Investing for Success as a Nonprofit Organization

McKonly & Asbury

Tax | Assurance | Consulting | Accounting

INTRODUCTIONS

Jim Shellenberger, CPA

- Partner
- Director of Nonprofit Services

Gary Dubas, CPA

- Partner

FIRM OVERVIEW

McKonly & Asbury is a team of CPAs and Business Advisors serving clients from our offices in Camp Hill, Lancaster, Bloomsburg, and Philadelphia.

We provide **Advisory & Business Consulting**, **Audit & Assurance**, **Entrepreneurial Support & Client Accounting**, **Internal Audit**, **Professional Placement**, **Tax**, and **Technology** services to a variety of industries including:

- Affordable Housing
- Construction
- Employee Benefit Plans
- Family-Owned Business
- Healthcare
- Manufacturing & Distribution
- Nonprofits

HAVE YOU HEARD?

GUEST SPEAKER

Courtney Dean | CRO

Courtney brings over 25 years of experience in the investment management industry to her role as Chief Revenue Officer where she is responsible for client acquisition and retention. She also serves as an Investment Advisor to our clients, developing investment strategy, overseeing portfolios, and communicating with investors and is a member of the Investment Committee.

Courtney has held principal positions in business development and client service with extensive operating and sales experience building and delivering relevant investment solutions to investors in high net worth, institutional and advisory market segments. Following a sales management role at Lazard Asset Management, she was a co-founder of NorthRoad Capital Management, an international and global equity investment manager, which she and her partners sold to Madison Investment Advisors, where she held senior business development and client service positions.

Courtney has a BA from Colgate University and an MBA in Finance from New York University's Stern School of Business. She is a board member of the St. Louis Arc and a member of St. Louis Women in Investments.

eCIO

The Chief Investment Officer for Nonprofits

Investing for Success as a Nonprofit Organization

Common Challenges and Pitfalls

1. Sideline starting an investment program
2. Park all assets in a single multi-purpose account
3. Fail to update, monitor and adhere to the IPS (and spending policy)
4. Ignore that nonprofit investing is different than individual investing
5. Place personal preferences above the interests of the organization
6. Lack communications to engage oversight group and board
7. Rely too much on key personnel
8. Pull out of the market at the wrong time
9. Overpay for investment services
10. Miss opportunity to build trust with and engage donors

3 Pillars of an Enduring Investment Program

I. Strong governance & structure to support board and staff turnover

I. Investment solutions that meet short and long-term objectives aligned with mission

I. Communication that supports transparency and the oversight group's fiduciary responsibilities

Benefits of a Bucket Approach

eCIO

Clarity and Transparency

By segregating funds according to their designated use, the organization's financial position becomes clearer to stakeholders, including board members, committee members, and donors.

Ease of Understanding

Adopting a mental accounting framework through the bucket approach makes it easier for stakeholders to comprehend, quantify, and prioritize the investment and utilization of funds.

Improved Decision-Making

With assets clearly earmarked for specific purposes or timeframes, decision-makers can make more informed choices regarding resource allocation, investment strategy, and strategic planning.

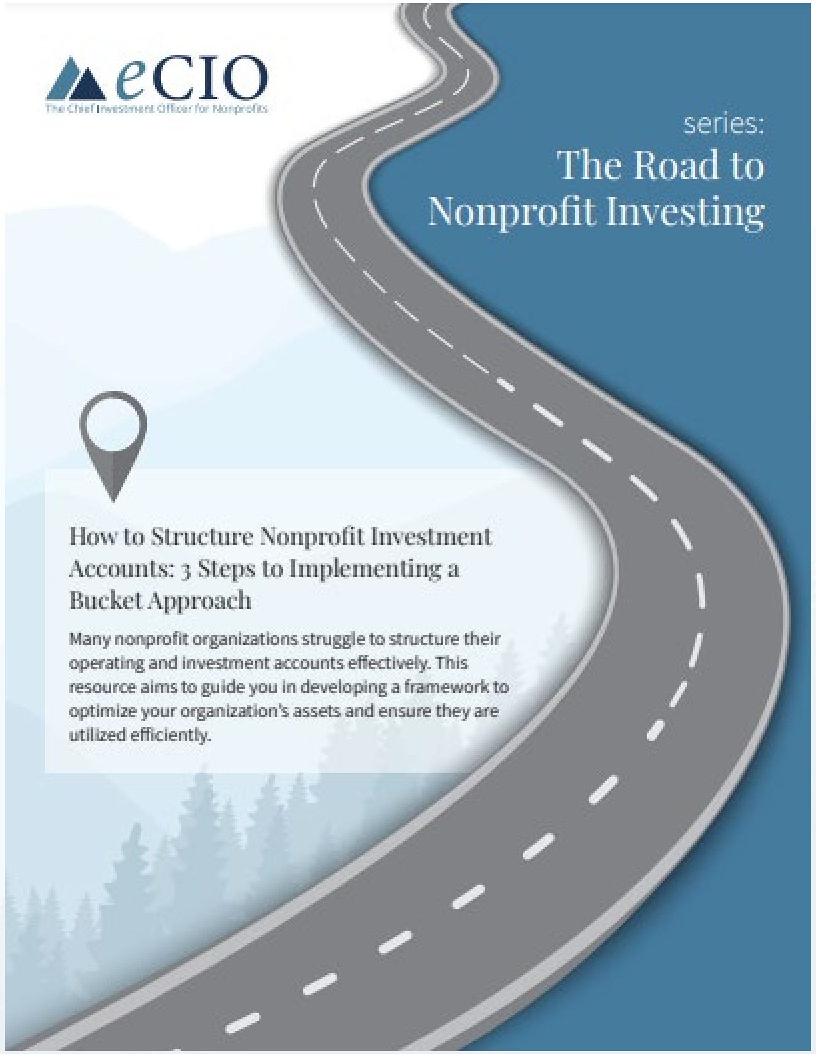
Categorizing Assets Into Buckets

Match Funds with Purpose

Operating Reserves These reserves are allocated for routine expenses and maintaining steady operations. Generally, these savings match the cost of several months' operating expenses.	**Long-Term Assets** Funds, such as an endowment, that are allocated for future objectives or unforeseen circumstances, securing the organization's financial resilience and flexibility.
Designated Funds Funds that are earmarked for a particular purpose or project as directed by donors or the board.	**Capital Expenditure Reserves** These savings are allocated for future capital investments, including facility upkeep, equipment upgrades, or infrastructure development.

