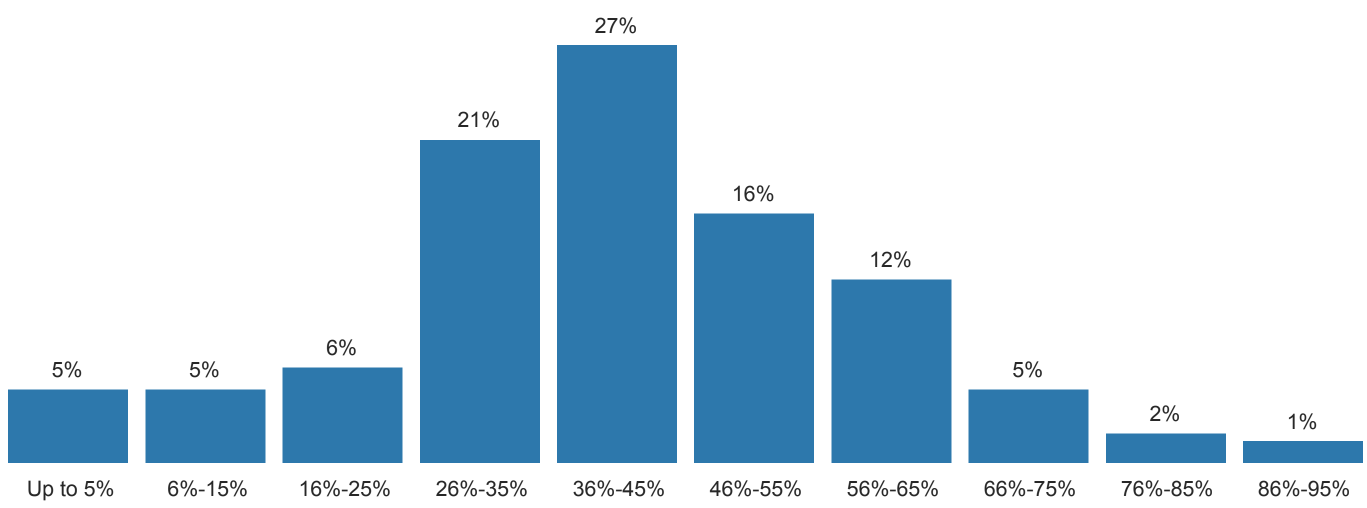


Long Term Asset Allocation

Percentage of Long Term Portfolio allocated to each of the following Asset Classes

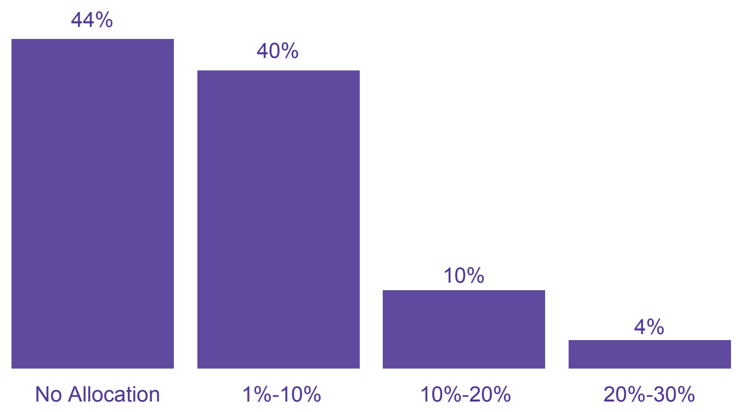
Asset Class	% Allocation (Average)
U.S. Equities (e.g., U.S. stocks, stock mutual funds, stock ETF's, publicly traded REIT's, etc.)	41.30
International Equities (e.g., international stocks, international stock mutual funds, ETF's, etc.)	13.73
Fixed Income (e.g., individual bonds, bond mutual funds, bond ETF's, etc.)	32.19
Alternatives (e.g., precious metals, hedge funds, commodities, private real estate investments, etc.)	5.65
Cash or Equivalents (e.g., CD's money market funds, etc.)	7.12

Frequency of Equity Allocation %



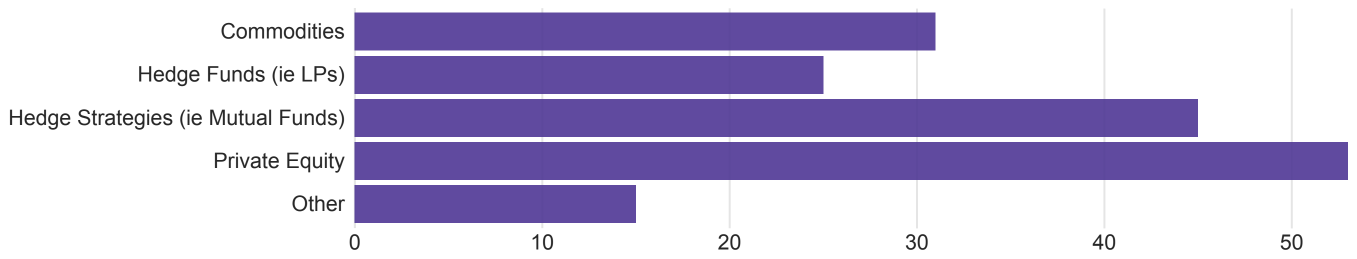
**This frequency chart shows the percentage of participants with equity allocations within each range. This does not include any allocation to alternatives.*

Frequency of Alternative Allocation %



Check out 'Alternative Investments'

Types of Alternative Investment included in Nonprofit Portfolios that Allocate to Alternatives

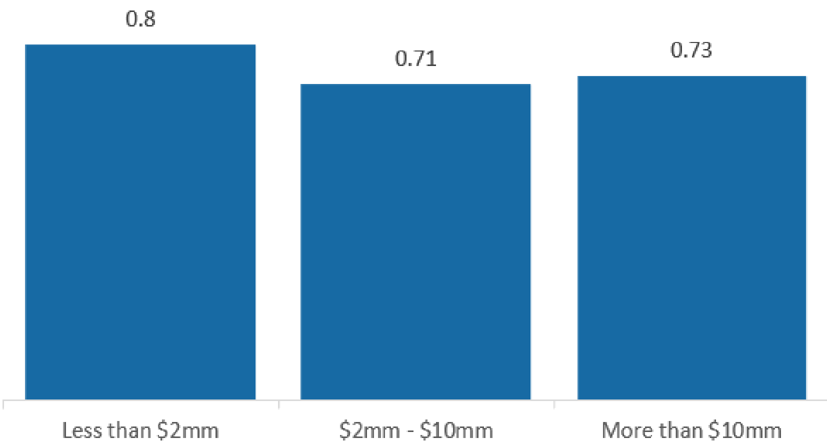


Percentage of Participants with Socially Responsible Investment Guidelines

Check out 'The First Steps Towards Socially Responsible Investing'

Reserve to Budget Ratio for Calendar Year (CY) 2018

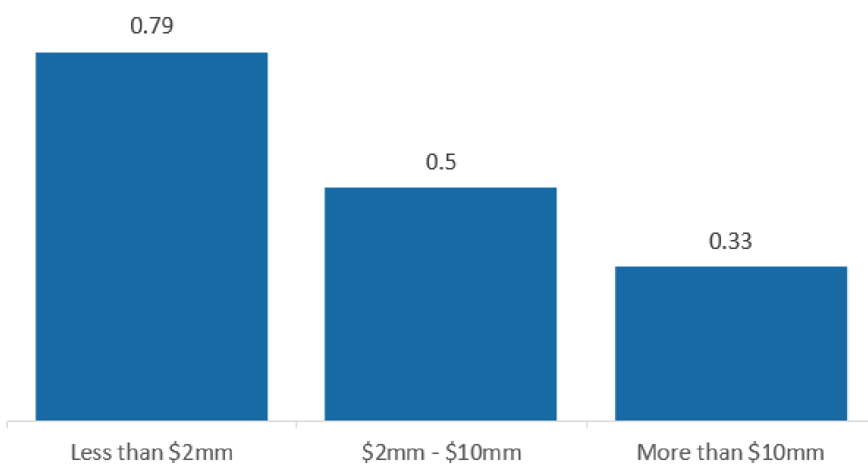
Reserves are defined as total liquid assets, excluding operating cash (held in checking accounts or near-cash equivalents), or more specifically the combined total held in short/intermediate-term accounts and a long-term portfolio or endowment.



