SONI
Study on Nonprofit Investing

2018 STUDY ON NONPROFIT INVESTING

PUBLIC CHARITIES

Raffa Wealth Management, LLC

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/jvWYWu**). 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 third year in a row, more than 500 nonprofits participated in the SONI survey, including 147 membership associations and 362 public charities. The SONI results are segmented by these two broad nonprofit types. Each type is then segmented into three size cohorts: total investment portfolio size less than $2 million; between $2–$10 million; and more than $10 million. Throughout the SONI report, these cohorts will be referred to as small, intermediate, and large charities, respectively.

Budget Size	Public Charity	Association	Overall
<$2M	78	25	103
$2–10M	168	71	239
>$10M	116	51	167
Total	**362**	**147**	**509**

This report shares the results of the 362 respondents that identified as public charities. It provides peer benchmarks intended to help public charities make better informed decisions about their organization's 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 investment risk do nonprofits take with shorter-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?
- What are the key features and benefits of organizations' retirement plans?

Year-end 2017 was a record year for financial markets worldwide as U.S. stocks posted new all-time highs and gained 21.13%, foreign stocks surged 27.47%, and bonds gained 3.54%. In relation to the SONI blended portfolio benchmarks, however, the median 2018 SONI participant underperformed.* Underperformance has been a finding in each of the four previous SONI reports (for the years ending 2013, 2014, 2015, and 2016). We believe this is a meaningful trend that deserves a deeper look. See our "Underperformance Gap" Trend Alert on page 19.

This year's analysis revealed similar findings as in the 2017 SONI report (data as of YE 2016). That is, public charities with lower fees and those with specific policy guidelines that force accountability and instill discipline to decision-making generally fared better than public charities that focused on other variables.

What's new for the 2018 SONI? In response to participant feedback, this year's SONI includes new sections focused on shorter-term investment portfolios and retirement plan benefits. We thank you for your support and feedback.

* 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 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. More information can be found at **www.npinvesting.org** or **www.raffawealth.com**.

Raffa, PC

Founded in 1984, Raffa, PC 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. 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**.

Do you have questions or feedback about this report?

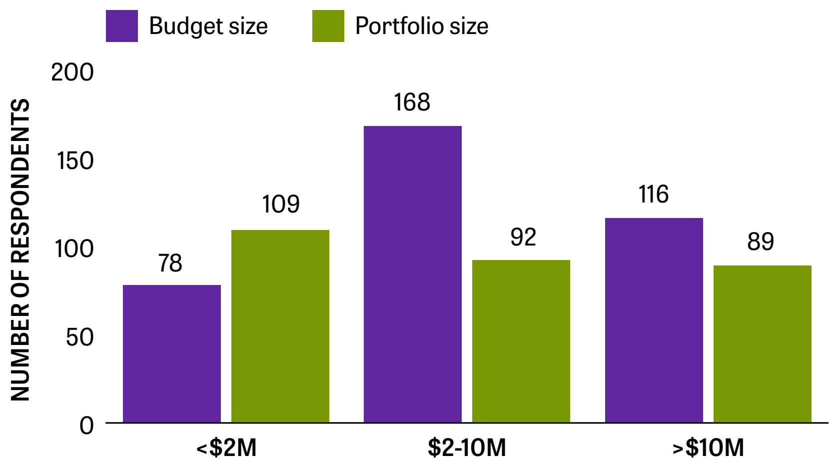
Email SONI@raffawealth.com

Participation

Respondents

Survey participation remained strong this year with a total of 362 public charities responding to SONI.

Of the participating charities, 44.5% identified as providing social services or community development, 17.7% identified as providing educational or religious services, 11% identified as private or community foundations; and the remaining 26.8% identified as "other." Over 75% of these public charities had portfolios in excess of $2 million.



Budget size <$2 million
78 public charities participated. The median budget size was $1.3 million and the median portfolio size was $686,500.

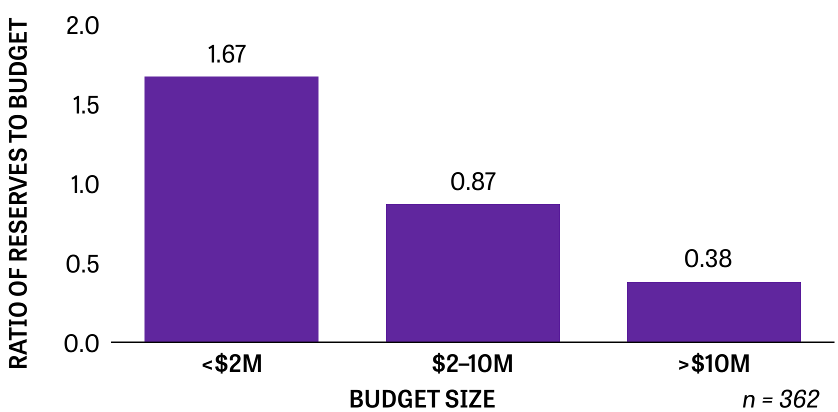
Budget size $2–10 million
168 public charities participated. The median budget size was $4.8 million and the median portfolio size was $4.6 million.

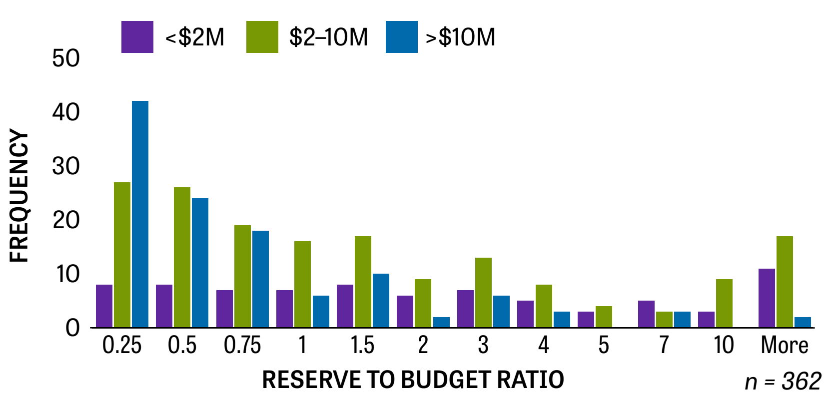
Budget size >$10 million
116 public charities participated. The median budget size was $25 million and the median portfolio size was $35 million.

Reserve to budget ratio

Charity reserves are being 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.

For small charities (less than $2 million), the median public charity reserve to budget ratio was 1.67 (or approximately twenty months of their budget in reserve assets). Mid-sized charities ($2–$10 million) had a little over ten months of their budget in reserve assets, while large charities (more than $10 million) maintained close to four and a half months' budget in liquid reserve assets.





Advisor Alert: What Is the Ideal Target Level of Reserve?

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 unexpected circumstances that could affect its 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 can fluctuate 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.

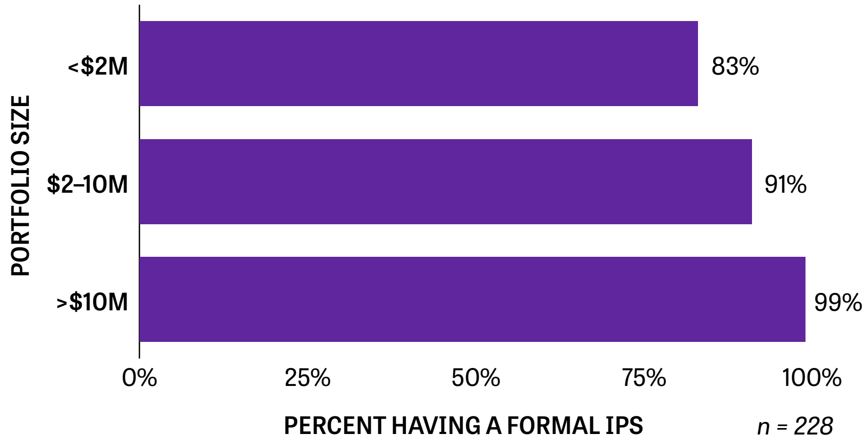
To quantify the dollars needed in reserve, we recommend going through a risk and opportunity assessment. After identifying all potential risks and opportunities, discount them based on the likelihood or time frame over which they may occur. A dollar value, or range of potential values, can then be assigned 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 reserve or whether to consider a spending plan. The assessment should be revisited every few years to determine if there have been any changes to your organization's risks or opportunities.