Investment Strategy Aligns with Bucket's Purpose

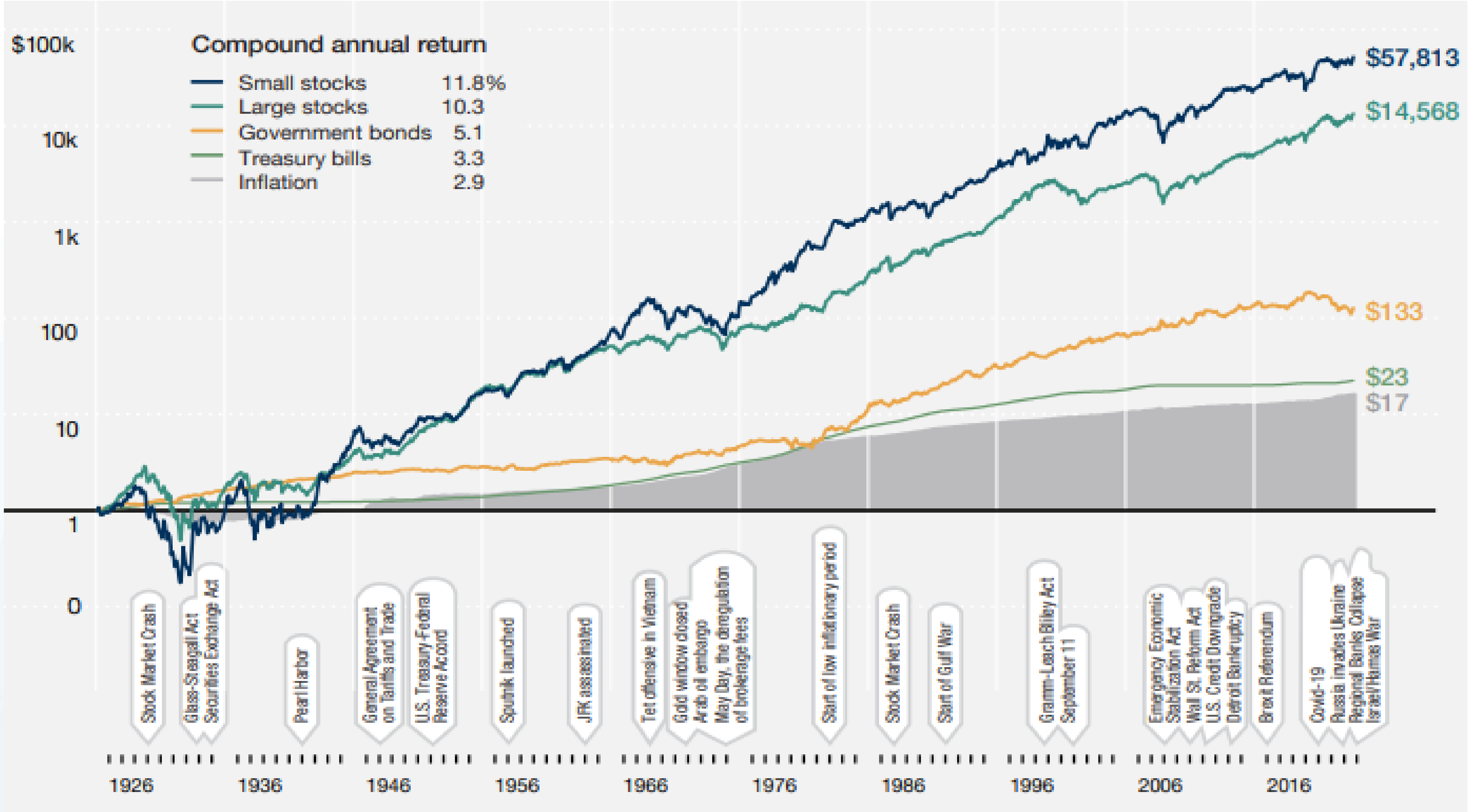
- Primary goal of the asset pool(s)
- Investment time horizon
- Return Objective & Spending Need
- Risk Capacity
- Strategic Asset Allocation
- Investment Strategies



Strategic Asset Allocation is Key

- Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash.
- Empirical studies indicate that approximately 90% of your return is driven by the asset allocation decision.
- Time horizon and risk tolerance are key drivers in determining your asset allocation.
- Expected return, risk and correlation numbers, for each asset class, are used to determine the optimal asset mix.

