



presents

Non-Profit Organization Investment Policies

Revising Policies and Practices to Recognize and Control New Market Risks

A Live 100-Minute Audio Conference with Interactive Q&A

Today's panel features:

Robert Venezia, Founder and Chief Investment Officer, **Key Investment Team**, Encino, Calif.
Nasi Raissian, Senior Manager, Non-Profit Organizations Practice, **Ireland San Filippo**, San Jose, Calif.
John Nihill, Shareholder and Non-Profit Industry Group Practice Leader, **Elko & Associates**, Media, Pa.

Thursday, July 23, 2009

The conference begins at:

1 pm Eastern

12 pm Central

11 am Mountain

10 am Pacific

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Non-Profit Organization Investment Policy Teleconference

July 23, 2009

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Today's Program

State Of Investment Markets For NPOs And Foundations, slides 3 through 5 (*Robert Venezia*)

Updating An NPO Investment Policy, slides 6 through 36 (*John Nihill, Nasi Raissian, Robert Venezia*)

Ongoing Oversight Of Outside Advisors, slides 37 through 44 (*Nasi Raissian, Robert Venezia*)

State Of Investment Markets For NPOs And Foundations

Markets Outlook

- Improvement in earning will drive a sharp second-half rally.
- U.S. Leading Economic Index is rising projecting economic activity in the next three to six months
- S&P hits 8-month high
- Goldman Sachs raises S&P target despite risk

Why Venture Beyond the U.S?

- Additional investment opportunities
- Growth potential
- Diversification benefits
- Expand efficient range

Updating An NPO Investment Policy

Create And Maintain A Written Investment Policy

- **Important: Refer to sample policy in background materials for this teleconference**
- Policy typically should include:
 - Scope/guidelines for different funds (long term/endowment funds vs. short term/cash management)
 - Statement of philosophy
 - Investment objectives
 - Asset allocation guidelines/investment restrictions (consider “values” of the NFP)
 - Benchmarks (identify the criteria against which the investment performance will be measured)

Create And Maintain A Written Investment Policy (Cont.)

- Policy typically should include (Cont.):
 - Total return and spending policy (use of income)
 - Maintenance of accounts - physical assets and accounting records (investment managers/management)
 - Conflict of interest
 - Authorized individuals
 - Handling of donated assets
 - Monitoring (by whom, and frequency and method of reporting)

Role Of The Investment Committee

- Composition (who should be on your investment committee)
- Frequency of meetings
- Develop performance monitoring guidelines
 - What information needs to be received
 - How often to meet with investment managers/consultants
 - Evaluation of investment managers (hiring and firing; when do they go on the “watch list”)
 - Rebalancing the portfolio

Role Of The Investment Committee (Cont.)

- Develop performance monitoring guidelines (Cont.):
 - Monitoring investment performance
 - Vs. policy objectives
 - Vs. spending policy
 - Vs. manager performance benchmarks/markets
 - Understand the committee's fiduciary responsibility (need to manage the investment process rather than the portfolio itself)
- Evaluate the effectiveness of the investment committee

Assess NFP's Current Financial Position, Determine Reliance On Investment Portfolio

- Review mission statement, strategic plan and operating budget
- Evaluate financial assets (excluding investment portfolio)
- Determine cash flow needs
- Review current investment expenses (including consulting fees)
- Determine appropriate spending policy

Underwater Endowments

- Identifying endowments
- Identifying underwater endowments
- What to do when an endowment fund is underwater
 - Check applicable federal/state law
 - Review the organization's spending rate policy
 - Expend only endowment fund income
 - Expend the fund's appreciation that was appropriated while the fund was "above water"
 - Ask the donor to modify or release the restriction
 - Seek judicial release of the fund's restrictions

Underwater Endowments (Cont.)

- Need to understand the rules governing your state
 - Does/will the Uniform Prudent Management of Institutional Funds Act (UPMIFA) apply?
 - Will UPMIFA change the organization's options for spending underwater funds?

SFAS 157

Fair Value Measurements

- Issued in September 2006
- Designed to improve financial reporting by:
 - Providing a common definition of fair value
 - Establishing a framework for measuring fair value
 - Expanding disclosures on use of fair value measurements
 - Creating a principles-based standard

SFAS 157

Fair Value Measurements (Cont.)

- SFAS 157 establishes a single definition and framework for determining fair value and is applicable for existing accounting pronouncements that require or permit fair value measurements (with several specific scope exceptions)
- It does not expand fair value measurement requirements beyond those already required by existing GAAP

SFAS 157

Fair Value Measurements (Cont.)

- Fair value hierarchy
 - Level 1
 - Observable inputs that reflect quoted prices (unadjusted) in active markets for *identical* assets or liabilities
 - Level 2
 - Other than Level 1 inputs that are directly or indirectly observable in the marketplace
 - Level 3
 - Unobservable inputs such as reporting entity's own data

SFAS 157

Fair Value Measurements (Cont.)