Investment Policy Guidelines

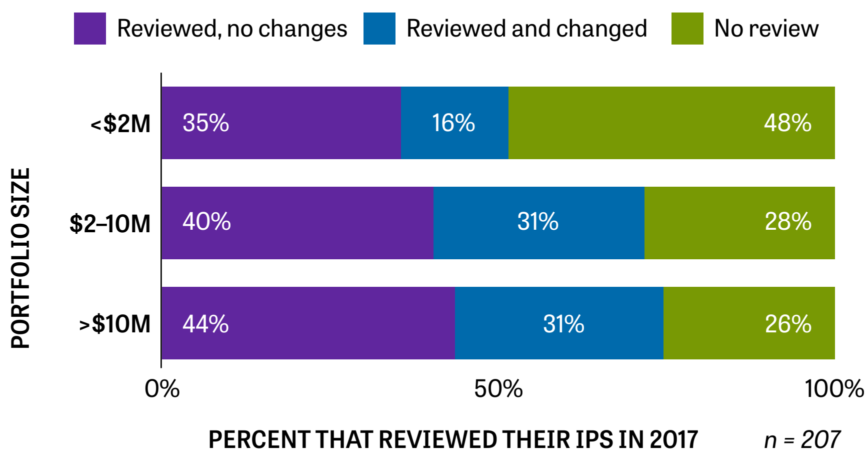
Formal policy election

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



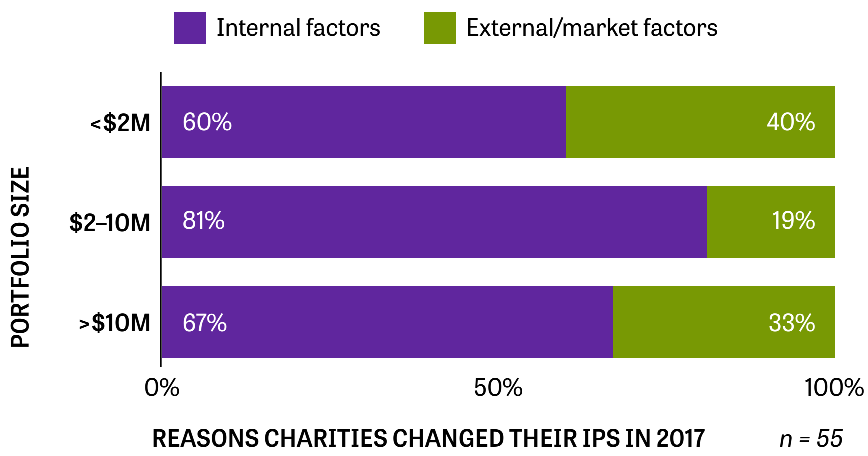
IPS review

Two-thirds of public charities reviewed their policy statement in 2017, with just over a quarter of those making changes. Larger organizations were more likely to have reviewed and made changes to their policy at some point during the year.



Reason for change

Most of the nonprofits that made a change to their policy did so based on internal factors as opposed to external/market conditions.



Investment policy components

Of those that maintain a formal Investment Policy Statement (IPS), public charity survey participants were asked to select the components that are formally addressed in their organization's policy.

An overwhelming majority of organizations outline overall portfolio objectives in their IPS (95%). Many include the following in their policies: specifying a target asset allocation (82%), permitted or prohibited investments (77%), and roles and responsibilities for staff, volunteers, and consultants (74%).

Fewer than 50% of charities specify in their IPS a formal portfolio benchmark that identifies the portfolio's performance expectation.

Fewer than 25% of public charities reported including guidelines for socially responsible investments in their IPS.

PERCENTAGE OF RESPONDENTS WHO INCLUDE TOPIC IN THEIR IPS

n = 213

RWM Insight: Roles/Responsibilities

We're pleased to see that defining roles and responsibilities for staff, volunteers, and consultants has become one of the most included components of survey participant's investment policy statements this year. Establishing governance procedures such as outlining the roles and responsibilities for the various parties involved in managing your organization's reserves provides clarity and bolsters accountability.

Advisor Alert: Strengthen Your Investment Policy

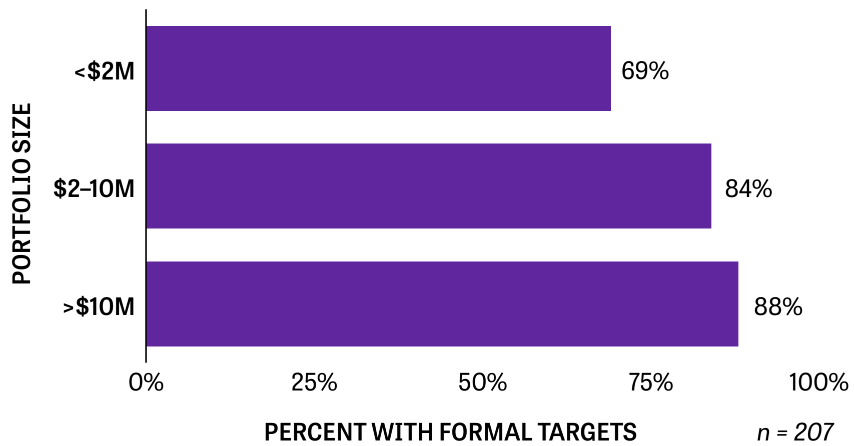
Maintaining and regularly reviewing your organization's investment policy is an important step toward achieving your financial goals. During your review, clearly state the high-level goals and objectives of your investment reserves. Be sure to include governance procedures such as decision-making authority 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..

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

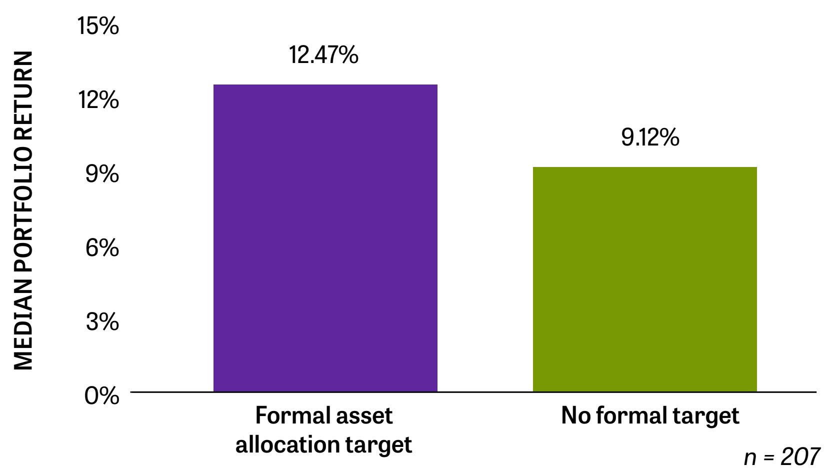
Asset allocation targets

Some nonprofits require investments to be managed at or near specific policy asset class allocation targets (for example, 60% to stocks and 40% to bonds), while other policies allow more flexibility. A majority (average of 81% across all cohorts) outline specific policy targets.



Performance* based on asset allocation targets

Overall, the median public charity that reported having a formal asset allocation target indicated better performance by over 3% than the median public charity that did not.



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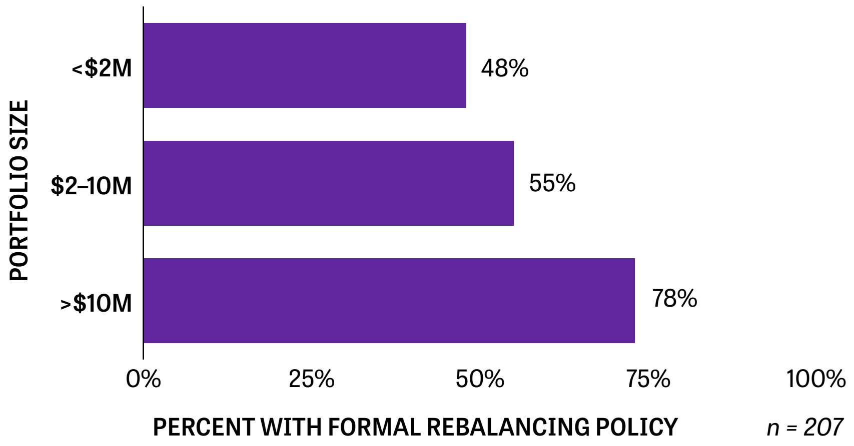
Portfolio rebalancing

