SONI
Study on Nonprofit Investing

CELEBRATING 5 YEARS

2017 STUDY ON NONPROFIT INVESTING

Executive Summary

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.

This Executive Summary outlines the high-level 2017 SONI findings and SONI trends over the last three years. Further data and detail can be found in each of the in-depth analysis reports: 2017 SONI Public Charities, 2017 SONI Associations, and 2017 SONI Foundations. **The in-depth reports are free to survey participants and are available to other nonprofits at a cost of $450.**

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.

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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.

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 reported lower performance* results for the fifth time in the past five years.

An important finding has emerged in the 2017 SONI. This year's study revealed (again) that nonprofits that have lower fees and specific policy guidelines to force accountability and discipline to decision-making generally fared better* than nonprofits that focused on other variables.

Three distinct SONI reports have been developed: SONI Associations, SONI Public Charities, and SONI Foundations. The SONI reports provide peer benchmarks that enable nonprofits to make better-informed decisions about their investments. SONI answers questions like:

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.

- 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?

What's new for SONI in 2017? This year, we address participants' most frequently asked questions. Several survey participants asked questions relating to objectively evaluating their organization's 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."

Do you have questions or feedback about this summary?

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**.

Register to participate in next year's survey

Participants in the study receive a complimentary copy of the in-depth SONI report. Nonprofits that did not participate may order the full SONI report by email. The cost is $450.

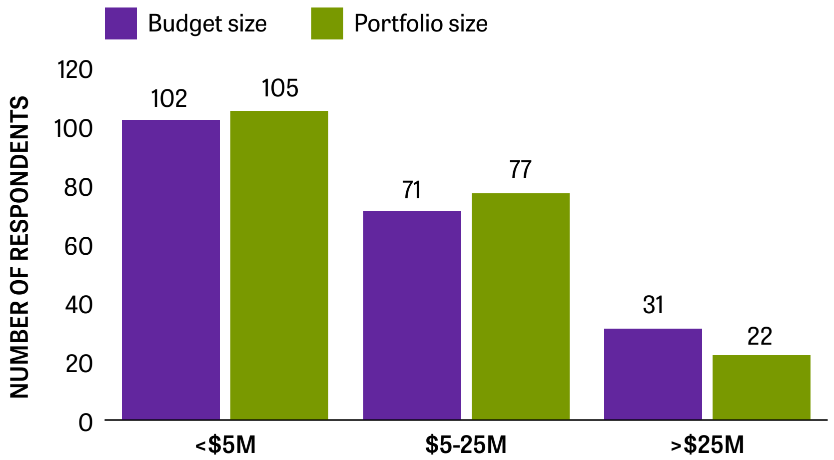
Email SONI@raffawealth.com

Summary of Findings: Associations

(The SONI Public Charities Executive Summary begins on page 7)

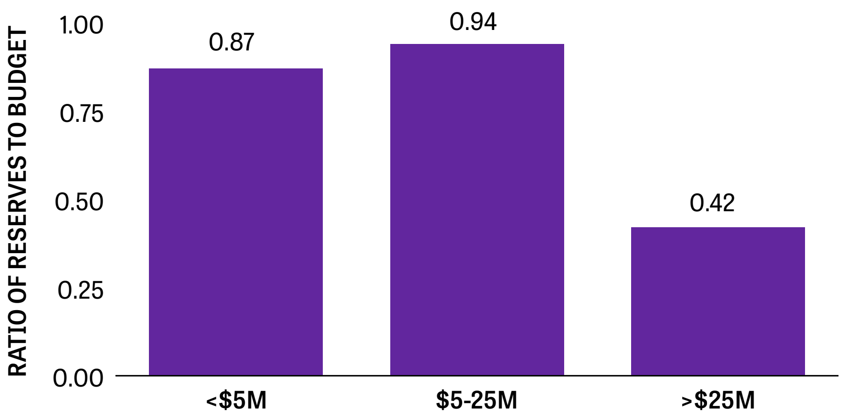
Participation

- 204 associations participated 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.



Median Reserve Size

- The median reserve (measured as an organization's total liquid cash assets) 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

- The vast majority of associations maintain formal investment policies and reviewed them in 2016. Approximately half of those that reviewed their policy made some change.
- Most associations outline policy asset allocation targets (71.5%). The median balance among stocks, bonds, and alternatives varies by size with larger organizations maintaining more growth oriented postures and allocating more to alternative investments.
- A modest majority of larger associations reported including portfolio rebalancing guidelines in their investment policy where as a slight majority of smaller associations don't include rebalancing guidelines. We view this as an opportunity for smaller associations to strengthen policies and remove emotion from decision-making.
- Approximately one in seven (14.5%) associations reported having policy guidelines for socially responsible investing.
- Specific components of investment policies are covered in detail in the full SONI Associations report.

Segmentation & Asset Allocation

- Regardless of size, associations reported investing the majority of their liquid assets toward some longer-term objective and holding relatively less in cash.
- The average long-term association portfolio asset allocation features investing between 50% and 80% in a combination of stocks and alternatives invested for growth, and the remainder in fixed income.
- 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.

Investment Performance*

- The median investment performance in 2016 was positive across all three association size cohorts with the median large association performing better than the median smaller association. 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 to bonds.
- 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.
- In relation to these blended portfolio benchmarks, the median association investment return across all five target asset allocation categories underperformed its portfolio benchmark in 2016. Over the last three years, the median association investment return in four out of the five target asset allocation categories trailed the corresponding blended portfolio benchmark.

Fees

- Advisor and internal mutual fund or manager fees were examined separately. As expected, smaller organizations generally pay more as a percentage of their assets. Associations with median or lower-than-median fees generally performed better.*
- Investment fees, and how they may correlate to investment performance, are addressed in more detail in the full-length SONI Associations report.