- Disclosures
 - Fair value measurements at reporting date
 - The level within the fair value hierarchy
 - For Level 3 assets/liabilities
 - Reconciliation of the beginning and ending balances
 - Total gains or losses for the period and where they are included in the statement of activities
 - Purchases, sales, issuances and settlements
 - Transfers in and out of Level 3

SFAS 157

Fair Value Measurements (Cont.)

- Disclosures
 - Valuation techniques
 - Special disclosures for assets or liabilities measured on a non-recurring basis
 - Use of a tabular format for quantitative disclosures
- Discussion of sample footnote

SFAS 157 And The Investment Policy

- Clearly identify investments subject to SFAS 157 and their appropriate level
- Identify how information on the hierarchy of the investments is to be determined
- Ensure that the policy provides for this information to be gathered on a periodic basis and not at period-end only

UPMIFA

- Uniform Prudent Management of Institutional Funds Act (UPMIFA)
 - Model law passed by the Uniform Law Commission
 - Issued November 2007
- States encouraged to adopt the act into law
- If operating in a state that has adopted the act, NPOs need to follow the act
- For a list of states that have adopted the act, go to:
upmifa.org

UPMIFA (Cont.)

- Provides uniform and fundamental rules for investments held by charitable organizations
- Prudent and diversified investments
- Emphasis on growth as well as income
- Prudent spending of income and appreciation of assets

UPMIFA (Cont.)

- Rules for prudent investing
 - Made in good faith by an ordinarily prudent person
 - Prudence in incurring costs
 - Taking into account the effect of inflation
 - Investing with the overall resources and mission of the charitable purpose in mind
 - Diversification

UPMIFA (Cont.)

- Guidelines for spending from an endowment
 - Duration and preservation of the endowment fund
 - The purposes of the institution and the endowment fund
 - General economic conditions
 - Effects of inflation or deflation
 - The expected total return from income and the appreciation of investments
 - Other resources of the institution; and
 - The investment policy of the institution
- Removes the historic dollar value floor concept

FSP No. 117-1

- Financial Accounting Standards Board Staff Position (FSP) No. 117-1 was issued in August 2008 to provide guidance in relation to the adoption of UPMIFA

FSP No. 117-1 (Cont.)

- Provides guidance on implementation of UPMIFA
 - Classification of net assets
 - Permanent restrictions cannot be reduced by losses in or expenditures from the endowment fund

FSP No. 117-1 (Cont.)

- Provides enhanced disclosures for all endowment funds
 - A description of:
 - The organization's interpretation of the laws
 - The endowment spending policies
 - The investment policies (which should include the provisions of UPMIFA and this statement)

FSP No. 117-1 (Cont.)

- Provides enhanced disclosures for all endowment funds (Cont.)
 - The composition of the endowment by net asset class at the end of the period
 - A reconciliation of the beginning and ending balances and the activity within the fund

FSP No. 117-1 (Cont.)

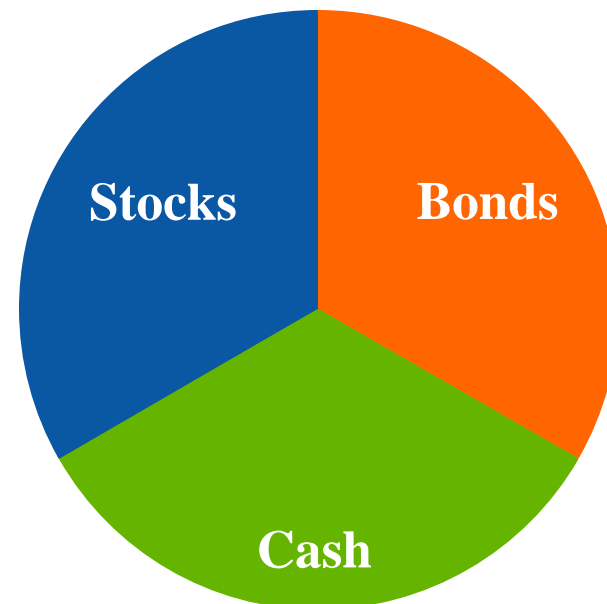
- Provides enhanced disclosures for all endowment funds (Cont.)
 - The nature and types of permanent restrictions or temporary restriction
 - Fair value of the assets, including the deficiencies (including unrealized losses) in the amounts that are less than the level required by the donor