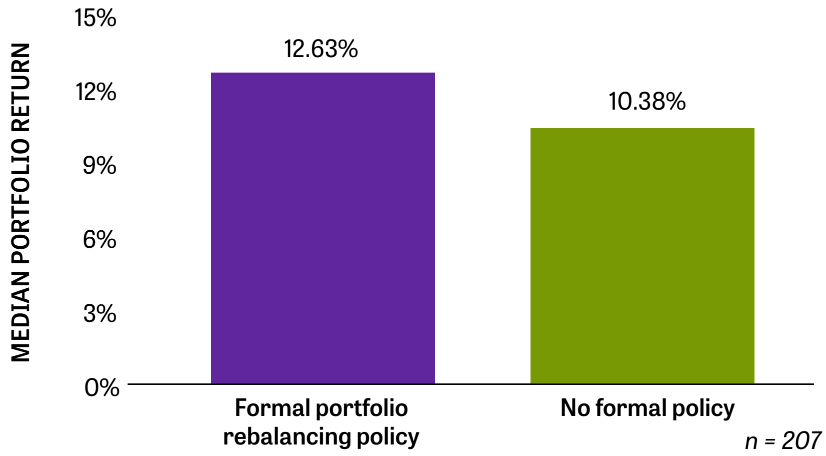
When it comes to rebalancing, organizations must again decide whether or not guidelines should be outlined in their investment policy or if advisors or volunteer committees should be empowered to make ad hoc rebalancing judgments.

Larger charities are more likely to maintain a formal policy to guide rebalancing decisions than smaller charities.



Performance* based on rebalancing policy

The median participant that included rebalancing guidelines in their investment policies reported higher performance by over 2% in 2017 than those that didn't. We view this as further evidence of the wisdom in instilling discipline to investment decision-making.



RWM Insight: Instilling Discipline

Over the past two years, the median charity that included a formal asset allocation target in their Investment Policy Statement (IPS) outperformed the median charity that didn't. Similarly, the median charity that outlined a rebalancing policy outperformed the median charity that didn't. This underscores our belief that removing emotions and instilling discipline into the investment decision-making process gives organizations their best chance of achieving their investment goals. We will continue to evaluate SONI results going forward to monitor this tendency. 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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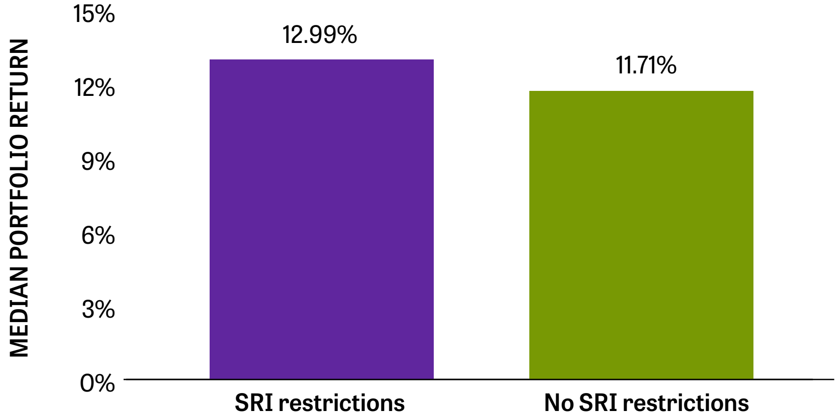
Socially responsible investing guidelines

Just under 25% of participants reported having policy guidelines for socially responsible investing (SRI). The median charity with SRI guidelines reported higher performance* than the median of those without SRI guidelines.



n = 207

Advisor Alert: 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 screening criteria the fund manager is using, and confirm that it aligns with the goals and objectives of your organization's SRI policy.

Determining the 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.

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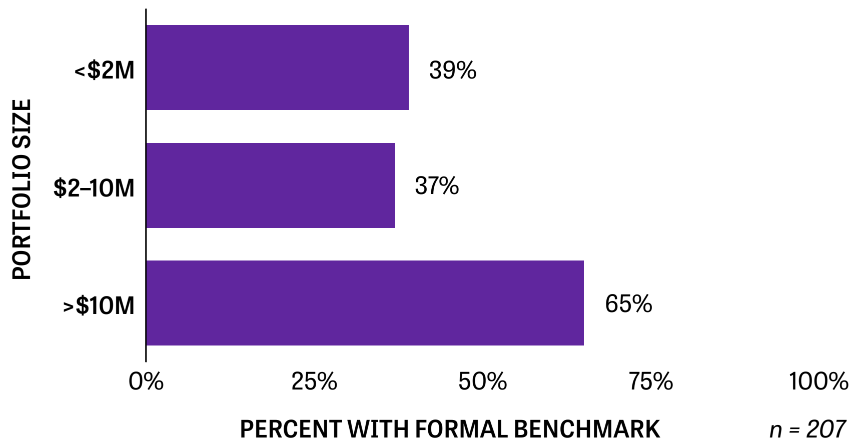
RWM Insight: Evaluating Your Investment Advisor

The key to objectively evaluating an investment advisor is developing a simple, high-level blended policy benchmark (BPB). Unsure how to create one? Contact **SONI@raffawealth.com** for a complimentary copy of the 2017 SONI report, which includes step-by-step instructions.

Portfolio benchmark policy



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

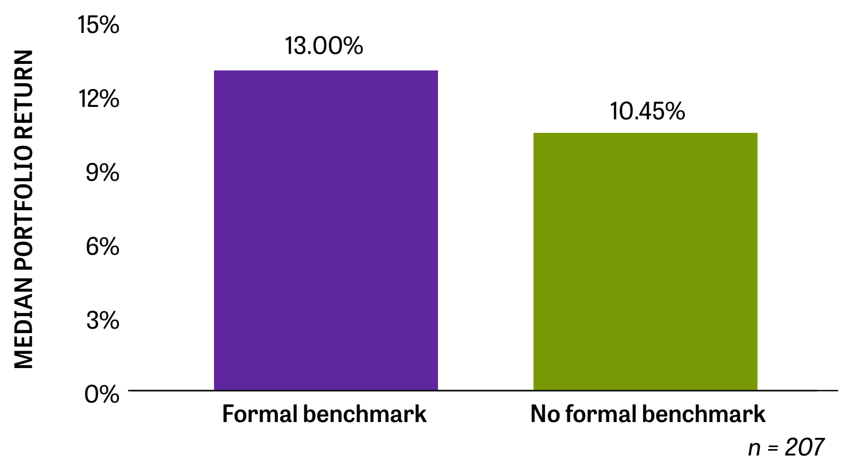
Portfolio benchmarks act as a measuring stick, providing meaningful context and allowing your organization to objectively evaluate the drivers of your portfolio's performance.

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

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, charities that reported including a "formal portfolio benchmark that identifies the portfolio's performance expectation" performed better than those that didn't by over 2.5% in 2017.



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Advisor Alert: Active or Passive?

We've resisted addressing the active/passive issue for several reasons but our primary challenge is the difficulty in defining "active" and "passive" investments. Since index funds have become increasingly popular and effective, several "passive" investment vehicles have been introduced to take advantage of the demand. As a result, the lines between "active" and "passive" have blurred.

- Is a fund that tracks the performance of high-dividend paying stocks a passive investment or an active strategy?
- If half of your fixed income allocation is tracking the performance of high-yield bonds, are you investing passively or making a massive bet on a very risky sector?
- If your entire allocation to stocks is delivered through several Exchange Traded Funds that track specific industry sectors, and your advisor routinely trades among them, you may technically be entirely invested in index funds, but you're a long way from investing "passively."

Focusing on whether an investment is active or passive can be an unhelpful distraction. Instead, we suggest focusing on what matters most. Are your fees reasonable? Are you well diversified? Do you and your advisor remain disciplined to your strategic allocations? If so, your investment approach is smart and that may be preferable to being either active or passive.