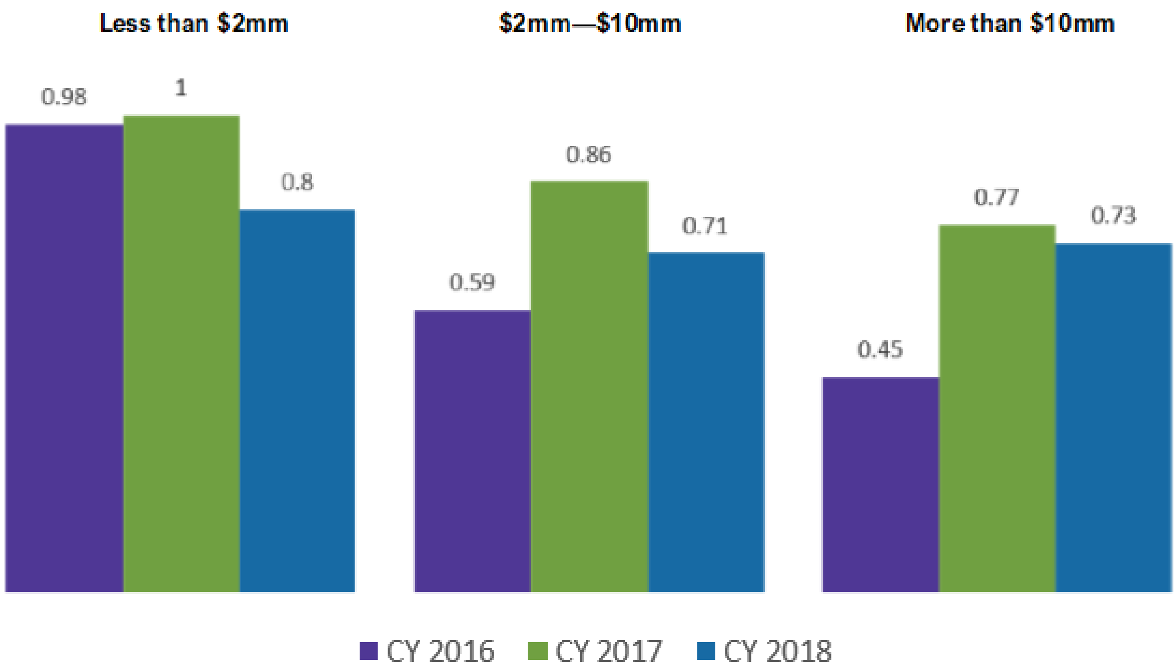
Associations

Check out 'What is the Ideal Target Level of Reserves?'

Public Charity

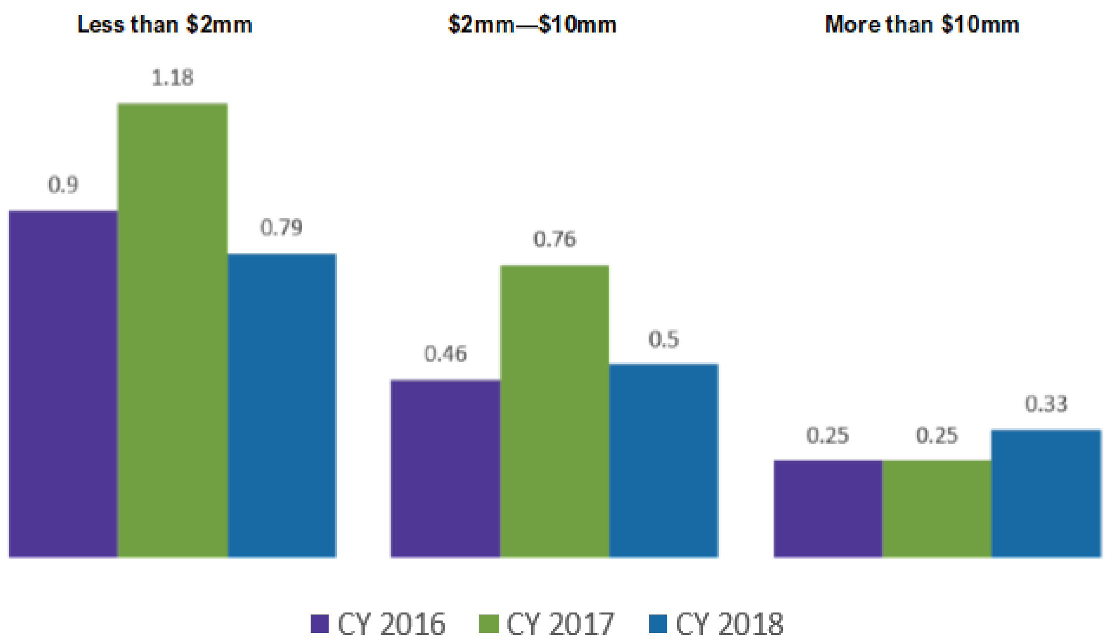


Reserve to Budget Ratio Trends



Associations

Public Charity



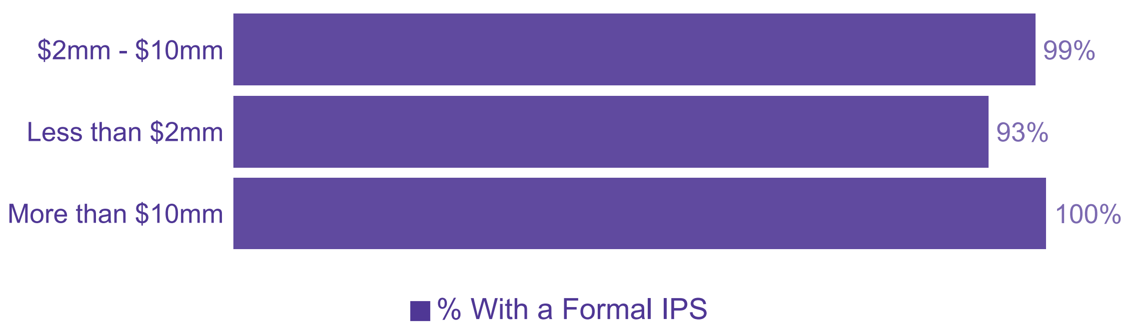
**Data represents Median Reserve to Budget values as of 12/31/2016, 12/31/2017 & 12/31/2018*