Application To The Investment Policy

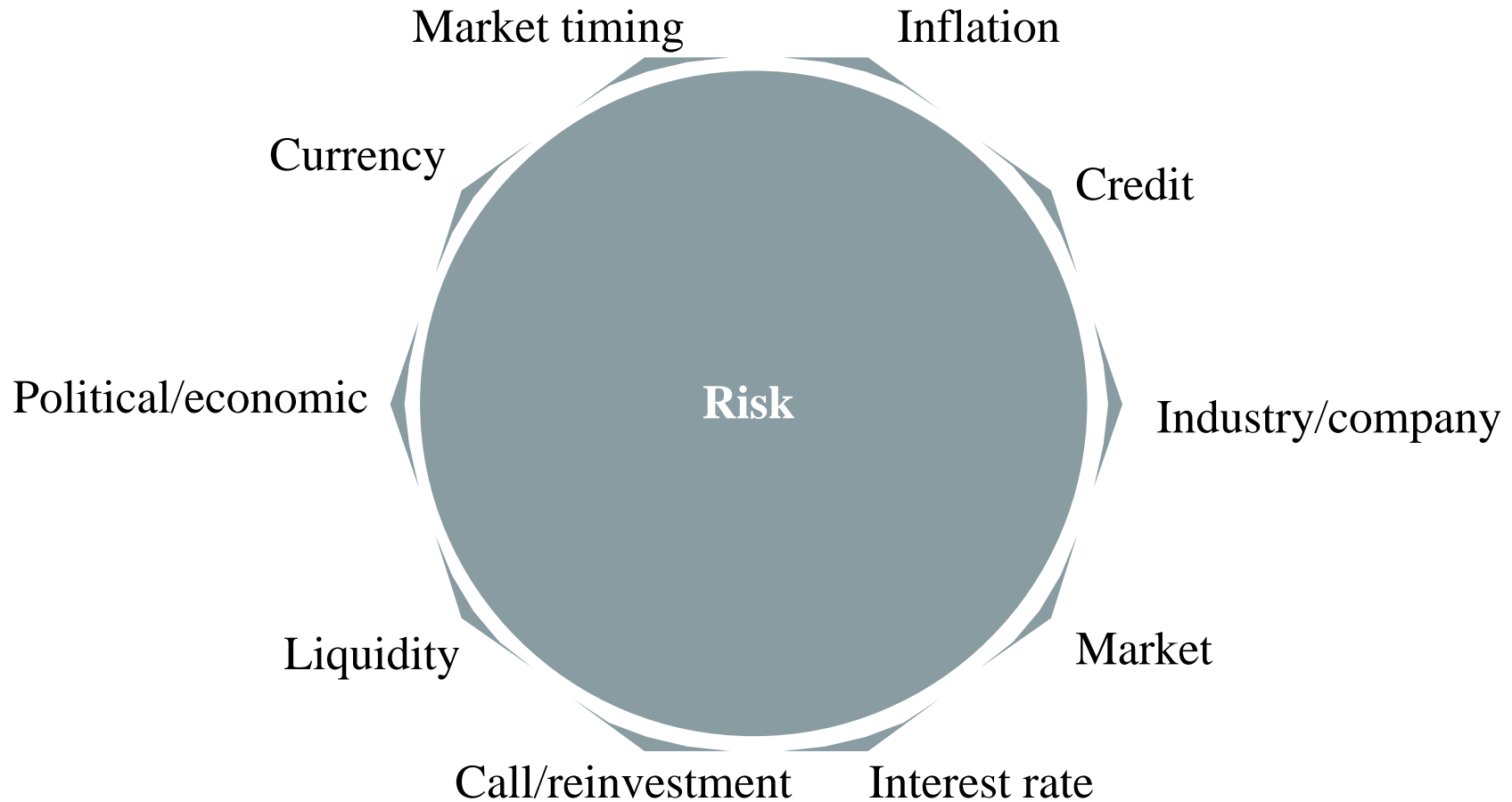
- Both requirements of UPMIFA and the accounting and reporting guidelines of FSP No. 117-1 should be clearly delineated in the investment policy, if an organization has an endowment fund