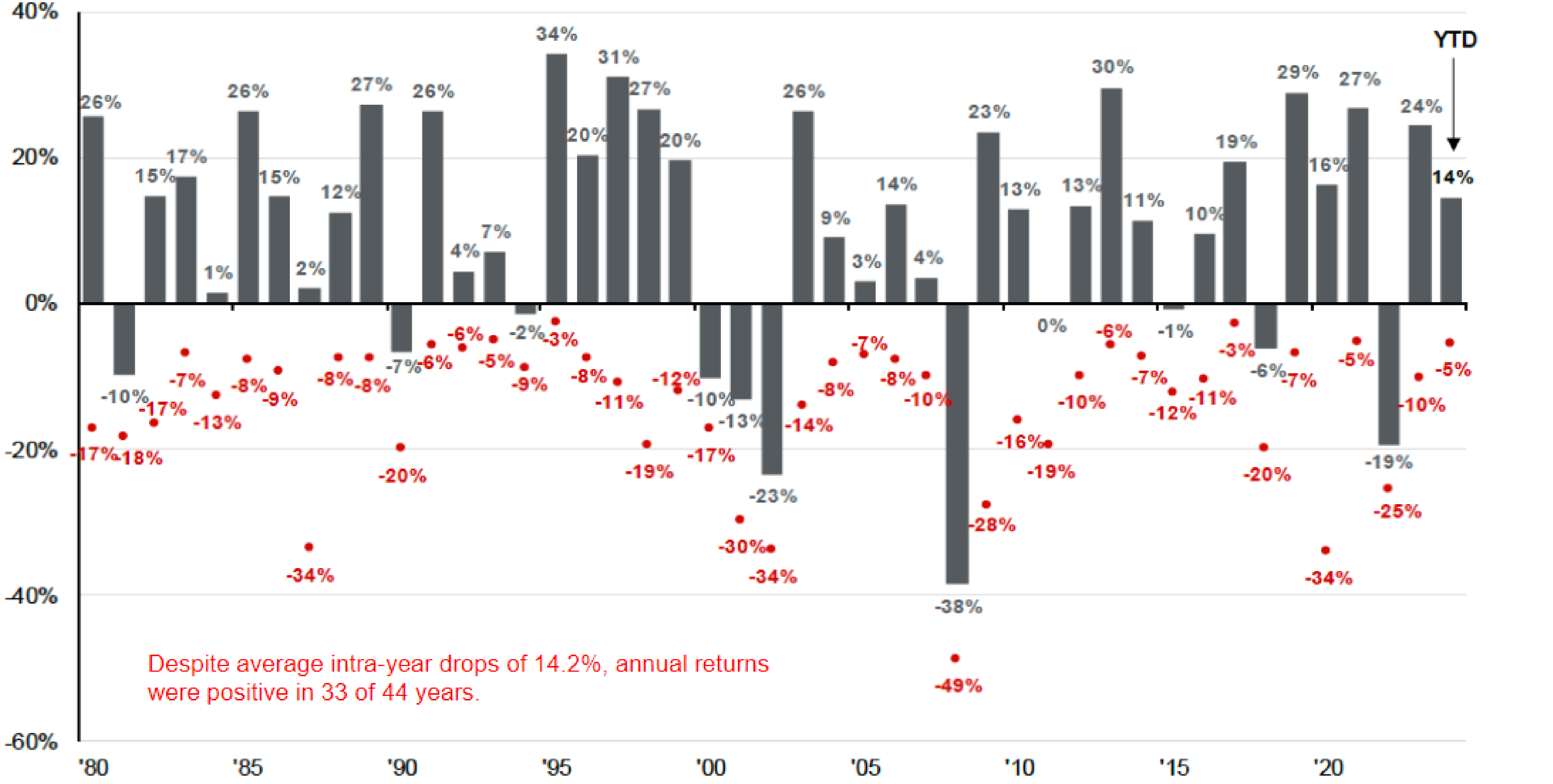
Stocks, Bonds, Bills, and Inflation 1926-2023



Past performance is no guarantee of future results. Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Risk and Reward of Stocks

S&P 500 Annual Returns & Intra-Year Declines

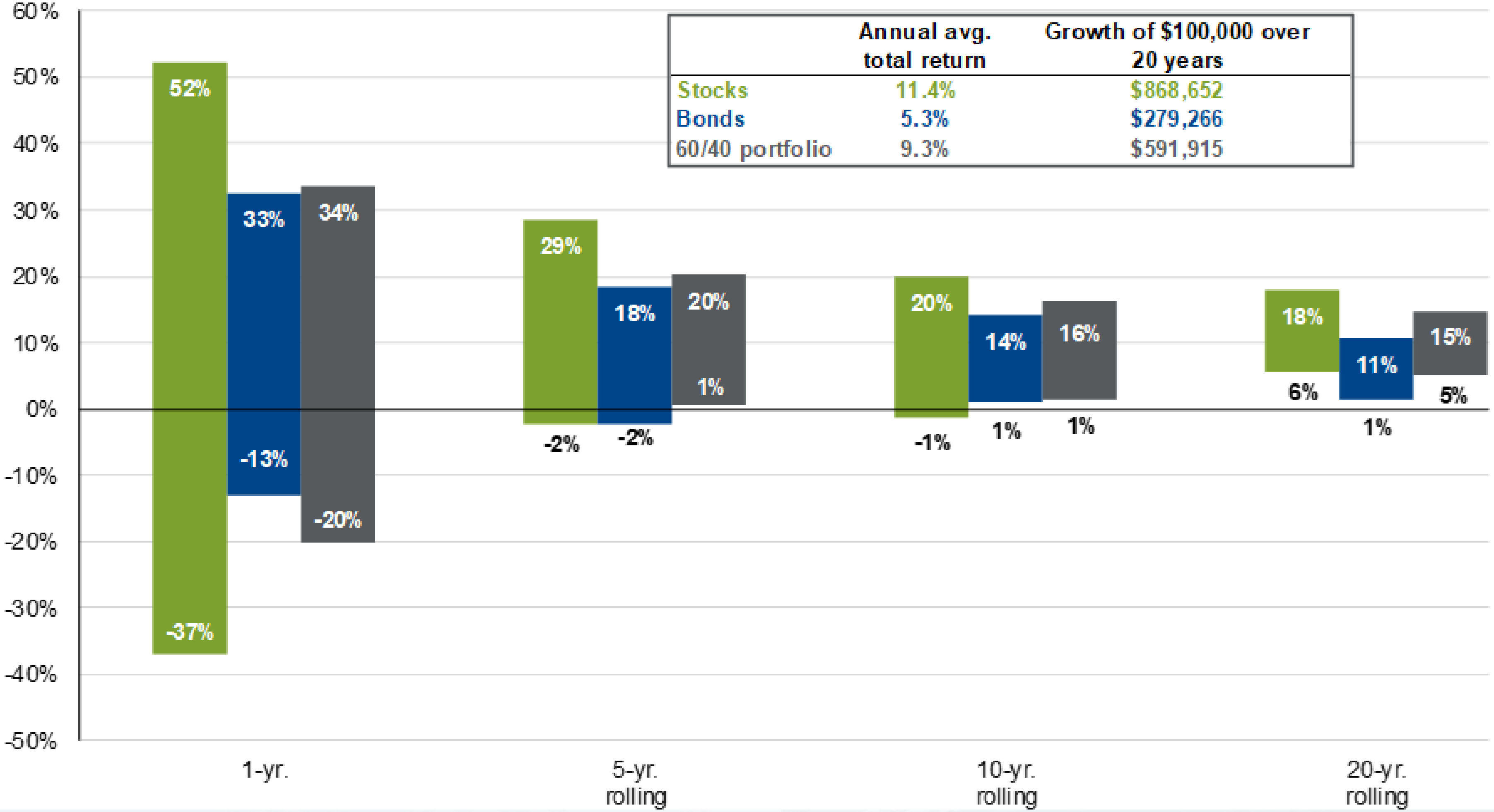


Source: J.P. Morgan Asset Management, Standard & Poor's, FactSet. Returns are based on price index only and do not include dividends. For one on one use or existing client use only. eCIO, Inc., June 30, 2024.

