SONI
Study on Nonprofit Investing

Investment Policy Best Practices

The Study on Nonprofit Investing (SONI) seeks to empower nonprofits to make more informed decisions about their investments. SONI provides actionable peer data about how nonprofits invest their reserves and how those investments perform.

In 2016, more than 700 nonprofits participated in the SONI survey. The SONI analysis reports reveal important best practices for investment policy development and review.

Whether you're reviewing an existing investment policy or developing one for the first time, the following steps should be considered:

Step 1—High level goals and objectives

- ☐ Do our reserve policies align with the organization's strategic plan/initiatives?
- ☐ How much do we need to maintain in reserves based on financial risks and opportunities?
- ☐ Are we making the best use of our liquid assets based on the timing of various financial needs? How much investment risk are we willing and able to endure?

Step 2—Governance procedures

- ☐ What is the role of the staff and of the Board?
- ☐ Which decisions should be made by volunteers, staff, and outside consultants?
- ☐ Under what conditions are advisors/managers hired or replaced?

Step 3—Reporting requirements & oversight review

- ☐ What critical investment guidelines need to be verified?
- ☐ Are performance expectations simple, clear, and based on market conditions?
- ☐ Do investment reports provide proof of policy compliance and reasonable performance?

Learn more about SONI!

Visit **npinvesting.org**
Email **soni@raffawealth.com**
Follow **@SONIstudy**

Check to make sure you're covered!

SONI participants include the following investment policy components:

- ☐ Overall portfolio objectives
- ☐ Cash flow expectations
- ☐ Time horizon
- ☐ Permitted/prohibited investments
- ☐ Target asset allocation
- ☐ Roles/responsibilities (staff, volunteers, consultants)
- ☐ Decision-making authority of advisors (discretionary vs. non-discretionary)
- ☐ Rebalancing guidelines
- ☐ Diversification guidelines
- ☐ Performance evaluation/benchmarking guidelines
- ☐ Policy compliance reporting requirements
- ☐ Guidelines for selection and replacement of advisors/managers
- ☐ Guidelines for socially responsible investments

Advisor Alert from Raffa Wealth Management

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

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

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

We at Raffa Wealth Management (RWM) do not believe it is possible for anyone to consistently and reliably time markets. Absent some extraordinary ability to see the future, RWM strongly encourages nonprofits of all sizes to maintain clear asset allocation targets, consider the rebalancing strategy that works best for them, formally outline the rebalancing guidelines in their investment policy, and stick with it.

Sample Short Term Reserve Investment Policy Statement

Purpose

The purpose of this statement is to set forth the policy and operational factors governing the investment management of the SAMPLE's (SAMPLE) Short Term Investment Reserve. This statement will serve to direct the management of investment assets within this portfolio by the designated investment advisor.

Statement of Objectives

The primary objectives of this portfolio are:

- Preservation of Capital
- Generation of income for periodic cash flow needs
- Liquidity of assets for cash flow needs

A secondary objective is to earn a long term real rate of return that adequately preserves the purchasing power of the portfolio by exceeding inflation.

Cash Flow Expectations

This portfolio provides a short term funding reserve for SAMPLE in the event of a revenue shortfall during the operating year. As such, there are no known cash flow expectations; however, funds may be needed periodically in order to provide funds for SAMPLE's operating needs.

Target Balance

This portfolio will seek a target balance of $XXXXX. Due to the cash flow requirements in this portfolio, it is expected that the portfolio will periodically fall below this target. A floor of $XXXX will be established to minimize the need for repeated deposits into the account and to assure that an adequate amount of funds are available to meet periodic cash flow needs.

Time Horizon

This portfolio is considered short to medium term in its investment time horizon. Investments should reflect a maturity target of three years, with an appropriate allocation to short term investments to satisfy any cash flow expectations in the next twelve month period.

Tax Status

SAMPLE is a 501(c)3 organization and is thus exempt from taxes. Investment decisions should reflect this tax status when purchasing or selling securities.