Investment Policy Statements

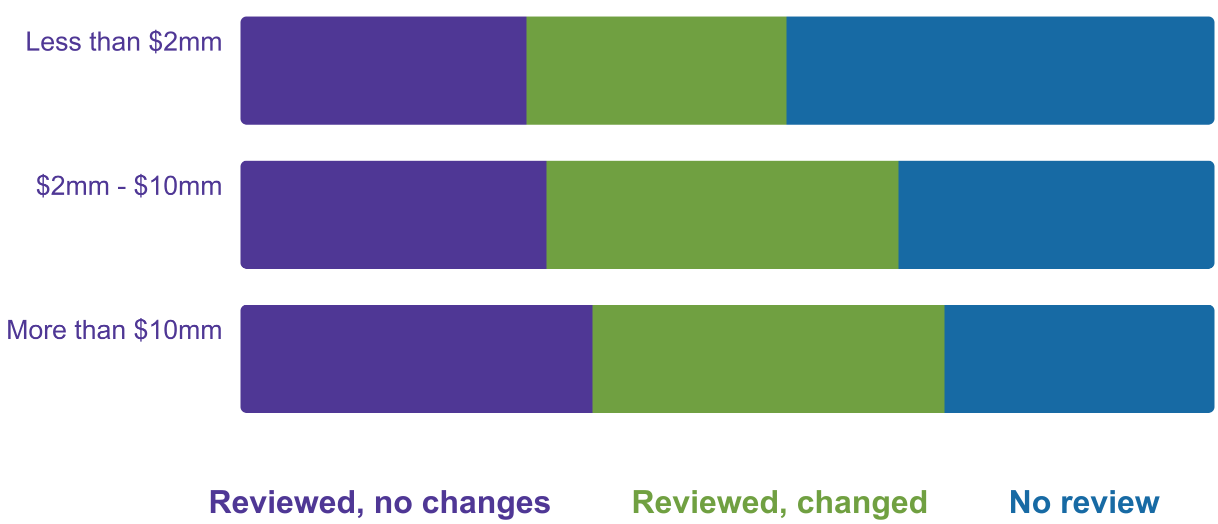
The **Investment Policy Statement (IPS)** is a document outlining investment restrictions, reporting requirements and any other guidelines, based on the organization's risk tolerance and goals for their investment portfolio.

Participants with a Formal Investment Policy Statement

Check out 'Strengthening Your Investment Policy'



Participants that reviewed their IPS in 2018



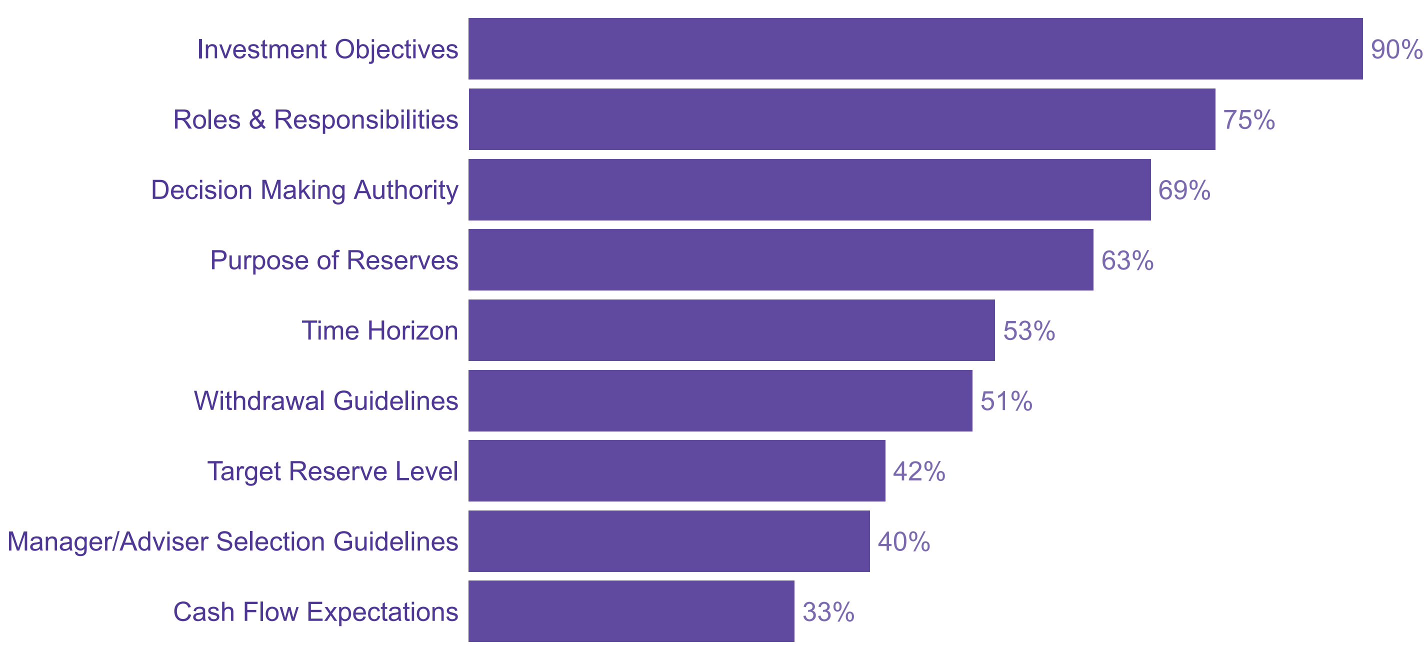
2019 Study On Nonprofit Investing (SONI) Results

IPS Changes due to External Factors - Organization's adjust their policies based on current market conditions or concerns about future market changes.

IPS Changes due to Internal Factors - Organization's adjust their policies based on changes within the organization, like a new initiative or change in expected annual revenue.

Reason for a Change to the IPS

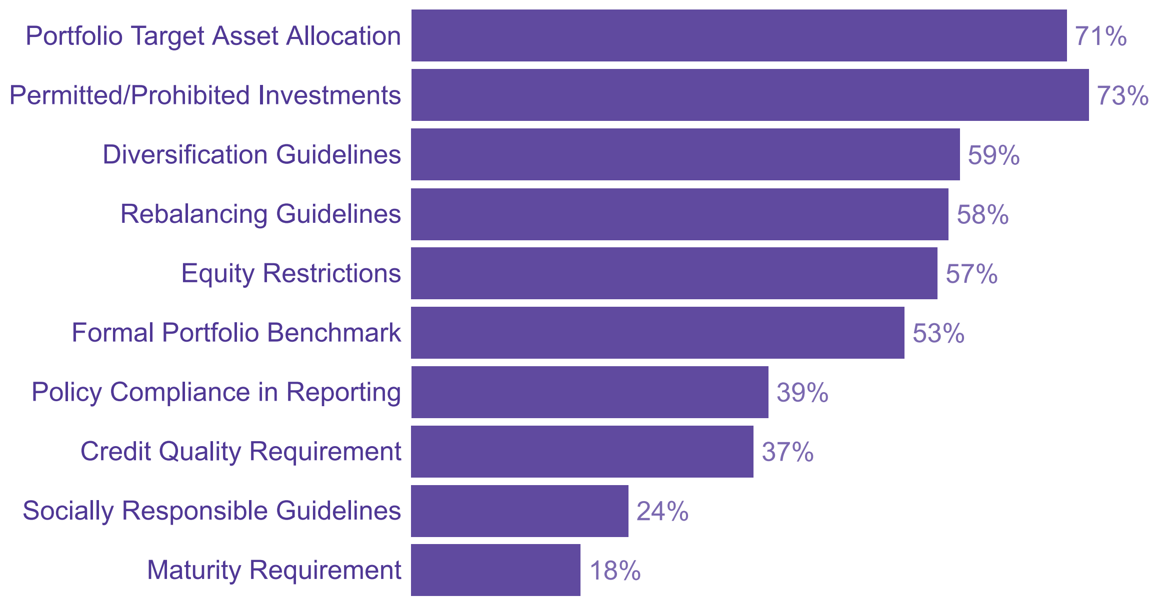
Investment Policy Components - Specifications about the goals and expectations for the Portfolio



**Percentages are based on respondents that indicated they had an Investment Policy Statement*

2019 Study On Nonprofit Investing (SONI) Results

Investment Policy Guidelines & Restrictions - Specifications for how the Portfolio is invested



**Percentages are based on respondents that indicated they had an Investment Policy Statement*

% of Participants that Included Portfolio Rebalancing in their IPS by Budget Size

Check out 'Rebalancing'

% of Participants that Included Asset Allocation Targets in their IPS by Budget Size