Time Horizon Matters

Range of stock, bond and blended total returns

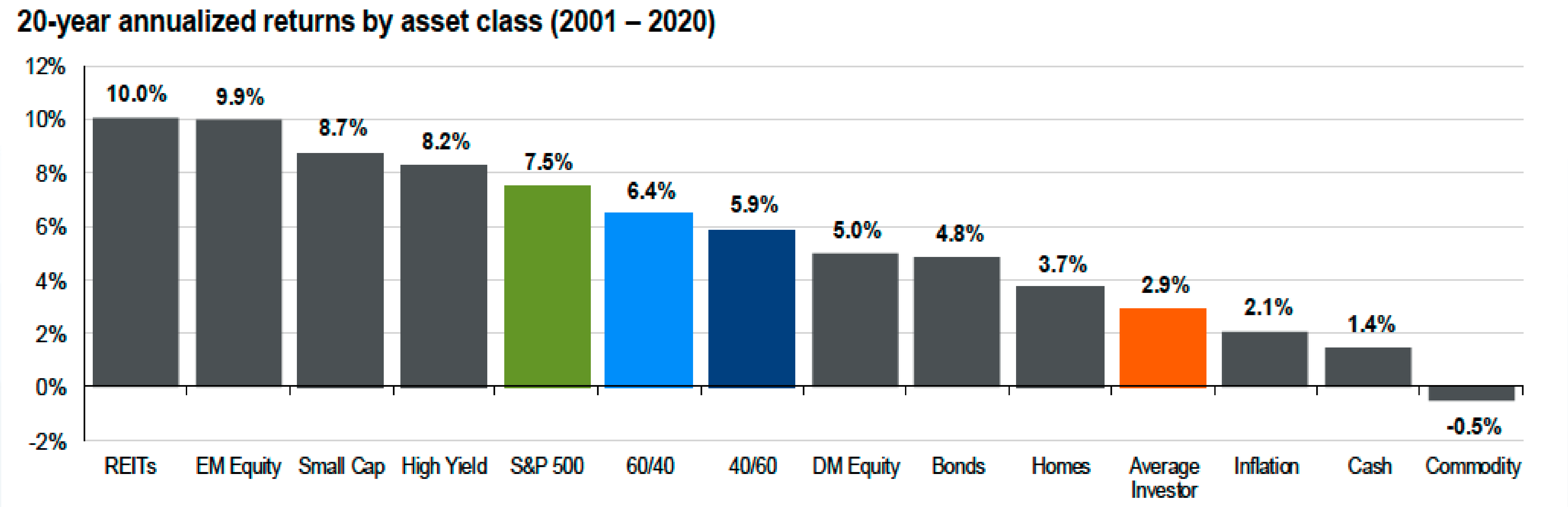
Annual total returns, 1950-2023



	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.4%	$868,652
Bonds	5.3%	$279,266
60/40 portfolio	9.3%	$591,915

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Standard & Poor's, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2023. Stocks represent the S&P 500 Shiller Composite for periods prior to 1936 and the S&P 500 thereafter. Bonds represent Strategas/Ibbotson for periods prior to 1976 and the Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2023.
Guide to the Markets – U.S. Data are as of June 30, 2024.

Investors Underperform by Trying to Time the Market



Despite strong index returns over the past 20 years, the 'Average Investor' underperformed a basic, indexed 60/40 portfolio by 3.5% annualized. On a $100,000 initial investment from the start of 2001 through the end of 2020, that adds up to nearly $170,000 of missed gains!

Source: DALBAR Inc., MSCI, NAREIT, Russell, J.P. Morgan Asset Management. Data as of December 31, 2020

Nonprofit Investing: Roles and Responsibilities

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BOARD OF DIRECTORS

Approve Policies & Procedures
- Selection of Members
- Committee Charter
- Investment Policy Statement
- Spending Policy
- Record Keeping

OVERSIGHT COMMITTEE

Draft Policies & Procedures
- Investment Policy Statement
- Spending Policy
- Create RFP for Advisors
- Interview & Recommend Advisor
- Report Results to the Board
- Review Portfolio's Performance
- Monitor Program Compliance

INVESTMENT ADVISOR

Key Advisory Roles
- Organizational Risk Assessment
- Asset Allocation Study
- Investment Selection
- Daily Management of Portfolio
- Reporting
- Assist With Policies (IPS & Spending Policy)

Benefits of Partnering with a Fiduciary Advisor

	Self-Managed	Fiduciary Nonprofit Advisor
Fiduciary Oversight	Board assumes all fiduciary responsibilities and liabilities	Co-fiduciary advisor brings independence and structure to help ensure obligations are met
Organization's Needs and Risk Assessment	Influenced by composition of board membership	Applies disciplined process to quantify risk, time horizon and spending parameters and build consensus
Institutional Investment Program	Experience, knowledge and access to industry research and tools are often limited; disciplined rebalancing often lacking	Employs robust research process to build customized asset allocation and select optimal cost-effective, institutional quality investments; regular rebalancing strategy
Investment Policies	Inconsistent development and/or review of formal investment documents and policies	Institutes formal review process to ensure clear oversight, investment performance and goals are aligned
Reporting and Review	Typically only custodial statements are available to staff and select board members; independent review lacking	Provides custom, timely account performance vs benchmarks, allocation reports and investment recommendations
Enduring Program	Often lack detailed records supporting investment program decisions and results; turnover in members may lead to inconsistency	Helps to eliminate conflicts; ensure investment decisions, performance, costs and portfolio actions are documented and managed with consistency