Risk Tolerance / Asset Allocation

This portfolio is classified as moderately conservative based on the stated objectives of preservation of capital, income, and liquidity. The recommended target asset allocation is set to achieve these objectives while maximizing returns.

Asset Class	Target Allocation
Fixed Income	TBD
Cash	TBD

The fixed income asset class will target a weighted average maturity of no greater than five years and a weighted average credit rating of AA, with an emphasis on US Treasuries and Agencies.

Return Expectations

Returns are expected to be commensurate with the risk tolerance and asset allocation of the investments and will reflect the portfolios objectives of preservation of capital, income, and liquidity. The portfolio performance will be gauged against a designated benchmark and is expected to track the benchmark returns over time.

Eligible Investments and Restrictions

The following are eligible investments for this investment portfolio:

- US Treasuries
- US Agencies
- Municipal and Corporate Bonds rated investment grade or higher by Moody's, S&P, or Fitch
- Mortgage Backed Securities issued by US Agencies
- Bonds with a maturity of 7 years or less at the time of purchase
- FDIC Insured Certificates of Deposit
- FDIC Insured Money Market Accounts
- Money Market funds that invest solely in eligible securities listed above, and whose credit quality is such that they must invest exclusively in high-quality securities (generally those that are in the top two tiers of credit quality)
- Mutual funds that invest solely in eligible securities listed above
- Exchange traded funds that invest solely in eligible investments listed above
- Mutual funds and exchange traded funds that invest in the common stock of companies that operate in developed international markets

The following are specific restrictions for the investment portfolio:

- All bonds with a rating lower than investment grade by Moody's, S&P, or Fitch
- Non Agency Mortgage Backed Securities with a rating below AAA
- All derivative instruments, including futures, options, swaps, swaptions, forwards, and credit default swaps
- All auction rate securities and variable rate demand bonds
- All commodities
- All forms of hedge funds
- All forms of private equity
- All privately placed securities
- All equity securities including mutual funds that invest in equities
- With the exception of U.S. Treasuries, U.S. Agencies, mutual funds and exchange traded funds all individual securities purchased shall not equal more than 5% of the overall portfolio value
- With the exception of U.S. Treasuries, U.S. Agencies, mutual funds and exchange traded funds all individual securities purchased shall not equal more than 10% of the value of the issue
- With the exception of U.S. Treasuries, U.S. Agencies, mutual funds and exchange traded funds the portfolio will not hold individual securities from an issuer that in aggregate equal more than 10% of the portfolio

Benchmarking

The portfolio's performance will be compared to two distinct benchmarks:

1. The investment advisor will provide SAMPLE with a benchmark for each fund held within the portfolio. These benchmarks will be used to measure the performance of selected investments and will be weighted based on actual allocations to the funds to produce a custom weighted benchmark to which the portfolio will be compared.

Monitoring

The advisor will provide SAMPLE with a detailed report of the portfolio at least quarterly. The quarterly report will outline the following:

- Returns for the specified quarter, year to date, and inception
- The current portfolio allocation compared to the target asset allocation
- A comparison of the performance of each fund and manager relative to other managers with a similar investment style or strategy
- The portfolio's performance relative to a broad portfolio based on the target asset allocation

- The portfolio's performance relative to a custom benchmark based on the individual funds held within the portfolio

Policy Revisions

This policy is designed to be dynamic and amendable as the objectives and needs of SAMPLE may change over time. This policy will be formally reviewed annual to determine if the objectives, constraints, and allocations are accurate. Additionally, any number of other changes may occur between reviews that would warrant a review of this policy, including:

- A change in SAMPLE's risk tolerance, timeline, tax status, or cash flow expectations
- Introduction of new investment vehicles
- A change in the objective of the portfolio
- The introduction of a new investment manager
- A change in management at SAMPLE

SAMPLE will work with the designated investment advisor to review the policy for its appropriateness after such changes, and will amend the policy when necessary.