Segmentation and Asset Allocation

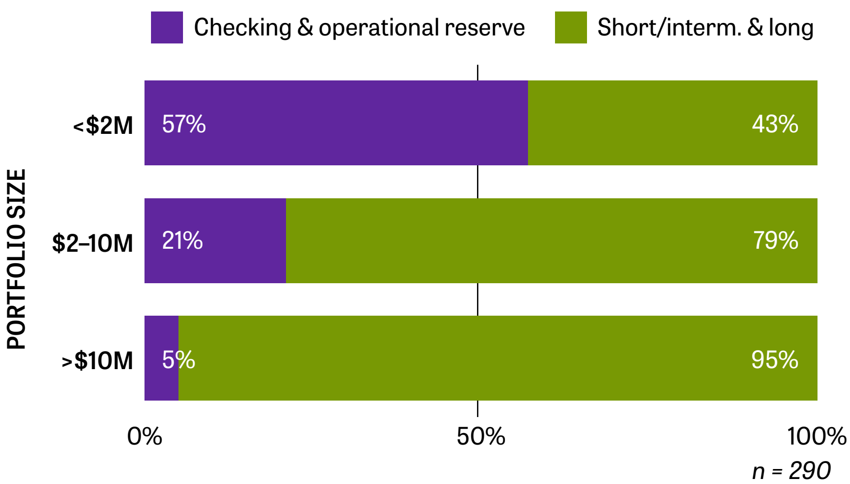
Segmentation of total liquid assets

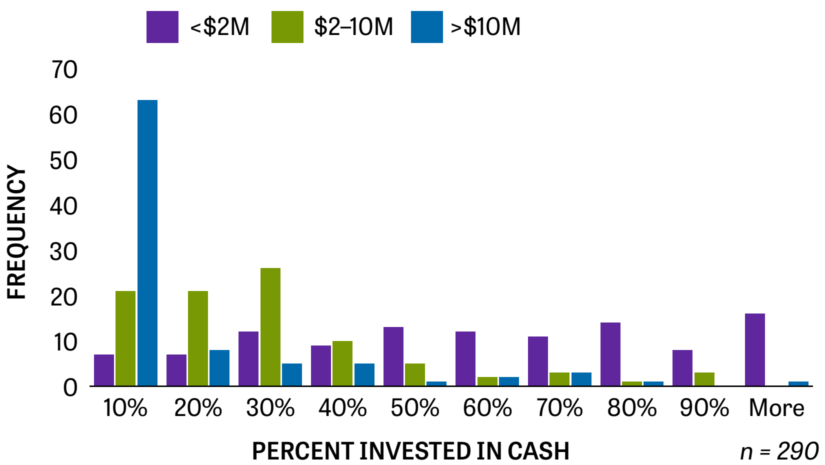
In order to assess how nonprofits segment their liquid cash assets, we asked survey participants how much in assets they held in the following four buckets:

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

We 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.

Nonprofits' segmentation of total liquid assets varied by size, with smaller organizations maintaining more than half of their liquid assets in cash and larger organizations maintaining a vast majority in longer-term investments.

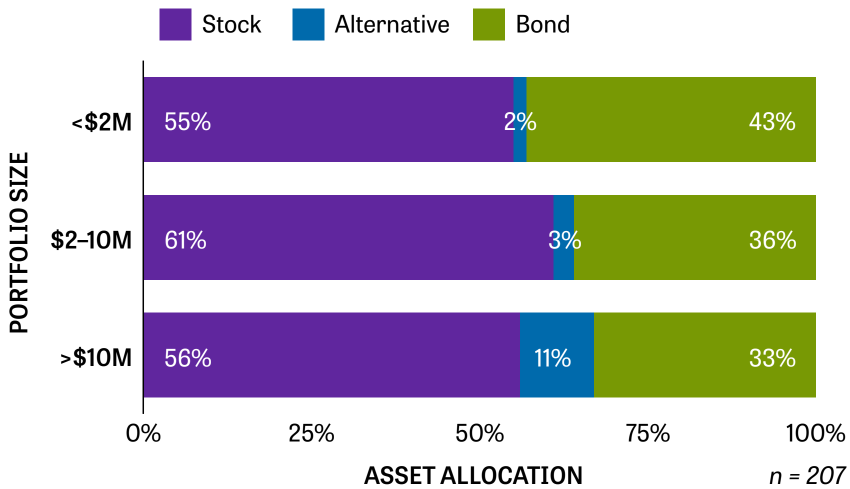


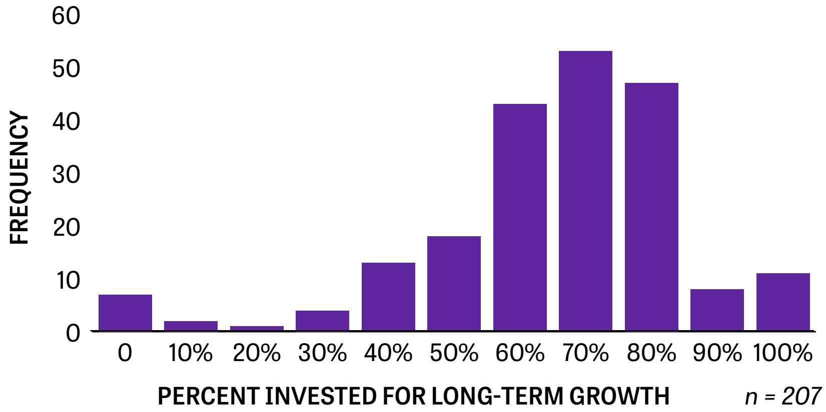


Long-term investments asset allocation

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

On average, charities from all size cohorts invest similarly with approximately 60% allocated to stock/alternatives and 40% to fixed income. Larger organizations held substantially less in cash and more in alternative investments than their smaller peers. In order to show the typical asset allocation range for nonprofits' long-term investments, 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 Asset Allocation graph, the typical range is between 55% and 80% of assets allocated to stocks and to alternative investments intended for long-term growth.





Trend Alert: Asset Allocation

The average public charity across all three sizes indicated that it holds more in stocks than it holds in bonds. Strong global stock market performance coupled with historically low volatility has created a smooth ride for equity investors.

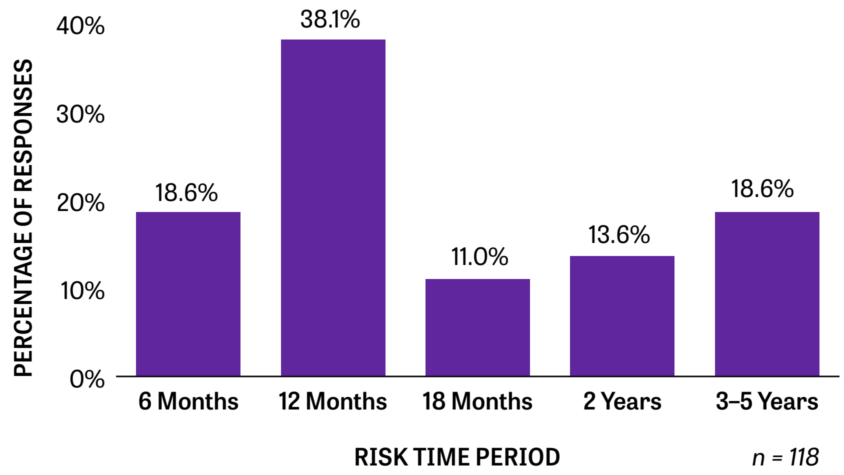
As normal levels of volatility inevitably return, RWM recommends charities remain disciplined and focus on long-term goals. We suggest you avoid making changes to your asset allocation (stock to bond) targets in response to market conditions. Instead, make policy changes after evaluating your organization's financial condition and tolerance for volatility.

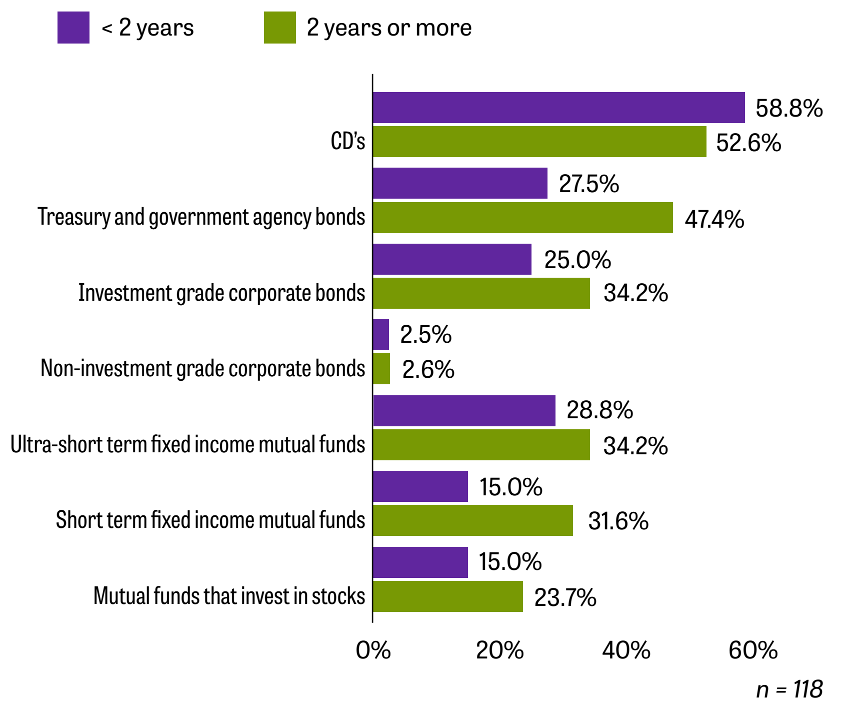
Short-term investments asset allocation

When asked for the time frame that aligns with the level of risk that's appropriate for their short-term portfolio, over 80% of public charities indicated two years or less.