Fiduciary Checklist for Governance Best Practices

- Committee Charter
- Spending Policy
- Investment Policy Statement
- Conflict of Interest Policy
- Investment Performance Benchmarking
- Investment Fee Review
- Accessible Investment Records

Helpful Resources

The Chief Investment Officer for Nonprofits
getecio.com

Courtney Dean
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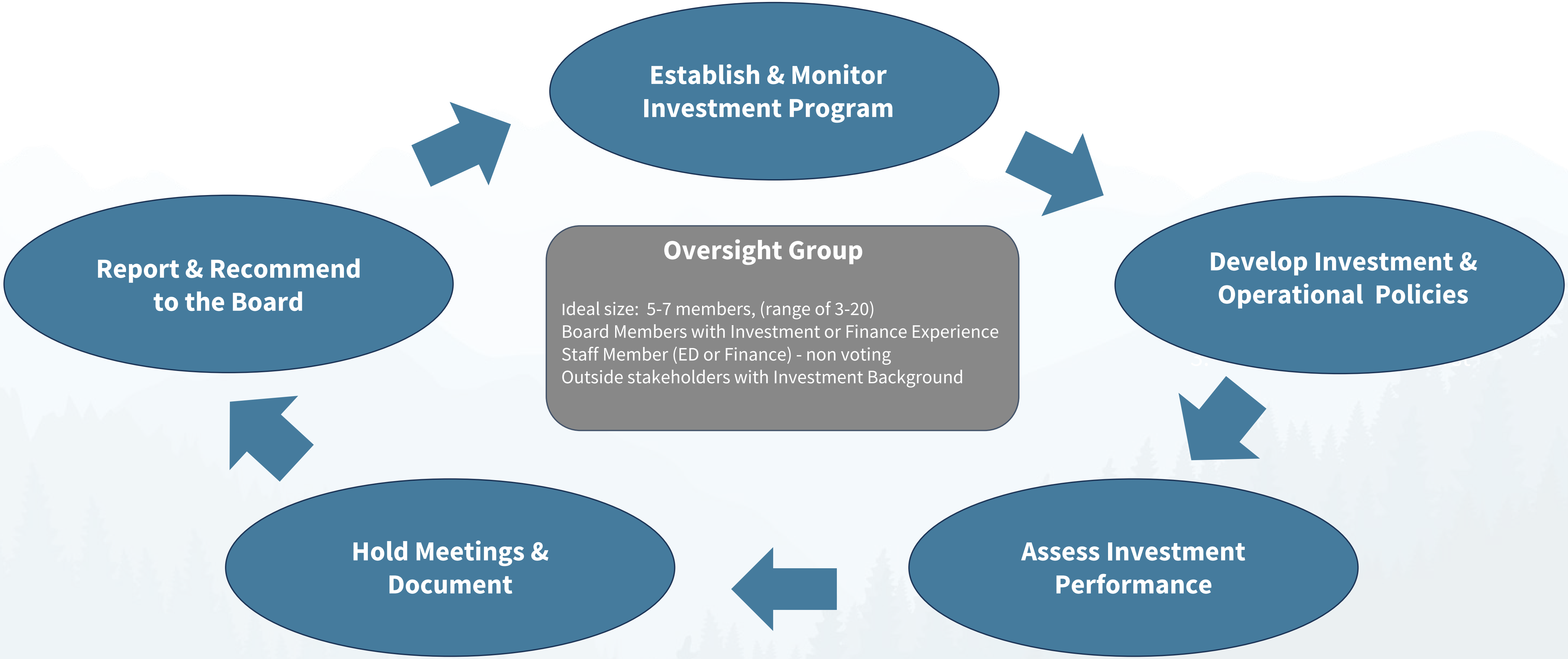
courtney@getecio.com

- Monthly Nonprofit Investment Digest
  courtney@getecio.com
  - Informative Articles
  - Market Commentary
- Our Website https://getecio.com
  - Downloadable Resources
    IPS, RFP, Conflict of Interest Policy
- LinkedIn Page
  https://www.linkedin.com/company/getecio/
  - Additional Resources
  - Company Updates

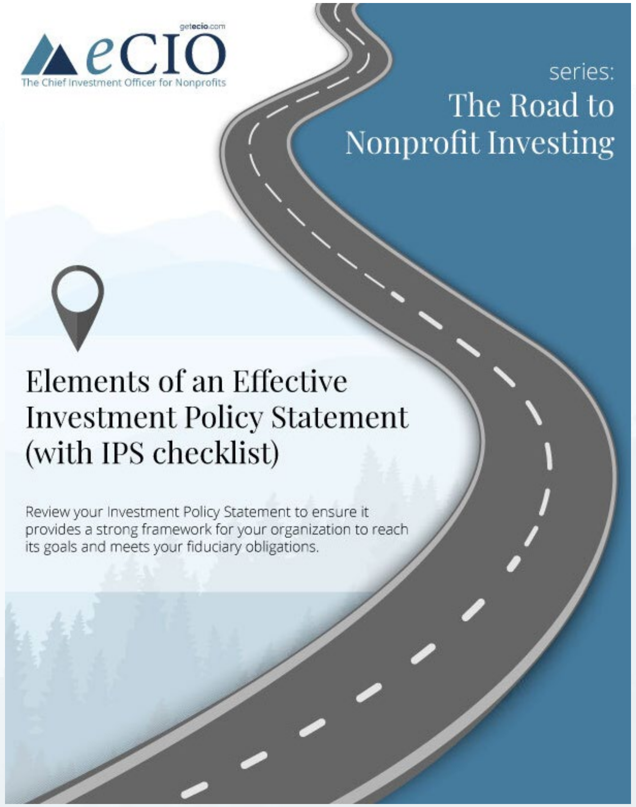
APPENDIX

Investment Oversight Group



Investment Policy Statement (IPS)