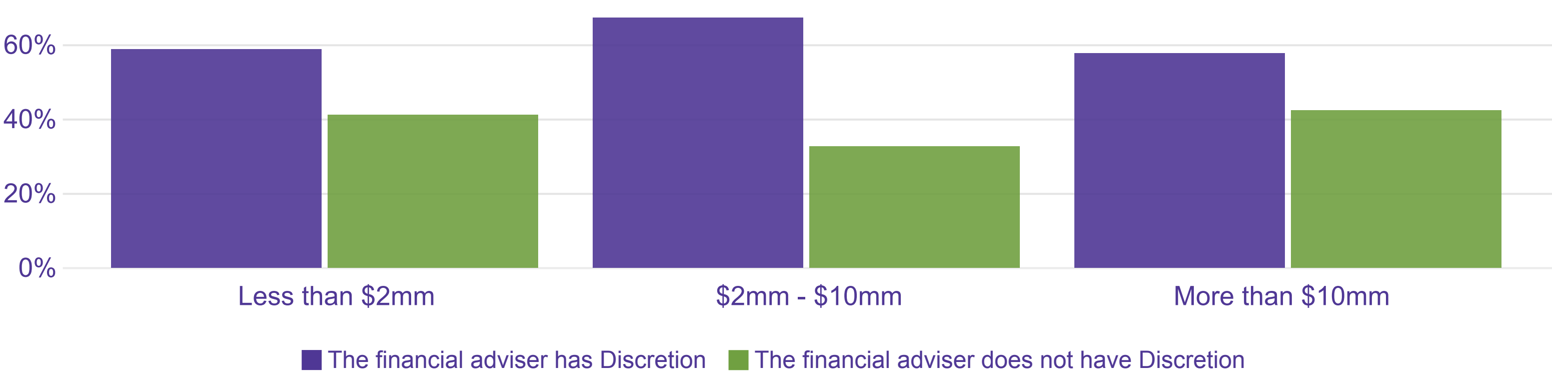
2019 Study On Nonprofit Investing (SONI) Results

Discretionary - The Investment Adviser makes recommendations and implements investment changes without requiring confirmation from the client, pursuant to the IPS.

Non-Discretionary - The Investment Adviser makes recommendations for investment changes, but the decision to implement those changes must be confirmed by the client.

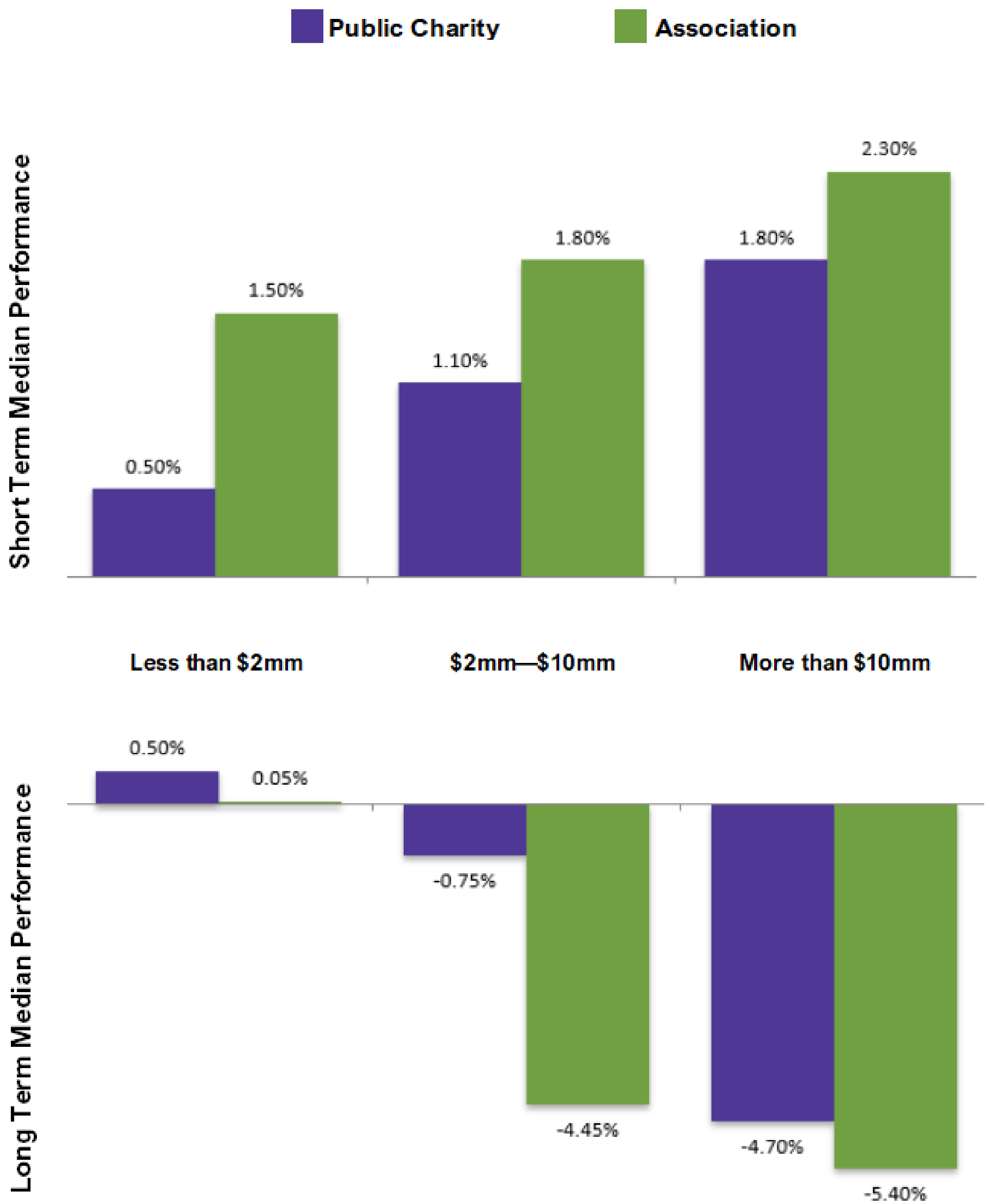
% of Participants that Included Decision Making Authority in their IPS by Budget Size