Participants were asked how their organizations handle short-term investments not held in cash. Over 50% of charities' short-term portfolios contain Certificates of Deposit and just over one-third contain U.S. Treasury and Government Agency bonds. A quarter or fewer of short-term portfolios contain short-term fixed income mutual funds (maximum average maturity of five years) or mutual funds that invest in stocks (limited to a maximum of 20%).

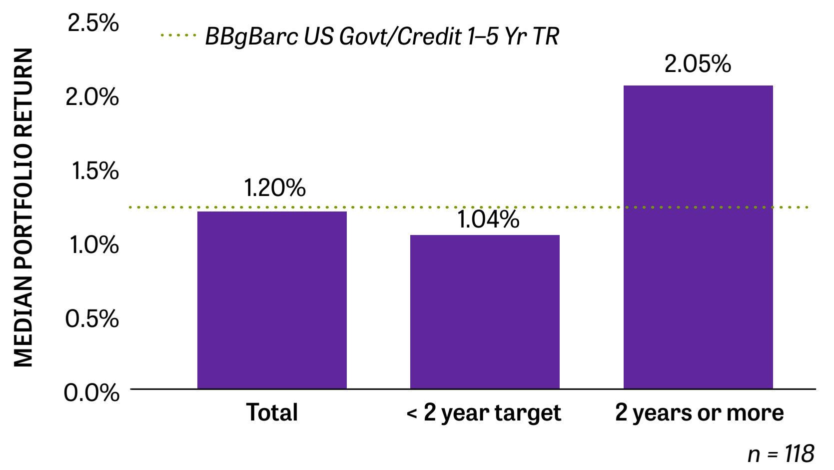
Based on the time horizon of the short-term portfolio, those with time frames greater than two years were more heavily invested in investment grade corporate bonds and mutual funds while holding less in CDs and U.S. Treasury and Government Agency bonds.

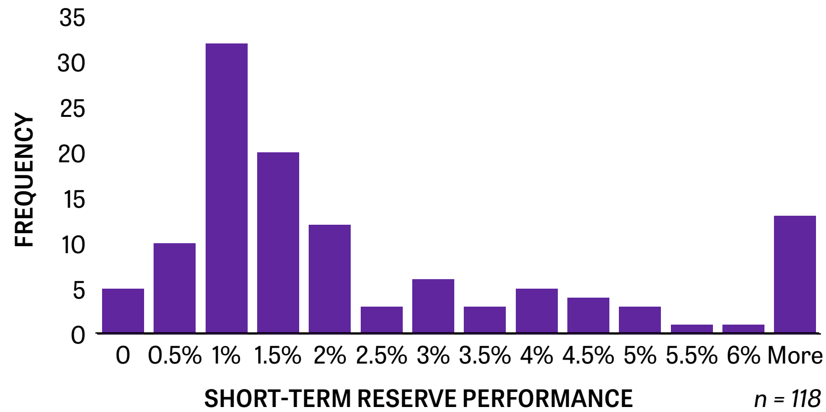




Short-term investments performance*

Short-term investment performance was strong for survey participants, regardless of targeted time frame.





Advisor Alert: Short-Term Investments

Organizations looking to make the best use of short term assets mitigate risk in three different ways:

- Using FDIC insured products or accounts (CDs and bank money market or savings accounts)
- Buying bonds backed by the U.S. Treasury or other U.S. government agencies
- Having diversified funds that invest in high quality government or corporate bonds (fixed income mutual funds)

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.

Given that the purpose of the reserve is to cover a future cash outflow, we recommend that these investments be very liquid so that they can be quickly exited when it becomes necessary to make an outlay.

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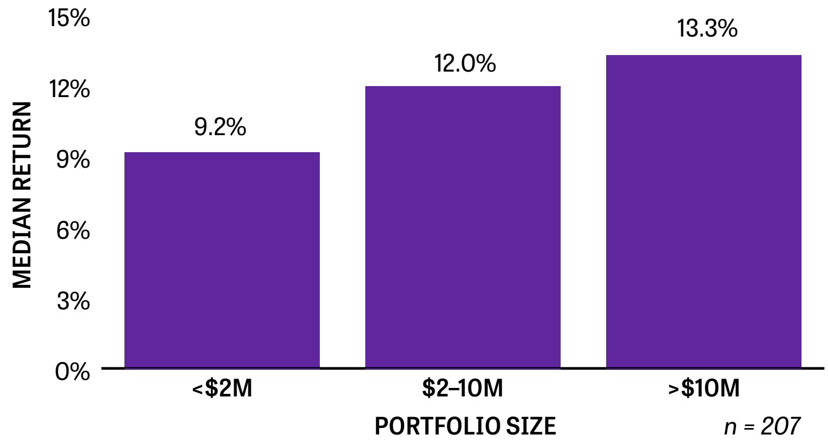
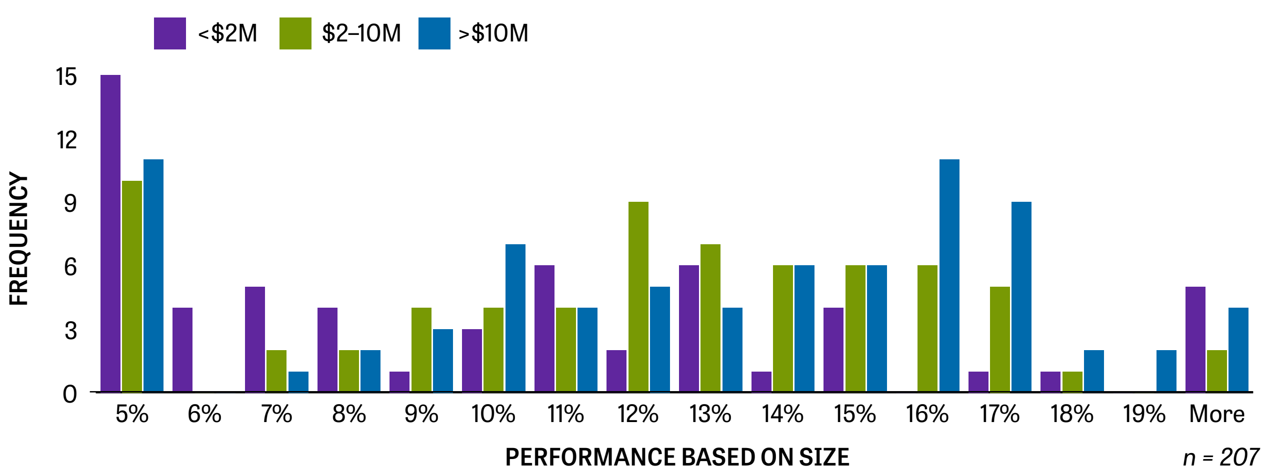
Investment Performance and Fees

Long-term performance* based on portfolio size

Investment performance* for year-end 2017 was strong across all three nonprofit size cohorts. Over the last four years, larger organizations with more growth-oriented investment policies outperformed smaller organizations. This is an expected result given market conditions that favored stocks over bonds.





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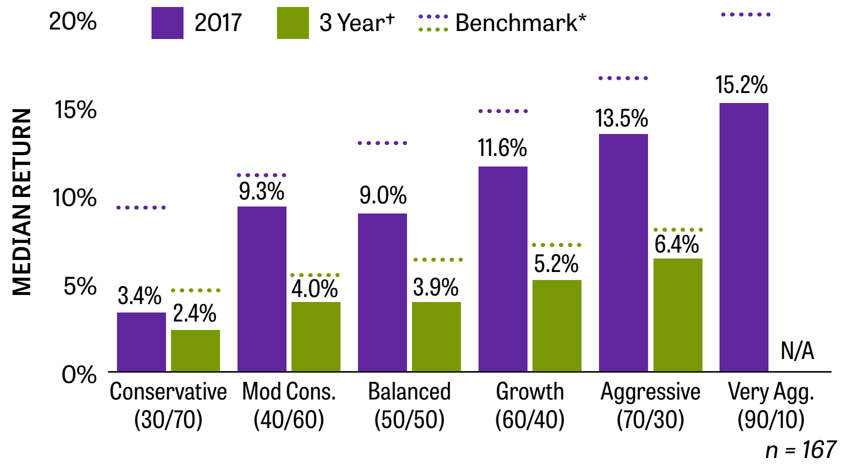
Portfolio benchmarks



To give context to the SONI performance results, six blended portfolio benchmarks were developed, ranging from conservative to very 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 six groups based on their target asset allocation and the median performance of each group was compared to the corresponding portfolio benchmark.