Area of Focus	Rating	Comments
I. Statement of Purpose Describes the entity, why the document exists, and its intended use.		
II. Investment Objectives Clearly states the investment objectives with respect to return, income, and risk.		
III. Duties and Responsibilities Defines the roles and responsibilities of the oversight committee, custodian, and investment advisor.		
IV. Spending Policy Establishes expected distributions from the portfolio including the spending rate and the calculation methodology.		
V. Strategic Asset Allocation Describes the process for determining an appropriate strategic asset allocation for the organization's funds and explains the importance of diversification.		
VI. Asset Class Guidelines Identifies specific asset classes permissible to include in the portfolio, and establishes asset allocation ranges and targets for each asset class.		
VII. Rebalancing Policy Outlines the processes by which the portfolio will be rebalanced to strategic target allocations.		
VIII. Implementation States the general criteria for evaluating and selecting investment manager(s) and/or investment strategies.		
IX. Performance Review Describes the process for reviewing performance at periodic intervals, and defines the appropriate benchmarks against which to evaluate performance.		
X. Investment Policy Review Affirms the document was reviewed, possibly revised, and approved within the past year.		



Short-Term Cash Investment Program

1. Stability

Unlike longer-term investments such as stocks and certain bonds that are subject to fluctuations, short-term investments tend to hold their value relatively steady.

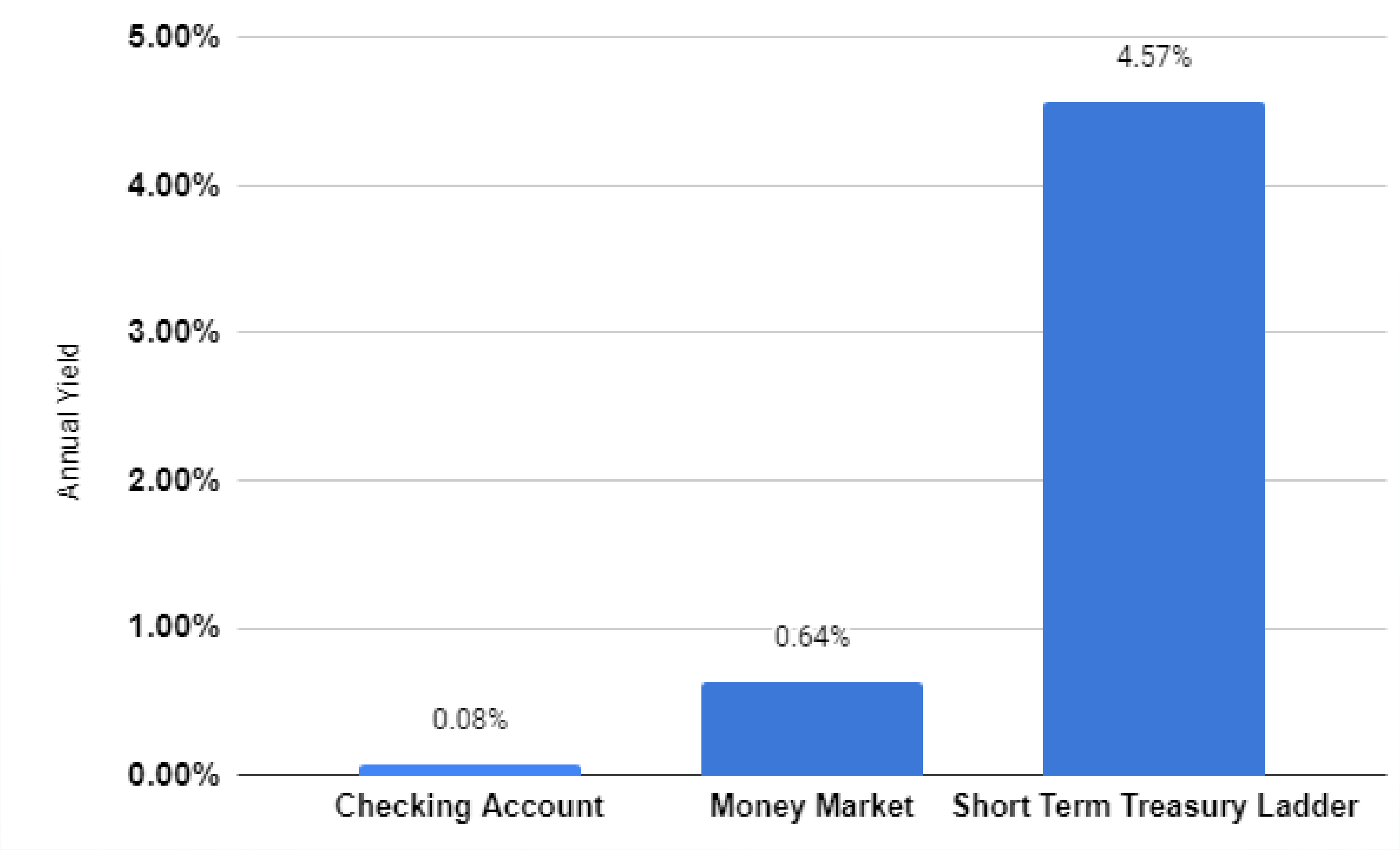
2. Liquidity

A good short-term investment typically offers high liquidity so you can get your cash out quickly when you need it.

3. Affordability

A short-term investment shouldn't cost a lot of money to buy or sell, unlike more complex investment instruments.

