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?

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Email **soni@raffawealth.com**
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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 may incur unnecessary transaction costs.

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.

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