Duties and Responsibilities

The following parties to this policy will be charged with certain duties and responsibilities as it relates to management of the portfolio:

SAMPLE: Will be required to review and approve this Investment Policy Statement in its entirety. SAMPLE will be responsible for working with a Designated Investment Adviser no less than annually to review and amend this policy statement. SAMPLE is responsible for selecting an investment advisor who will comply with this policy statement, and is responsible for periodically reviewing the advisor's compliance with this policy statement.

Designated Investment Advisor: Will be responsible for implementing the investment strategy outlined in this policy statement by selecting investments and external managers that meet the investment criteria within this policy statement. The Designated Investment Advisor will be charged with recommending investments, transacting approved purchases and sales of investments, and timely reporting of investment performance to SAMPLE. The Designated Investment Advisor is also required to perform all normal due diligence in selecting external investment managers, including a review of their ability to operate within the investment guidelines and restrictions outlined in this policy. The Designated Investment Advisor is responsible for selecting other appropriate parties as needed to implement this policy, including attorneys, custodians, and broker/dealers.

Investment Manager: Investment managers will be any party the Designated Investment Advisor selects to invest funds on behalf of SAMPLE. For purposes of this policy, Investment Managers include Mutual Fund Managers, Exchange Traded Fund Managers, Separate Account Managers, Money Market Fund Managers, and any other party that the Investment Manager uses to invest funds on behalf of SAMPLE. The Investment Advisor is responsible for assuring that any Investment Manager selected is investing funds in a manner consistent with the eligible investments and restrictions outlined in this policy.

Rebalancing Procedures

This portfolio will be rebalanced periodically to assure that the overall asset allocation target of the portfolio is maintained. Events including large deposits or withdrawals and significant market movements may trigger the need to rebalance the portfolio. Regardless of activity the portfolio will be reviewed on a quarterly basis at a minimum to assure the balance is adequately maintained. In order to minimize transaction costs, the advisor will evaluate the benefit of rebalancing relative to the transaction cost. The advisor will maintain a rebalancing threshold of +/- 20% of the target allocation percentage for each asset class.

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About Raffa Wealth Management, LLC

Raffa Wealth Management is an independent investment advisor providing nonprofit organizations with a full range of investment consulting services. We were established to fill the need for transparency, clarity, and accountability in the professional management of investment assets. Visit us at www.raffawealth.com or follow us at @RaffaWealthMngt.

About the Study on Nonprofit Investing

Launched in 2012, the annual Study on Nonprofit Investing (SONI), a joint research project of Raffa Wealth Management LLC and Raffa PC, seeks to meet the need for timely, relevant, actionable data about how nonprofits invest their reserves and how their investments perform. SONI offers associations, public charities and private/community foundations with insight on various investment practices among their peers, such as decision-making authority, rebalancing policies, and portfolio benchmarking. Learn more at www.npinvesting.org or follow us at @SONIstudy.

Raffa Wealth Management, LLC

Sample Long Term Reserve Investment Policy Statement

Purpose

The purpose of this statement is to set forth the policy and operational factors governing the investment management of the Sample (SAMPLE) Long Term Investment Reserve. This statement will serve to direct the management of investment assets within this portfolio by the designated investment advisor.

Statement of Objectives

The primary objectives of this portfolio are:

- Long term growth of assets
- Optimize return while minimizing risk through diversification and asset allocation

A secondary objective is to preserve the capital of the portfolio by utilizing an asset allocation that provides exposure to more stable asset classes including fixed income securities.

Cash Flow Expectations

This portfolio is not expected to be a primary source of cash flow for SAMPLE; however, periodic withdrawals from this account may be required in order to maintain the minimum balance requirements in the SAMPLE Short Term Reserve portfolio. Withdrawals are not expected to be in excess of $500,000. As such, an adequate amount of the fixed income portfolio will be held in short term securities. Any change in SAMPLE's need for cash flows from this account should be addressed through a change in this policy statement.

Time Horizon

This portfolio is considered long term in its investment time horizon. Investments seek long term growth as their primary objective. The funds in this account are not expected to be withdrawn in the next seven years.