Type of Discretion Granted to the Investment Adviser

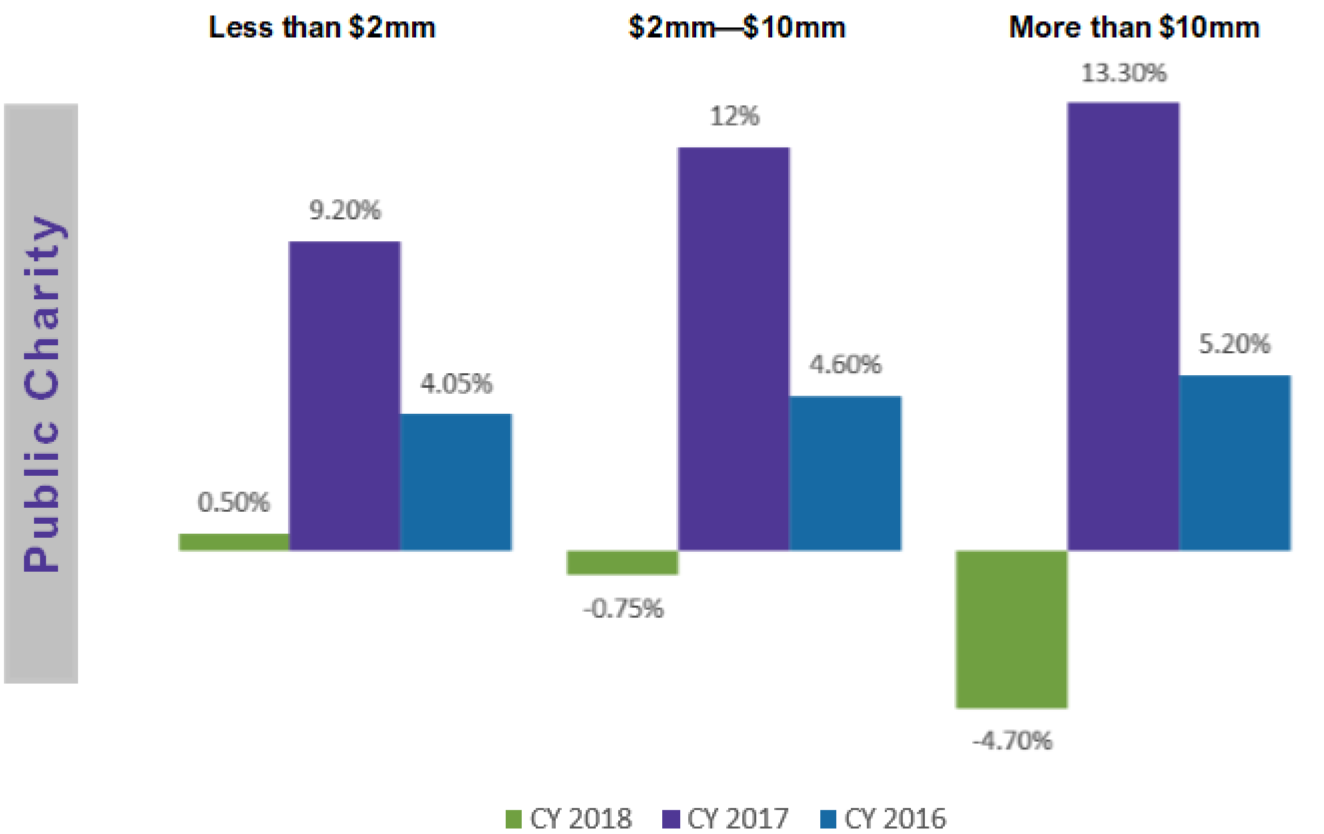


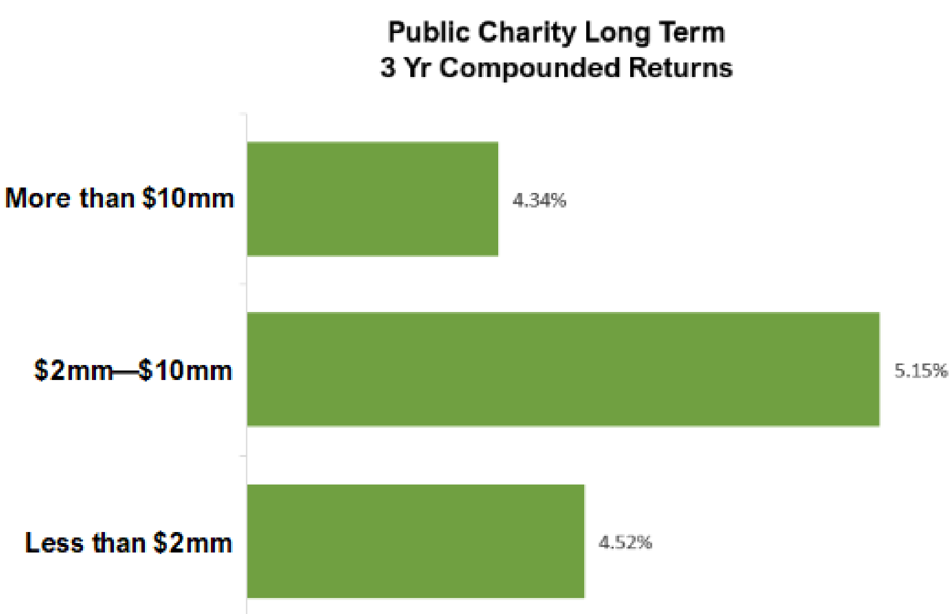
% of Participants that changed Decision Making Authority in their IPS during 2018

2019 SONI Performance



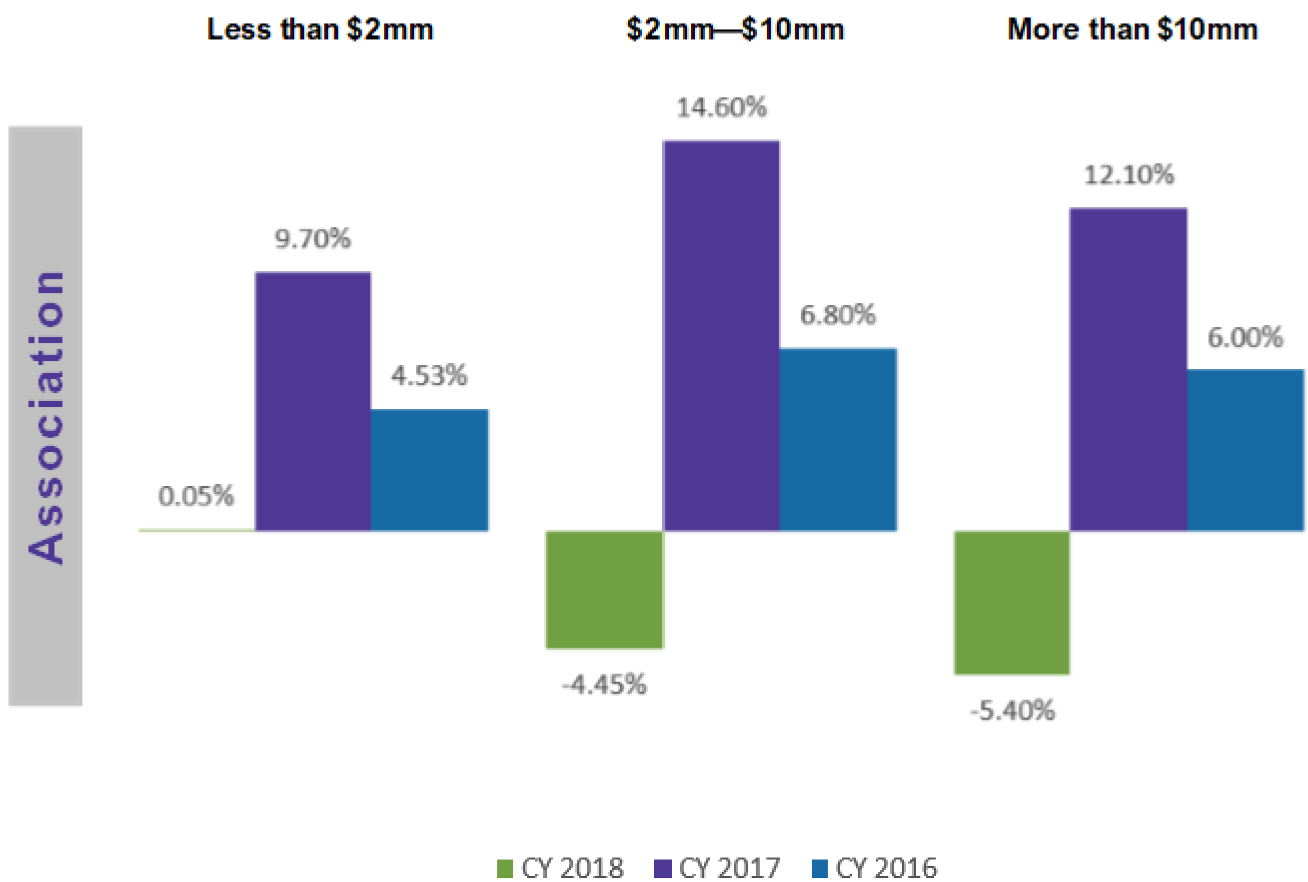
2019 Study On Nonprofit Investing (SONI) Results