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

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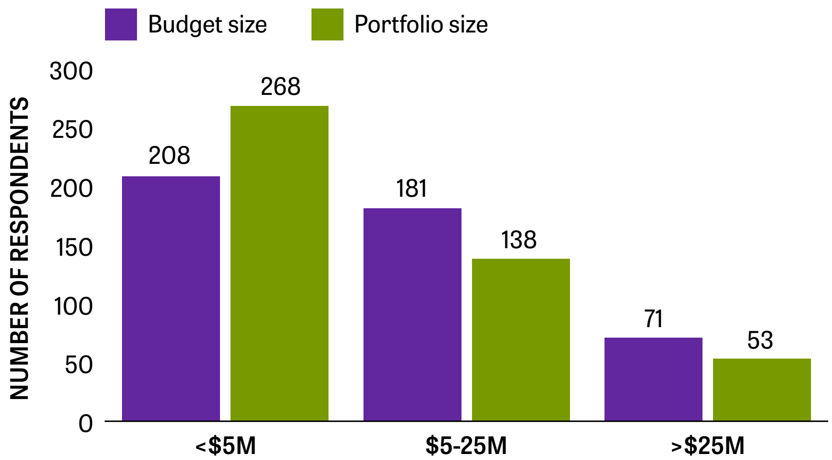
Summary of Findings: Public Charities

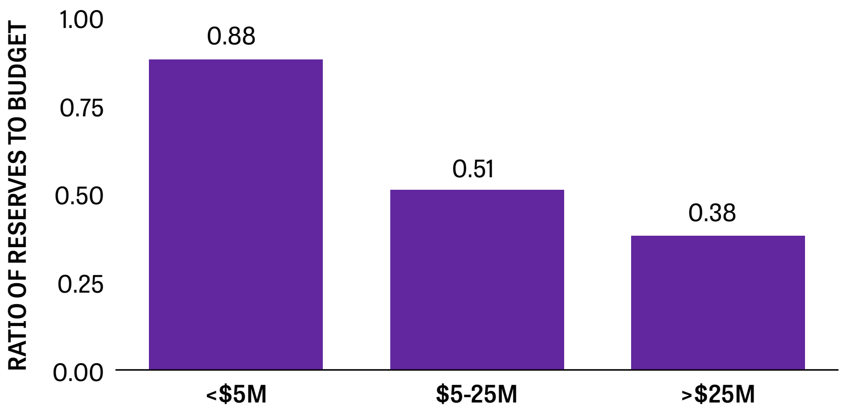
Participation

- 460 public charities participated in SONI. Of the participating charities, 47% identified as social services or community development providers, 19% identified as educational or religious services providers; and the remaining 34% identified as "other." More than half (54%) of these public charities had portfolios in excess of $5 million.



Median Reserve Size

- For small charities (less than $5 million), the median reserve (measured as an organization's total liquid cash assets) to budget ratio was 0.88 (or approximately ten and a half months of their budget in cash assets). Mid-sized charities ($5–$25 million) had a little over six months of their budget in liquid assets, while large charities (more than $25 million) maintained close to four-and-a-half months' budget in cash.



Investment Policy Guidelines

- The vast majority of public charities maintain formal investment policies and reviewed them in 2016. Approximately half of those that reviewed their policy made some change.
- Most charities outline policy asset allocation targets. The median balance among stocks, bonds, and alternatives varies by size with larger organizations maintaining more growth-oriented postures and allocating more to alternative investments.
- A healthy majority of public charities reported including portfolio rebalancing guidelines in their investment policy, whereas a majority of smaller charities don't include rebalancing guidelines. We view this as an opportunity for smaller nonprofits to strengthen their policies and remove emotion from decision-making.
- Approximately one in five participants reported having policy guidelines for socially responsible investing.
- Specific components of investment policies are covered in the full SONI Public Charities report.

Segmentation & Asset Allocation

- Regardless of size, public charities reported maintaining a roughly even balance between liquid assets held in cash versus those invested toward longer-term objectives.
- The "normal" long-term portfolio asset allocation range for public charities shows investing between 45% and 75% in a combination of stocks and alternatives invested for growth with the remainder in fixed income.
- Compared to the 2016 SONI results (data as of YE 2015), nonprofits of all sizes invested a larger portion of their total cash assets toward longer-term objectives throughout 2016. This is a shift toward risk and reflects some level of confidence in the future. With respect to the investment reserve asset allocation, smaller nonprofits shifted slightly toward safer investments (e.g., bonds) while larger nonprofits remained relatively steady.

Investment Performance*

- Investment performance in 2016 was positive across all three nonprofit size cohorts. 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 to bonds.
- 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.
- In relation to these blended portfolio benchmarks, investment returns for public charities were mixed for year-end 2016. Over the last three years, the median charity investment return in each of the five target asset allocation categories trailed the corresponding blended portfolio benchmark.

Fees

- Advisor and internal mutual fund or manager fees were examined separately. As expected, larger charities pay marginally less in total fees than small charities. The average large ($25M+) charity pays 0.16%-0.18% less in total fees than small public charities. Public charities with median or lower-than-median fees generally performed better.*
- Investment fees, and how they may correlate to investment performance, are addressed in more detail in the full-length SONI Public Charities report.

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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 nonprofits 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

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 nonprofits to embrace this fundamental relationship and focus on what matters.

The complete SONI reports include several Advisor Alerts that reflect RWM's views on various topics. The following relates to the observable trend toward nonprofits underperforming market benchmarks.

Trend Alert: Underperformance Gap

This is our fifth consecutive year producing SONI and analyzing the results. For the past four years, 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.

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.

There is no guarantee that any investment strategy, including those described here, will be successful. 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 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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