Investment returns for public charities lagged these blended portfolio benchmarks for year-end 2017. Over the last three years, the median charity investment return in each target asset allocation category trailed the corresponding blended portfolio benchmark.

Trend Alert: Underperformance Gap

This is our sixth consecutive year producing SONI and analyzing the results. For the past five years (data as of YE 2013, 2014, 2015, 2016, and 2017), 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:

- After several years of trailing U.S. stocks, foreign stocks posted very strong returns in 2017 and well outpaced the U.S. market. Nonprofits with lower exposures to foreign stocks were likely to trail the SONI benchmark.
- 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 past 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

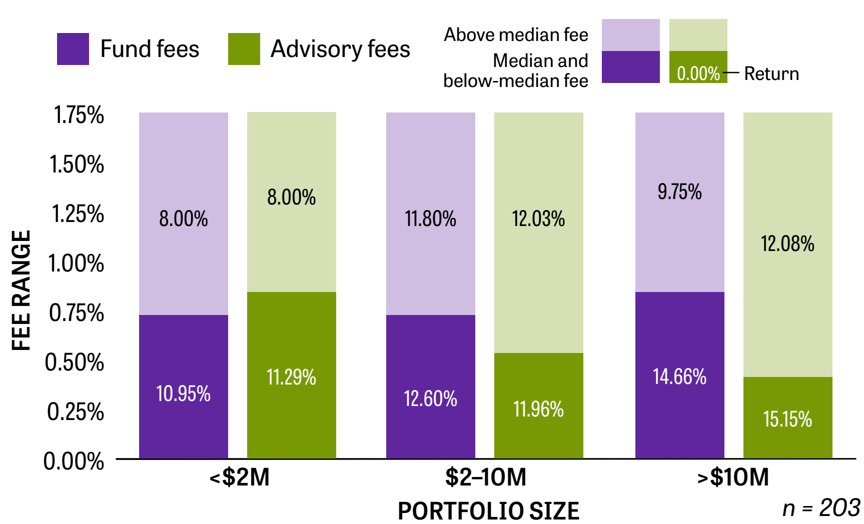
Portfolio Size	Fund Fees	Advisor Fees	Total
<$2M	0.56%–0.70%	0.71%–0.85%	0.96%–1.10%
$2–10M	0.56%–0.70%	0.41%–0.55%	0.96%–1.10%
>$10M	0.71%–0.85%	0.26%–0.40%	0.81%–0.95%

n = 203

SONI 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. The median nonprofit among those with portfolios between $2 and $10 million, for example, indicated that their advisory fee was in the 0.41% to 0.55% range and average fund/manager level fees fell in the 0.56% to 0.70% range. In total, the median fee range was between 0.96% and 1.10%.

Larger charities pay about half of what smaller charities pay for investment advisor fees, but pay marginally more for fund fees. The median large (>$10M) charity pays 0.15% less in total fees than small public charities.

Performance* impact of fees



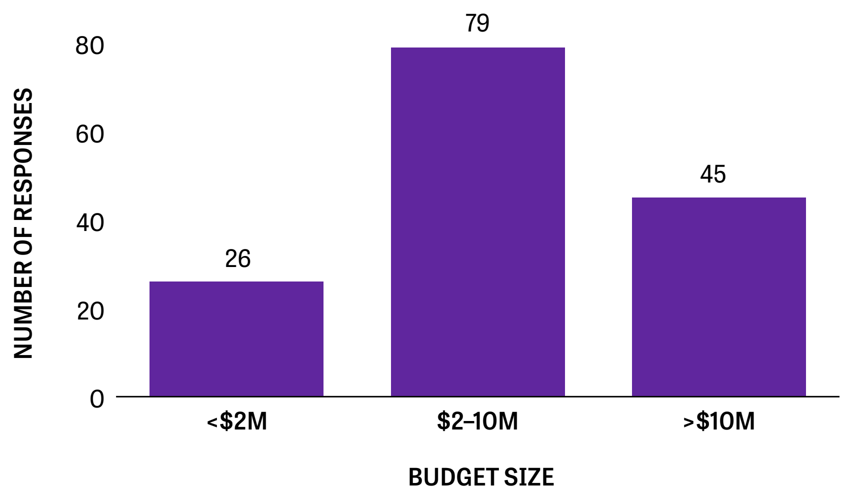
In an effort to identify how either advisory fees or fund-level fees impact bottom line results, participant performance returns were segmented into two fee categories: those with fees at or below the median fee range, and those with fees higher than the median range. The results for year-end 2017 showed charities with lower-than-median fund fees performed better across all size cohorts. Small (<$2M) and large (>$10M) charities with lower-than-median advisor fees and total fees also outperformed. Medium ($2–10M) charities with above median advisor and total fees slightly outperformed. When looking at total fees, we continue to see a general pattern where lower fees have tended to indicate a higher performance. We will continue to assess the impact over time of fees on bottom line results.

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

Retirement Plan Benefits

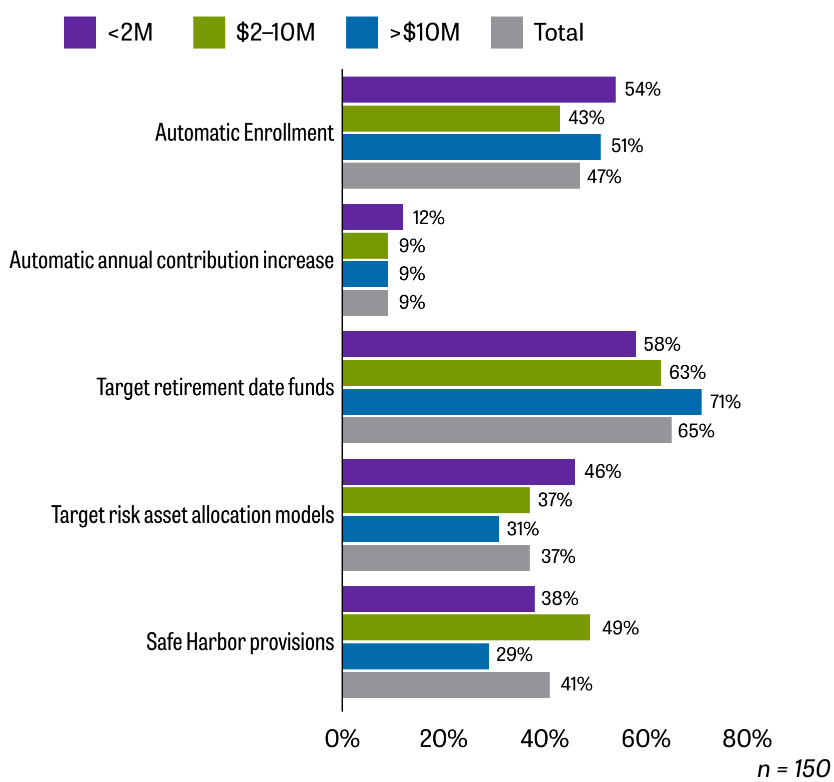
Respondents

This year, participants were given the option of including information regarding their retirement plan benefits. More than 40% (150) of charity participants chose to do so.



Retirement plan features

SONI participants were asked to select the features that are included in their retirement plan from a number of options. In total, nearly half of the retirement plans use auto-enrollment; 65% offer target retirement date funds; and 41% have Safe Harbor provisions. Fewer plans have target risk asset allocation models (37%), and only 9% use an automatic annual contribution increase feature.