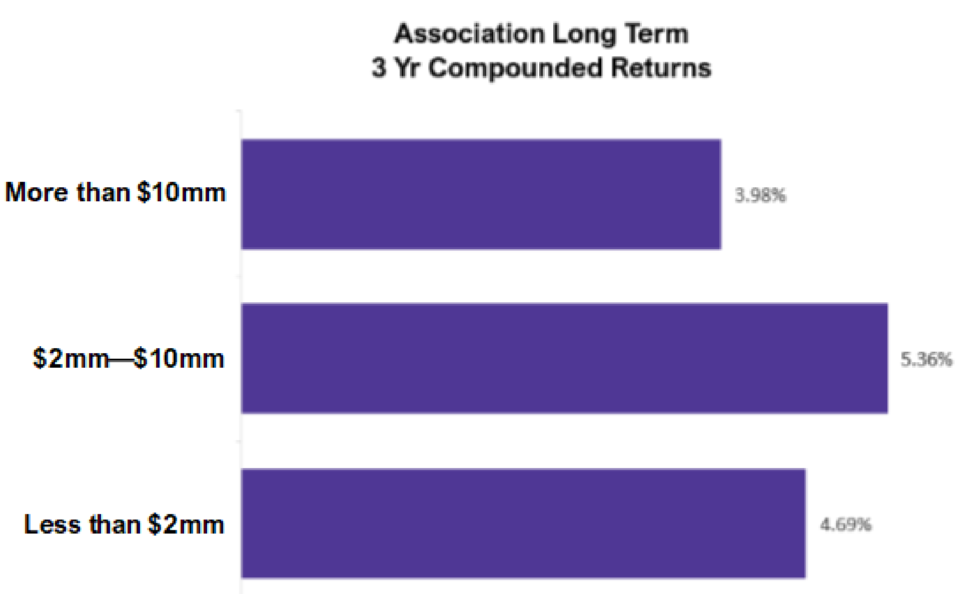




Compounded returns are calculated using a hypothetical starting balance. The starting balance is divided from the ending balance, calculated using the Median performance results for the last three years. This result is then raised to an exponent of one divided by the total number of years and subtracting one from the subsequent results.

2019 Study On Nonprofit Investing (SONI) Results





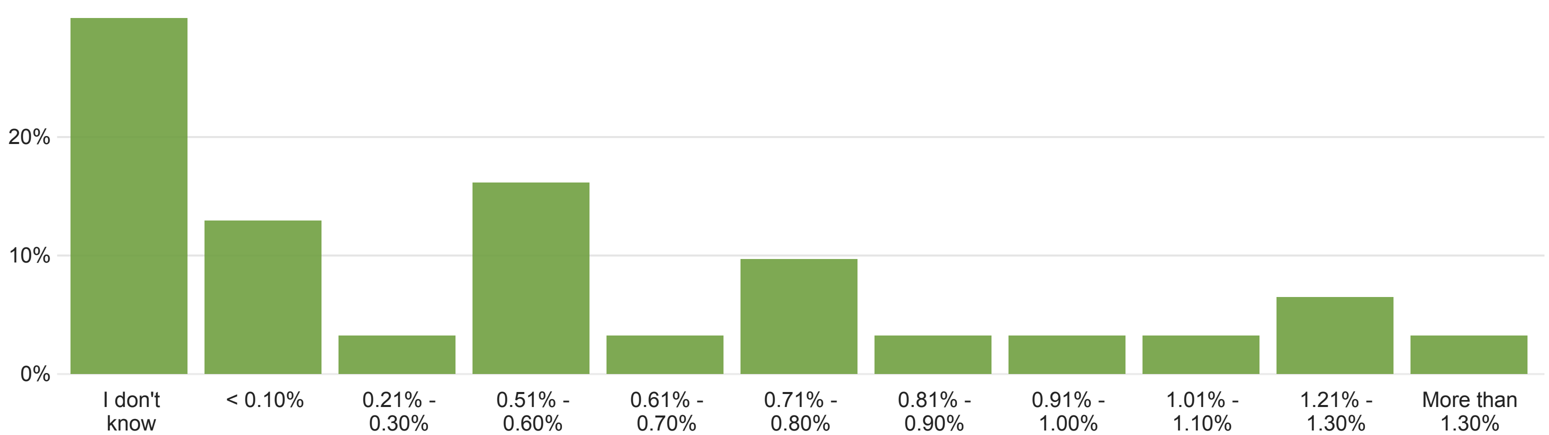
Compounded returns are calculated using a hypothetical starting balance. The starting balance is divided from the ending balance, calculated using the Median performance results for the last three years. This result is then raised to an exponent of one divided by the total number of years and subtracting one from the subsequent results.

Investment Manager: Mutual Fund Managers, Exchange Traded Funds, or Separately Managed Accounts

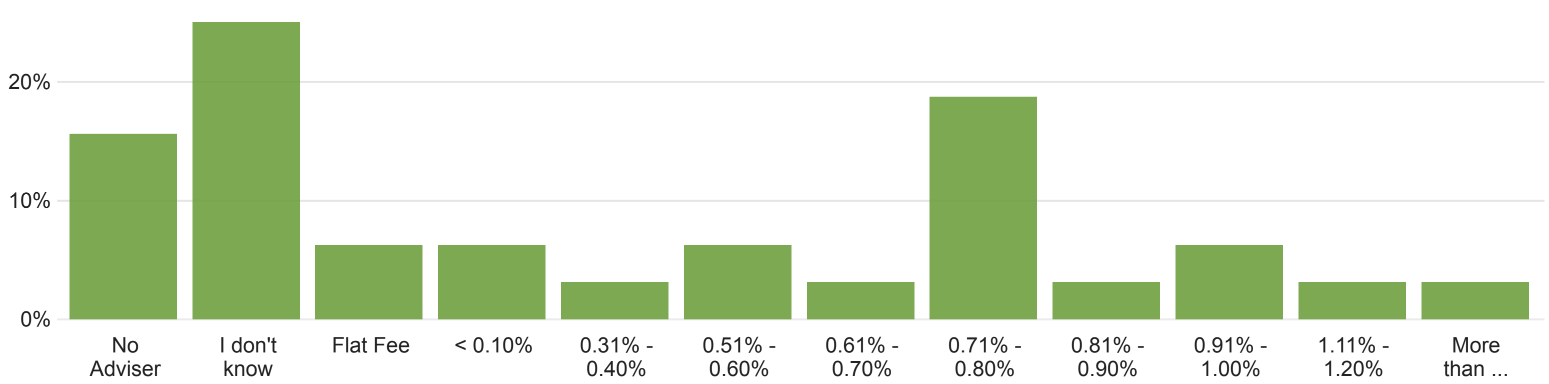
Investment Adviser: Assists with manager or mutual fund selection, trading, asset allocation decisions, reporting, etc.

Check out 'Where Do Your Fees Go?'