Tax Status

SAMPLE is a 501(c)6 organization and is thus exempt from taxes. Investment decisions should reflect this tax status when purchasing or selling securities.

Risk Tolerance / Asset Allocation

This portfolio is classified as moderate risk based on the stated objectives of long term growth, a long time horizon, and the low need for cash flow. The asset allocation also reflects the secondary objective of preservation of capital. The recommended target asset allocation is set to achieve these objectives while maximizing returns.

Asset Class	Target Allocation
Domestic Equity	45%
International Equity	5%
Fixed Income	48%
Cash	2%

The fixed income asset class will target a weighted average maturity of no greater than ten years and a weighted average credit rating of no lower than A.

Return Expectations

Returns are expected to be commensurate with the risk tolerance and asset allocation of the investments and will reflect the portfolio's objectives of preservation of capital, income, and liquidity. The portfolio performance will be gauged against a designated benchmark and is expected to track those benchmark returns over time.

Eligible Investments and Restrictions

The following are eligible investments for this investment portfolio:

- Common stock issued by US Based companies and available on an exchange
- US Treasuries
- US Agencies
- Municipal and Corporate Bonds rated A or higher by Moody's, S&P, or Fitch
- Mortgage Backed Securities issued by US Agencies
- Bonds with a maturity of 11 years or less at the time of purchase
- FDIC Insured Certificates of Deposit
- FDIC Insured Money Market Accounts
- Money Market funds that invest solely in elibible securities listed above, and whose credit quality is such that they must invest exclusively in high-quality securities (generally those that are in the top two tiers of credit quality)
- Mutual funds that invest solely in eligible securities listed above
- Exchange traded funds that invest solely in eligible investments listed above
- Mutual funds and exchange traded funds that invest in the common stock of companies that operate in developed international markets

The following are specific restrictions for the investment portfolio:

- All bonds with a rating lower than A by Moody's, S&P, or Fitch
- Non Agency Mortgage Backed Securities with a rating below AAA
- All derivative instruments, including futures, options, swaps, swaptions, forwards, and credit default swaps
- All auction rate securities and variable rate demand bonds
- All commodities
- All forms of hedge funds
- All forms of private equity
- All privately placed securities
- Equity securities not registered with an exchange(i.e. NYSE, NASDAQ, American)
- Preferred shares of stock
- Fixed Income securities with convertible options

Diversification

- No more than 5% of the portfolio combined may be in the securities of any one issuer with the exception of obligations of the US Government and its agencies, and federally insured instruments.

Benchmarking

The portfolio's performance will be compared to two distinct benchmarks:

1. The portfolio will be compared to a benchmark comprised of the Lehman Aggregate Bond Index, S&P 500, and the Merrill Lynch Three Month US Treasury Bill Index. Weights will be applied to each index based on the actual allocation to each broad asset class.

2. The investment advisor will provide SAMPLE with a benchmark for each fund and separately managed account held within the portfolio. These benchmarks will be used to measure the performance of selected investments and will be weighted based on actual allocations to the funds to produce a custom weighted benchmark to which the portfolio will be compared.

Monitoring

The advisor will provide SAMPLE with a detailed report of the portfolio at least quarterly. The quarterly report will outline the following:

- Returns for the specified quarter, year to date, and inception

- The current portfolio allocation compared to the target asset allocation

- A comparison of the performance of each fund and manager relative to other managers with a similar investment style or strategy

- The portfolio's performance relative to a broad portfolio based on the target asset allocation
- The portfolio's performance relative to a custom benchmark based on the individual funds held within the portfolio.

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Rebalancing Procedures

This portfolio will be rebalanced periodically to assure that the overall asset allocation target of the portfolio is maintained. Events including large deposits or withdrawals and significant market movements may trigger the need to rebalance the portfolio. Regardless of activity the portfolio will be reviewed on a quarterly basis at a minimum to assure the balance is adequately maintained. In order to minimize transaction costs, the manager will evaluate the benefit of rebalancing relative to the transaction cost. The advisor will maintain a rebalancing threshold of +/- 20% of the target allocation percentage for each asset class.

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