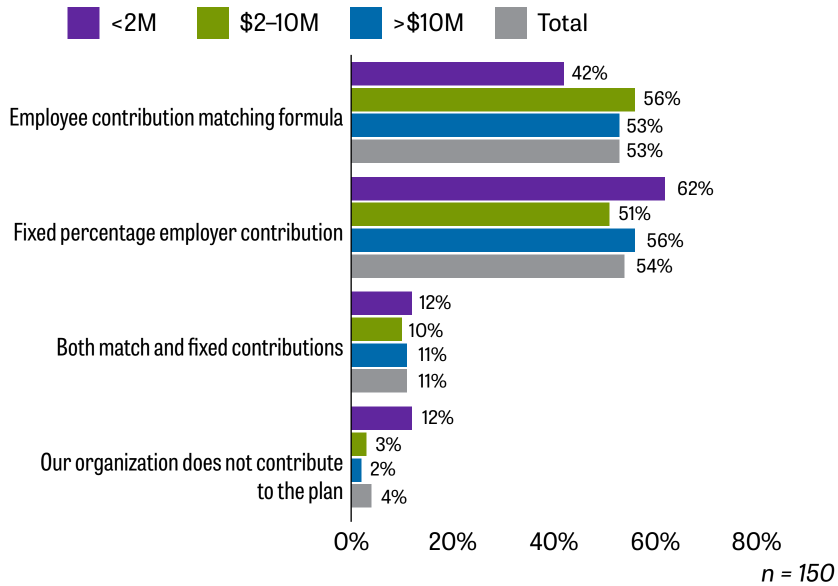
Retirement plan matching

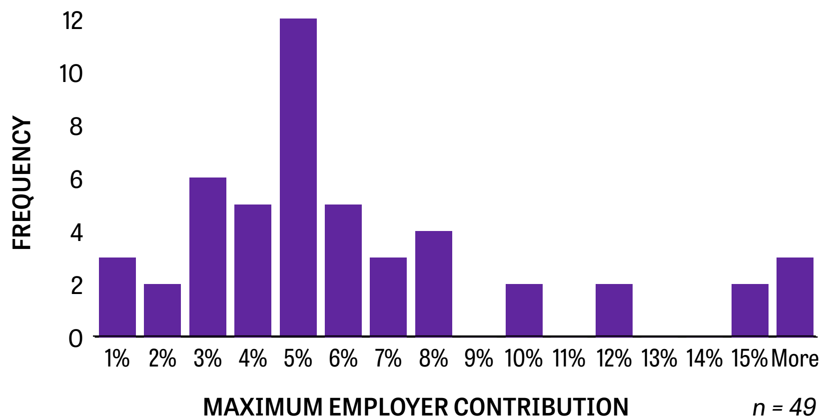
Next, information was gathered on retirement plans' matching formulas. Participants were asked whether they offered employee contribution matching formulas, a fixed percentage employer contribution, both match and fixed contributions, or none at all.

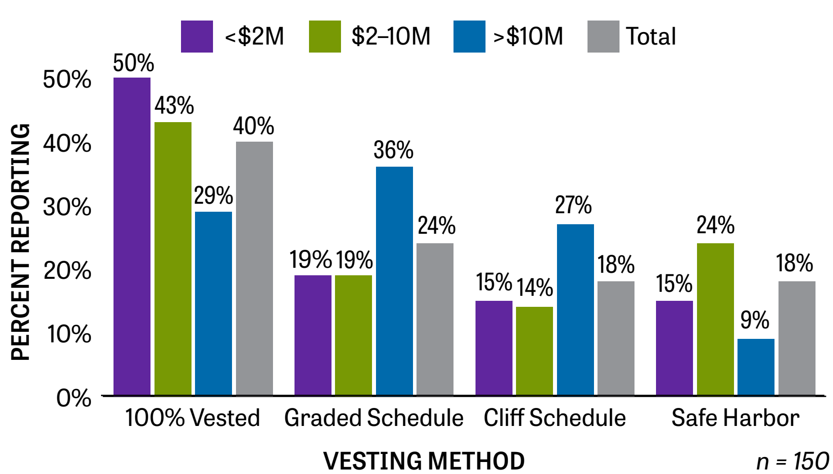
Close to 50% of charity retirement plans reported offering employee contribution matching formulas, with larger charities more likely to do so. Slightly more than half (54%) offer a fixed percentage employer match, with smaller charities favoring this option. Just over 10% of retirement plans use a combination of employee matching formulas and fixed percentage employer contributions. Only 4% of charities do not offer employer contributions to their retirement plan.

The median maximum employer contribution reported across all sizes of public charity retirement plans is 5%.

Employer contributions were reported to be 100% vested for 40% of charity retirement plans. Larger charities were more likely to report using a graded or cliff schedule for vesting, with graded schedules being the more popular of the two options. Just 18% of participating retirement plans satisfied the contribution, vesting, and notice requirements to be considered a safe harbor.

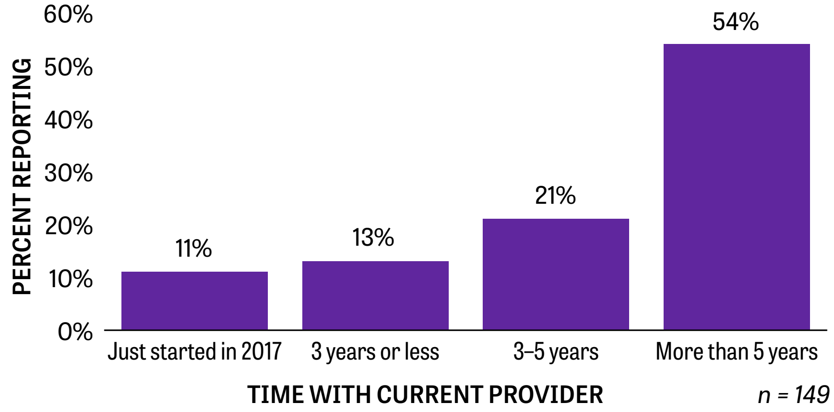






Retirement plan providers

Participants were asked how long they have been with their current retirement plan administrator/record-keeper. Over 50% of respondents, including 65% of smaller charities, indicated that they have been with their current plan administrator/record-keeper for more than five years.



RWM Insight: Are Your Retirement Plan Fees "Reasonable?"

The U.S. Department of Labor has increased the reporting and transparency of the fees that retirement plan providers collect for their services. They also require plan sponsors to review these reports and make a determination that the fees are "reasonable" in light of the services being provided. Staying informed about what is available in the marketplace is a very important step that should be documented in a plan's due diligence file. This should be done on a regular basis, but it is often overlooked by plan sponsors.

Due in a large part to the increased fee transparency, the retirement plan marketplace is changing rapidly. The downward fee pressure on plan providers has created a great opportunity for plan sponsors to reduce the expenses paid by their participants. As a best practice, we encourage plan sponsors to perform an RFP for their retirement plan every three to five years. This will allow you to see what other vendors are offering in the marketplace and assist you in determining that your plan's fees are "reasonable."