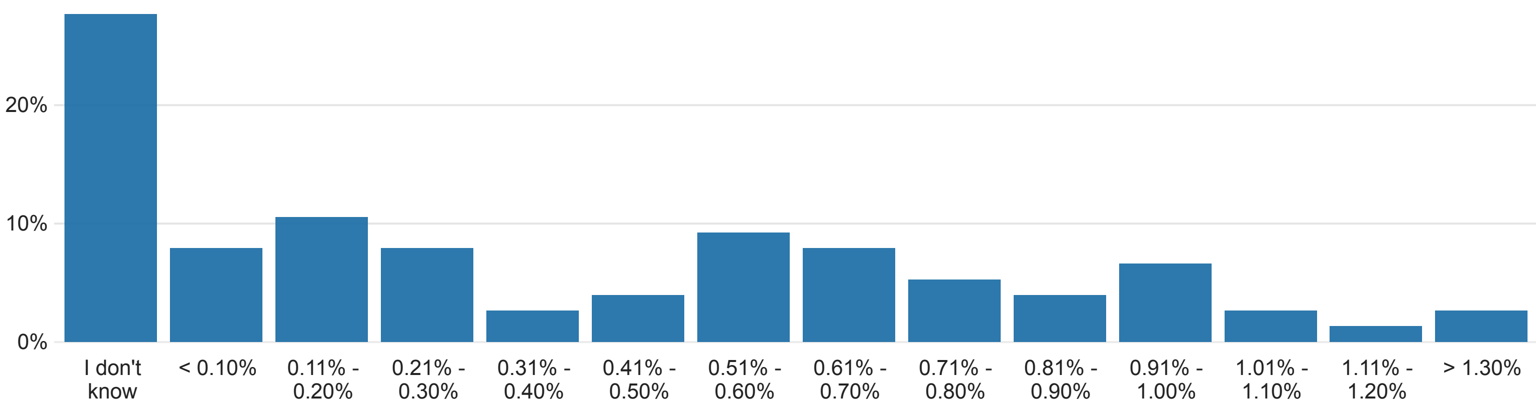
Investment Manager Fees paid by Nonprofits with budget size < $2mm



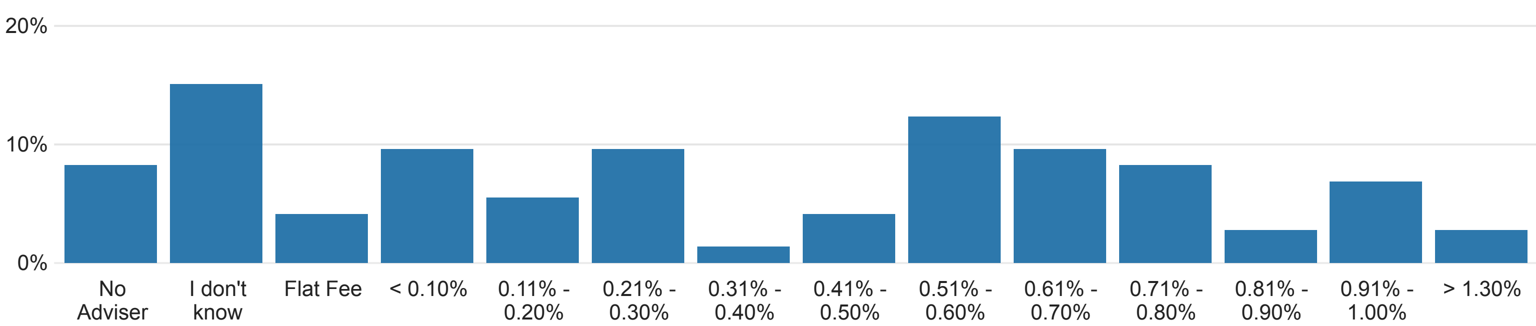
Investment Adviser Fees paid by Nonprofits with budget size < $2mm



Investment Manager Fees paid by Nonprofits with budget size $2mm - $10mm

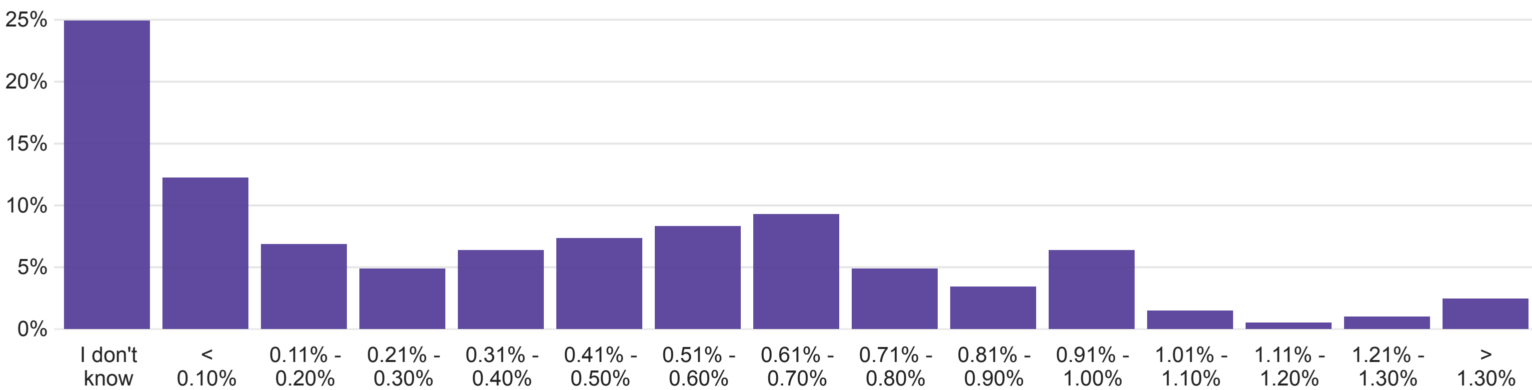


Investment Adviser Fees paid by Nonprofits with budget size $2mm - $10mm

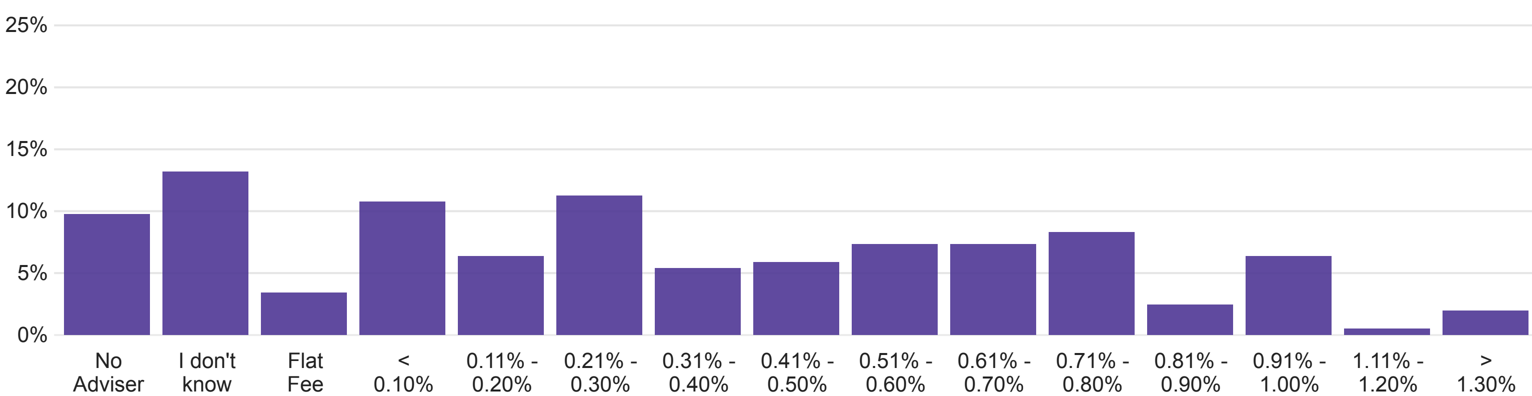


2019 Study On Nonprofit Investing (SONI) Results

Investment Manager Fees paid by Nonprofits with budget size > $10mm



Investment Adviser Fees paid by Nonprofits with budget size > $10mm



Alternative Investments

Alternative investments span a wide variety of investment vehicles. It's important to understand the risk involved when choosing to invest in alternatives.

Nonprofits face a very difficult choice when deciding whether to invest in alternative investments—particularly hedge funds. Nonprofits that rely on investments for current spending require a high level of return to maintain their impact. They may also be risk averse. It's no wonder that investments that seek to earn "equity-like" returns while experiencing "fixed income-like" risk are appealing.