Cash Management: Current Yields

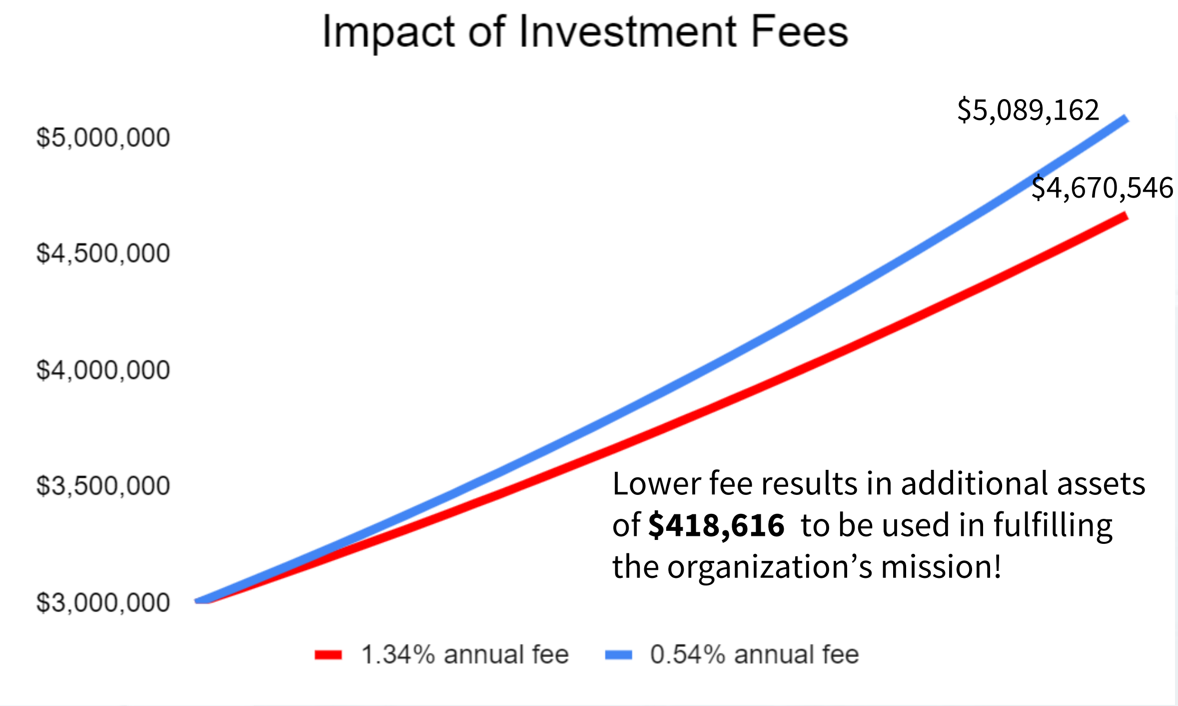


- ➢ High checking account balance
- ➢ Grant funds not yet spent
- ➢ Low-yielding money market funds

Checking Account and Money Market rates are the National Deposit Rates from FDIC as of 8/19/2024. Short Term Treasury Ladder rate is based on a 1-Year Treasury ladder built from Treasuries available at Schwab as of 8/31/2024.

The Importance of Monitoring Fees

- Board may ‘incur only reasonable costs in investing and managing charitable funds’ (UPMIFA)
- Lack of transparency around investment fees
- Multiple layers of fees must be considered
- Conflicts of interest related to fees must be avoided
- Reporting should disclose fees paid
- Over time fees may have a significant impact



Hypothetical 10-year illustration. Initial $3 million investment. Assumes 6% average annual return. Assumes fee deducted quarterly. The 0.54% fee includes index-based funds.

The Case for Index-Based Investing

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Fund Category	Comparison Index	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)	15-Year (%)	20-Year (%)
All Domestic Funds	S&P Composite 1500	74.79	72.44	73.41	89.08	90.19	93.51	93.12
All Large-Cap Funds	S&P 500	59.69	60.90	79.80	86.58	85.61	92.19	93.58
All Mid-Cap Funds	S&P MidCap 400	48.38	72.43	72.63	59.47	75.50	90.41	94.90
All Small-Cap Funds	S&P SmallCap 600	28.40	26.56	67.20	56.26	86.01	89.28	93.67
All Multi-Cap Funds	S&P Composite 1500	73.51	70.13	76.78	88.31	88.85	92.32	93.83
Large-Cap Growth Funds	S&P 500 Growth	12.79	10.96	77.67	77.64	85.37	96.97	95.58
Large-Cap Core Funds	S&P 500	74.87	73.77	81.64	87.04	95.87	95.80	95.10
Large-Cap Value Funds	S&P 500 Value	89.79	95.00	85.61	90.34	91.91	88.00	90.91
Mid-Cap Growth Funds	S&P MidCap 400 Growth	12.40	55.56	84.85	38.10	57.86	83.84	91.09
Mid-Cap Core Funds	S&P MidCap 400	76.47	89.53	66.67	72.13	86.78	95.73	98.23
Mid-Cap Value Funds	S&P MidCap 400 Value	72.22	88.41	90.20	77.36	92.54	94.12	96.91
Small-Cap Growth Funds	S&P SmallCap 600 Growth	9.76	18.81	88.30	43.72	77.66	85.50	95.63
Small-Cap Core Funds	S&P SmallCap 600	39.26	31.78	58.20	59.78	93.99	93.48	94.64
Small-Cap Value Funds	S&P SmallCap 600 Value	54.72	35.59	60.29	64.95	88.89	90.09	92.52
Multi-Cap Growth Funds	S&P Composite 1500 Growth	43.65	23.70	80.79	85.88	90.67	96.61	94.52
Multi-Cap Core Funds	S&P Composite 1500	81.11	75.66	81.03	91.03	96.33	93.31	93.06
Multi-Cap Value Funds	S&P Composite 1500 Value	89.29	93.33	80.25	97.46	96.30	93.29	91.39
Real Estate Funds	S&P United States REIT	71.83	91.67	93.33	61.73	65.82	84.85	88.89

Source: S&P Dow Jones Indices LLC, CRSP. Data as of June 30, 2023. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

The percent of actively managed funds that underperform their benchmarks (94% of All Large-Cap Funds underperformed the S&P 500 over 20 years).