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

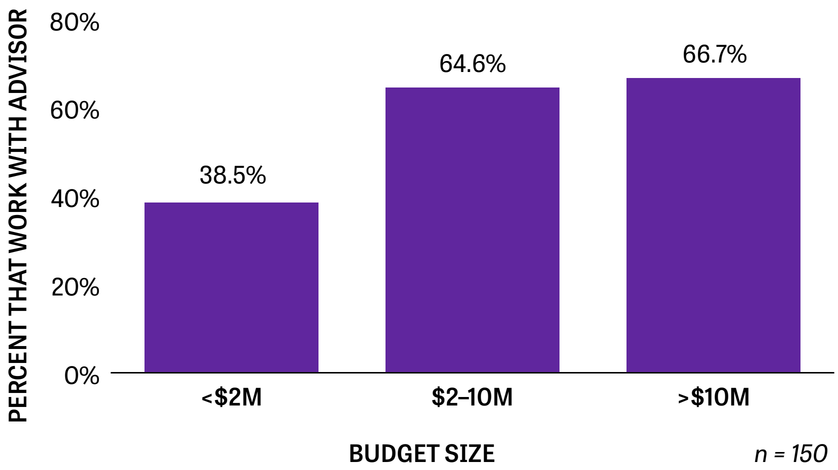
Email SONI@raffawealth.com

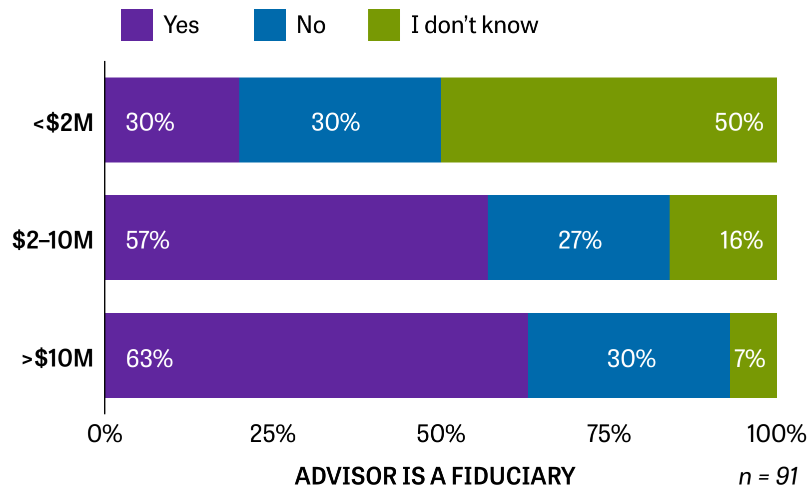
Retirement plan investment advisors

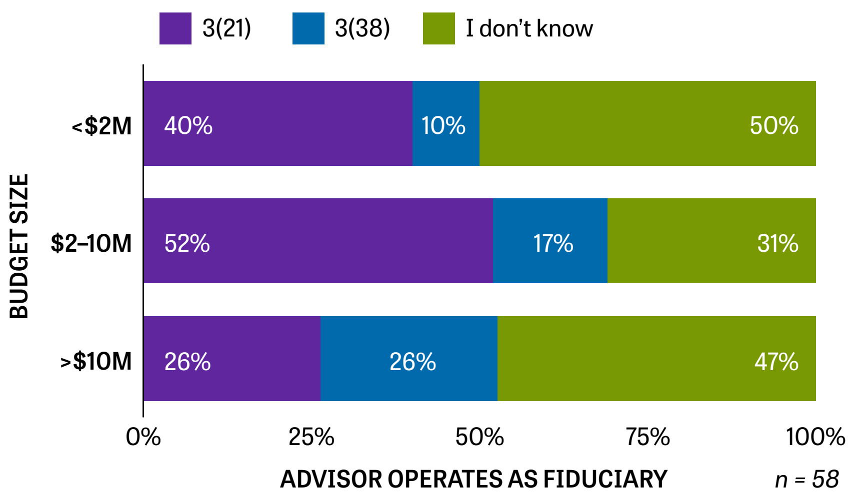
Less than half of smaller charities indicate that they partner with an investment advisor for their retirement plan compared with over two-thirds of larger charities.

Larger charities also favor using investment advisors who operate in a fiduciary capacity. Investment advisors can share or assume certain fiduciary responsibilities related to a plan's investments. Fiduciaries are committed to acting solely in the best interest of the plan and its participants at all times.

Participants were asked whether their investment advisors operated as 3(21) or 3(38), which refers to specific sections of ERISA. A 3(21) investment advisor is a co-fiduciary that make recommendations to the plan sponsor, who retains discretion whether to accept or reject that advice. 3(38) advisors have the discretion to make fund decisions on their own. Smaller charities weren't aware of whether their advisors operated in a 3(21) or 3(38) role. Although there is no right answer, it is important to know. Hiring a 3(38) advisor may shift some of the fiduciary risk for investment selection from the plan sponsor to the advisor, which can be an attractive option.

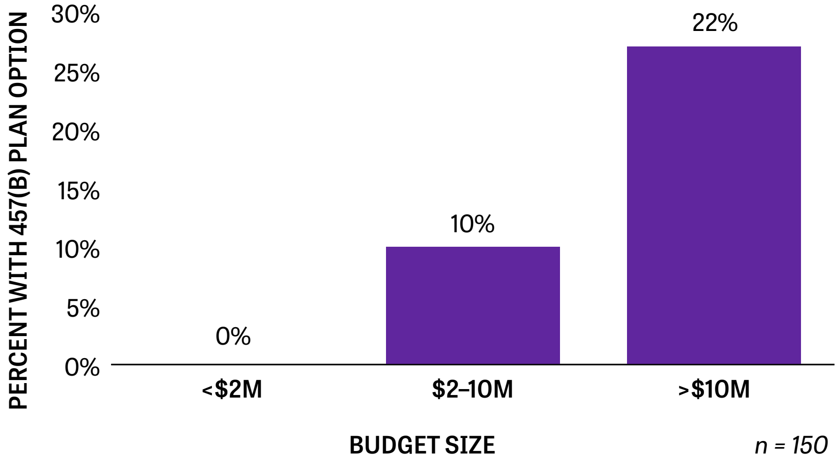






Non-qualified retirement plan

SONI participants were polled to see if they offered an additional 457(b) plan to a select group of senior staff. Just over a quarter (27%) of larger charities have a 457(b) option, whereas fewer than 10% of intermediate charities do. None of the smaller charities offer a 457(b) plan option.



Advisor Alert: Nonprofit Retirement Plan Benefits

Offering a retirement plan to your employees is an important first step to encouraging your employees to save for their retirement. Unfortunately, plans are often underutilized or ignored by far too many employees, and that is especially the case with younger employees just entering the workforce. The good news is that there are ways to encourage your employees to participate, including automatically enrolling them in the plan. By requiring your new employees to opt-out of the plan instead of opting-in, many choose the path of least resistance and continue those monthly contributions when they might not have otherwise. If you combine automatic enrollment with an automatic annual increase in their deferral rate, you can help employees achieve a healthy retirement savings rate.

The retirement plan industry has seen a steady increase in the number of retirement plans electing the automatic enrollment and automatic contribution increase features over the past five to ten years. In addition to seeing an increase in participation and deferral rates, non-safe harbor plans might also see improvement in their compliance testing results. This year about half of the SONI responses we received said that their organization is using auto enrollment, and less than one in ten are using automatic increases. As a best practice to benefit your new employees, we recommend having a conversation with your retirement plan provider about adding these features to your organization's retirement plan.

Analysis

Markets were riding high at the end of 2017. The recently passed tax overhaul and solid growth around the world provided significant optimism for global stock markets. U.S. stocks steadily gained over the course of 2017 with only two days where the market was down 1%.

However, as we've seen early in 2018, things can change very quickly. Concerns about a trade war, rising inflation and potential tech regulation have sent markets on a wild ride.

While the recent return of volatility might drive a desire to head to the exits, the 2018 SONI results provide a compelling case for remaining disciplined.

Fortunately, investing prudently doesn't involve successfully forecasting the future direction of the market. At RWM, we strongly recommend organizations tune out the noise and look to their investment policies to make informed decisions. Ideally, your investment policy will drive buy-sell (rebalancing) decisions and make it crystal clear whether or not you're performing in line with expectations. This should make the focus of finance committee or board meetings more objective and concise, leaving more time to discuss business strategy rather than investment strategy.

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

Disclosure

This report summarizes the results of an informal study compiled by analyzing the results of 509 surveys completed by nonprofit finance executives. All performance data cited is as of December 31, 2017. 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.

Different types of investments involve varying degrees of risk, and 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 public charity's performance return to the SONI blended portfolio benchmarks inappropriate. It may be perfectly acceptable for a charity to under-perform the SONI blended portfolio benchmarks. Under-performance 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 follow:

Blended Portfolio Sample Benchmarks

	30/70	40/60	50/50	60/40	70/30	90/10
Russell 3000	20%	29%	38%	47%	56%	74%
MSCI AW ExU.S.	10%	11%	12%	13%	14%	16%
BarCap Agg Bond	65%	55%	45%	35%	25%	5%
ICE BofA ML 3M T-Bill	5%	5%	5%	5%	5%	5%
HFRI Fund-of-Funds	0%	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 ICE BofA ML 3M T-Bill Index 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.

The Russell 3000 Index is a trademark of FTSE Russell.The MSCI AW ex U.S. Index is a trademark of MSCI Inc. Bloomberg is a trademark and service mark of Bloomberg Finance L.P. Barclays is a trademark and service mark of Barclays Bank Plc. The ICE BofA ML 3M T-Bill Index is a trademark of Intercontinental Exchange, Inc. The HFRI Fund-of-Funds Index is a trademark of Hedge Fund Research, Inc.

Short Term Performance Benchmark

The BBgBarc US Govt/Credit 1–5 Year Total Return Index seeks to represent the short-term U.S. government and investment-grade corporate bond market.

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Raffa Wealth Management, LLC

1899 L Street, NW, Suite 850 • Washington, DC 20036
1445 Research Boulevard, Suite 300 • Rockville, MD 20850
raffawealth.com • Tel: 202-955-6734