In our professional judgment, since the 2008–2009 financial market collapse, such alternative strategies have largely disappointed. As a result, nonprofits may reasonably question the wisdom of investing in speculative markets with little transparency, liquidity constraints, and high fees. At RWM, we believe that risk and return are directly related. As such, greater-than-market returns are only available by assuming greater-than-market risk. Larger organizations with the willingness and ability to take on greater risk and whose leadership maintains the sophistication necessary to understand non-traditional market risks may reasonably decide to allocate to alternatives.

In our opinion, however, any nonprofit—regardless of size or sophistication level—that reasonably decides to forgo allocating to alternatives is not doomed to suffer lower return expectation.

Discretion: Who Should Have It?

Does your adviser have discretion over your assets? If you don't know whether you've granted discretionary authority to an adviser, -you probably haven't. In Fiduciary 360's fiduciary handbook, *Prudent Practices for Investment Stewards*, five generally recognized provisions are cited that may reduce the liabilities associated with an investment steward's management of portfolio assets. These are:

1. Use prudent experts (registered investment adviser, bank, or insurance company) to make the investment decisions.
2. Demonstrate that the prudent expert was selected by following a due diligence process.
3. Give the prudent expert discretion over assets.
4. Have prudent experts acknowledge their co-fiduciary status.
5. Monitor the activities of the prudent expert to ensure that the expert is performing the agreed upon tasks.

Generally, RWM recommends that nonprofits with less-than-highly investment-sophisticated boards grant decision-making authority to advisors pursuant to a process that meets these five provisions.

What is the Ideal Target Level of Reserves?

While there is no one right answer for all organizations, generally we believe that having six months of budgeted expenses in reserve is a good place to start. However, each organization is unique and may experience distinct and unexpected circumstances that could affect long-term financial health. That which may be too little for one organization could be more than enough for another, even within the same budget size.

A variety of factors can drive what's needed to be held in reserve. If your organization's revenue streams are diversified, income is relatively reliable, or costs can be cut quickly, then it's likely you will not need to hold as much in reserve. However, if your organization has few revenue sources, income that fluctuates significantly year to year, or it will take time to cut costs, it's likely more will be needed to be held in reserve. In addition, if there are strategic initiatives that your organization wants to pursue and they are not budgeted for, your organization will need even more in reserve.

To quantify the dollars needed in reserve we recommend going through a risk and opportunity assessment. After identifying all potential risks and opportunities, discount them based on the likelihood or time frame over which they may occur. A dollar value, or range of potential values, can then be assigned to each item to determine the total dollar amount or range to hold in reserve.

The process and its outcome should be outlined in a reserve policy with a risk/opportunity assessment included as documentation. With the new reserve target or range it's important to outline which actions to take to either add to the reserve, or whether to consider a spending plan. This assessment should be revisited every few years to determine if there have been any changes to your organization's risks or opportunities.

Short-Term Investments

If the timing is clear that cash will be spent several years out, it's highly efficient to use individual CDs or government bonds that mature near when the funds are needed. If there is no specific timing for withdrawals, we recommend using low-cost bond mutual funds that will exist in perpetuity. We suggest targeting a certain short-term average maturity that's in line with the potential timing of withdrawals. The average credit quality should be very high (AA or higher) so it's less likely that the portfolio would be down notably when funds are needed for withdrawal. As the time frame expands beyond two or three years, having a small allocation (10 – 20%) to equity could provide additional diversification for the portfolio.

Strengthening Your Investment Policy

The Investment Policy is a key component in holding your investment adviser responsible for accurately executing the portfolio's guidelines.

Maintaining and regularly reviewing your organization's investment policy is an important step toward achieving your financial goals. During your review, clearly state the high-level goals and objectives of your investment reserves. 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.

Rebalancing

Rebalancing involves making decisions when markets are volatile. When stocks are down, for example, it's human nature to believe they are "falling," which assumes there is further to go. Without a clear policy to drive action, it's likely investors will miss the opportunity to buy lower.   Rebalancing presents an opportunity to take advantage of market volatility by systematically taking profits from market segment 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 reliable 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, for-

The First Steps Towards Socially Responsible Investing

The rise of Socially Responsible Investing (SRI) enables nonprofit organizations to better align their mission and vision with the investments they choose to make. When thinking about implementing an SRI policy, a variety of issues need to be reviewed and documented before being added to an Investment Policy Statement (IPS).

The first step in developing an SRI component to your IPS is identifying which specific criteria your organization would like to avoid or emphasize in order to have its values reflected in its investments. We recommend implementing a thorough process to make sure that all board members are in agreement about what values are to be reflected and to make sure they are not personal values, but organizational values.

Next, determine whether direct or indirect exposure to the companies your organization wishes to exclude or promote in the portfolio is acceptable. Direct exposure comes from buying individual companies' securities on the open market, while indirect exposure reflects owning shares of a mutual fund or Exchange Traded Fund (ETF) where a fund manager purchases securities as holdings of the fund.

If the organization is comfortable with indirect exposure to the companies it wishes to exclude then all mutual funds and ETFs could be used as investment options since your organization wouldn't directly hold shares of those companies. If your organization is already invested in mutual fund or ETFs then no changes would be required from the addition of an SRI policy. If your organization is not comfortable with indirect exposure, your investment options become limited to SRI funds or separately managed accounts. When choosing SRI-focused mutual funds or ETFs, make sure to review the fund's prospectus to analyze the fund manager's screening criteria and confirm that they align with the goals and objectives of your organization's SRI policy.

Determining which companies your organization wishes to avoid or emphasize, along with the type of exposure to those companies that is acceptable, will lay the foundation for implementing a socially responsible investment plan for your organization.

Where Do Your Fees Go?

When evaluating the fees paid for an Investment Portfolio, it's important to understand the different fee levels and who they are paid to. Generally, there are three types of fees that can be charged to portfolios:

1. Investment Advisory Fees
2. Investment Manager/Fund Fees (mutual fund expense ratios)
3. Execution or Transaction Fees

Investment Advisory Fees are paid to the portfolio's investment advisors for their services. These services may include portfolio management (manager/fund selection and asset allocation strategy), providing performance reports for the organization's board and staff, trading to ensure the portfolio is invested pursuant to the Investment Policy Statement, and assisting with developing or strengthening the investment or reserve policies. These fees can be charged as a percentage of assets in the portfolio or as a flat fee.

The **Investment Manager/Fund Fees** are the fees charged by the manager of the investment vehicle selected. These fees will vary based on the investment strategy and type of investment vehicle chosen. Investment Manager/Fund Fees will always be charged as a percentage of assets. Mutual fund and ETF fees are expressed as the fund's expense ratio. These fees are deducted directly from the fund's return. As a result, investors aren't always aware of the fees they pay at the fund level and they can be challenging for investors to calculate. As a result, we suggest asking your advisor for the "weighted average expense of the managers/funds" in the portfolio.

Execution Fees are the transactional expenses charged by the broker/dealer for the account. These fees are typically charged per transaction or per trade. Transaction fees for certain funds may be waived or "wrapped" into the funds expense ratio or into the advisor's fee.

When assessing the reasonableness of fees, it can be helpful to compare your portfolio's fees to a relevant peer group. It's also important to understand the value that has been delivered, regardless of how high or low the fees may be. Having an objective, blended policy benchmark to identify the portfolio's performance expectation is critical to understanding the value-add of various investment strategies.

Disclosures

This report summarizes an informal study compiled by analyzing the survey results of nonprofit finance executives. All performance data cited is as of December 31, 2018. 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. Nonprofits from our internal marketing database and a national external nonprofit database were solicited by direct email to participate in the SONI survey. Any investment or investment strategy can lose money. Past performance does not guarantee or predict future results. You should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Raffa Wealth Management, LLC. Every participant did not answer every question in the survey. Percentages are based on number of participants that responded to each question, not total number of participants.

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