Considerations when Selecting an Investment Professional

- Will the advisor serve as a co-fiduciary?
- What portion of their client base is non-profit organizations?
- Is the advisor completely independent in selecting investments?
- Does the advisor select investments based on unique ESG objectives?
- What are the average fees for the investments selected?
- How does the advisor get paid?
- What other fees are associated with account management?
- What kind of reporting is provided?
- Who, when, how is the advisor available to counsel the board?

eCIO: Trusted Fiduciary Partner to Nonprofits

Our Mission: Empower nonprofits to do more by maximizing their financial resources.

eCIO Overview

- Fiduciary advisor serving only nonprofit organizations
- Complete advice - investment, governance, group communication
- Free from conflicts of interest
- Focus on serving nonprofits with small to mid-sized asset pools

Organizations that chose eCIO*

eCIO

PLAINS ART MUSEUM

GREATER MADISON CHAMBER of COMMERCE

Search INSTITUTE

THE GREATER LA EDUCATION FOUNDATION

AGGIELAND Humane Society
Don't buy love, ADOPT it

Veterans Guest House

FRIENDS of the SAN FRANCISCO PUBLIC LIBRARY

Big Brothers Big Sisters. OF BROWARD COUNTY

JOBS TO MOVE AMERICA
PUBLIC GOODS FOR THE MOST PUBLIC GOOD

BOY SCOUTS OF AMERICA
GLACIER'S EDGE COUNCIL

NICJR
National Institute for Criminal Justice Reform

SECOND HARVEST FOODBANK OF SOUTHERN WISCONSIN

GENESYS WORKS.

THE WILDLIFE SOCIETY

SINCE ISSAQUAH 1971
Food & Clothing Bank

STOWE LAND TRUST

NAMI Wisconsin
National Alliance on Mental Illness

*This client list is a partial list of current clients and is not to be used as a reference, or to endorse our firm, or express approval or disapproval of our firm.

Disclosures:

The risk and return assumptions on the preceding slides are examples of possible investment outcomes derived from historical results, are adjusted to reflect current market yield and valuation levels for the applicable asset classes shown and should not be considered indicative of eCIO's investment advisory skills.

Past performance does not predict future results and there is no guarantee that any of these assets classes will perform in a similar manner over projected periods. Likewise, portfolio model risk and return assumptions are based on 7 year projections derived from proprietary models utilizing applicable combinations of the asset classes shown above. They do not represent the actual return or performance of any account or product managed by eCIO and may change over time based both on asset class historical performance from which they are derived and on eCIO's allocation of asset classes to the applicable portfolio model.

All risk and return projection assumptions are utilized in order to generate the portfolio analysis contained in the report above for illustrative purposes. As such, these assumptions may prove to be more liberal or conservative in retrospect. Therefore, these assumptions should not be interpreted as a guarantee or prediction of future performance by the markets, the indices, the portfolio models or eCIO. Any such any investment is subject to risk, including loss of principal.

Returns include reinvestment of income but do not include portfolio or trading costs.

Disclosures:

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Although the information in this report has been obtained from sources that the firm believes to be reliable, we do not guarantee its accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the firm's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Historical performance presented is based on ETF and mutual fund performance information, not an actual benchmark and is not indicative of future performance results.

In addition to the ongoing market risk applicable to portfolio securities, bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

Investing in foreign markets involves additional risks, including exchange rate changes, political and economic unrest, relatively low market liquidity and the potential difference in financial and accounting controls and standards. The portfolio may invest in small-, mid-sized or emerging companies which are susceptible to greater risk than is customarily associated with investing in more established companies.

Gross performance results do not reflect the deduction of investment advisory fees. Your returns will be reduced by advisory fees and other expenses that may be incurred in the management of your investment advisory account. Investment advisory fees are described in our disclosure brochure. The following representative example shows the effect an investment advisory fee, compounded over a period of years, could have on the total value of a client's portfolio: Assuming on initial investment of $1 million, a hypothetical return of 5% per year and annual advisory fees of 0.50%, the client would pay the following amounts: $5,113 after one year; $16,038 after three years; $27,969 after five years and $62,823 after ten years, reducing the client's hypothetical return by such amounts, respectively. Using this example, a client's portfolio would equal (rounded to the nearest thousand) $1,045,000 rather than $1,050,000 after one year; $1,141,000 rather than $1,157,00 after three years; $1,246,000 rather than $1,274,00 after five years; and $1,553,000 rather than $1,616,000 after ten years.

The risk and return projections or other information generated by eCIO regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Actual results may vary to a material degree. These hypothetical performance results do not represent actual trading and do not reflect the impact that economic or market factors might have had on the adviser's decision making and performance results if the adviser had been actually managing client's asset allocation.

No representation is made that any allocation mix will achieve its objectives.

CONTACT INFORMATION

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UPCOMING EVENTS

SEPTEMBER 26 WEBINAR

Register Today!

OCTOBER 24 SEMINAR

Free Nonprofit Seminar

October 24, 2024
8:30 am - 12 pm

The HUB at Mulberry Mill
160 W. 6th Street
Bloomsburg, PA 17815

presented by:

McKonly & Asbury

Community Strategies Group

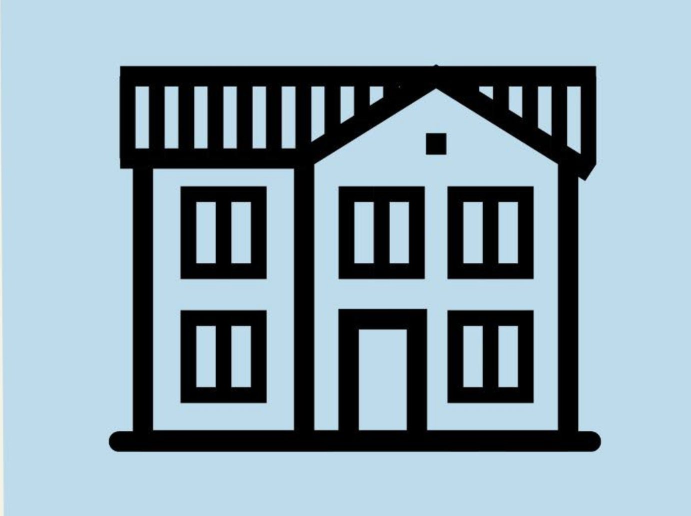
Register Today!

NOVEMBER 7 SEMINAR

Affordable Housing Seminar
Featuring A.J. Johnson

November 7, 2024
9:30 am - 3:30 pm

Giant Community Center
3301 Trindle Road
Camp Hill, PA 17011



Registration opens tomorrow