Asset Allocation

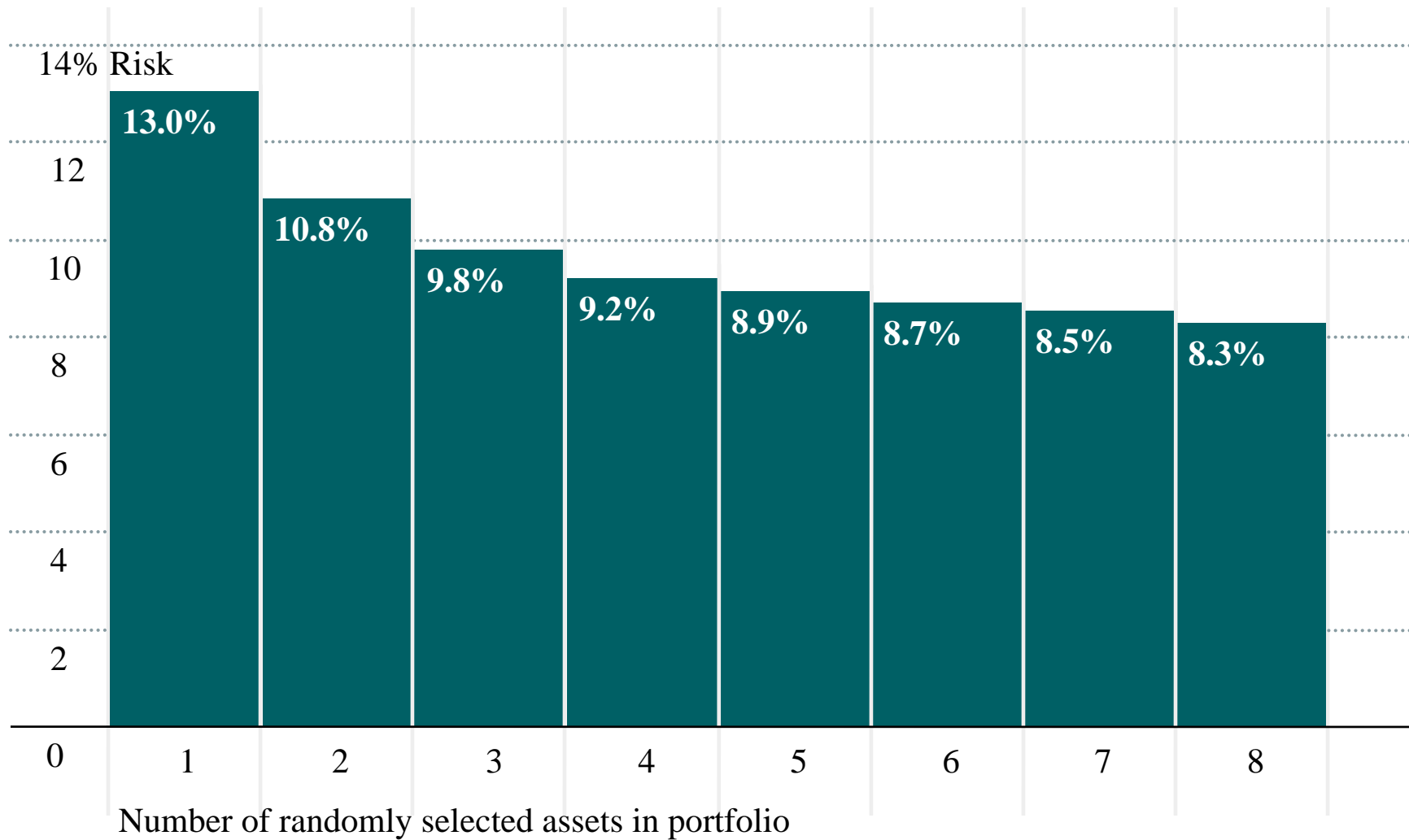
Asset allocation is the process of combining asset classes such as stocks, bonds and cash in a portfolio, in order to meet your goals



Types Of Risk



Reduction Of Portfolio Risk



Asset-Class Winners And Losers

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Highest return	8.1%	37.6	23.0	33.4	28.6	29.8	21.5	22.8	17.8	60.7	20.7	14.0	26.9	11.6	25.9
	3.9	34.5	17.6	22.8	20.3	27.3	5.9	3.8	1.6	39.2	18.4	7.8	16.2	9.9	1.6
	3.1	31.7	6.4	15.9	13.1	21.0	-3.6	3.7	-13.3	28.7	10.9	5.7	15.8	5.5	-36.7
	1.3	11.6	5.2	5.3	4.9	4.7	-9.1	-11.9	-15.7	1.4	8.5	4.9	4.8	4.7	-37.0
Lowest return	-7.8	5.6	-0.9	2.1	-7.3	-9.0	-14.0	-21.2	-22.1	1.0	1.2	3.0	1.2	-5.2	-43.1

• Small stocks

• Large stocks

• International stocks

• Long-term government bonds

• Treasury bills

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Types Of Advisors

- Brokers
 - Commission- or fee-based
- Registered investment advisors (RIAs)
 - Commission- or fee-based
 - Fee-only
 - Fiduciary advisor
- Money managers
 - Recommended by broker or RIA
 - Registered investment advisor

Considerations

- Years in the business
- Education background
- Philosophy
- Performance vs. benchmark

Investment Policy Statement

- Update if necessary
- Keep current with financial times
- Keep current with compliance environment

Ongoing Oversight Of Outside Advisors

Management's Responsibilities

- Be a resource to those charged with governance, when adopting the investment policy
 - Ensure that all new requirements are incorporated
- Understand and implement the investment policy
 - Ensure that all brokers and custodians are aware of the policy

Management's Responsibilities (Cont.)

- Monitor the entity's compliance with the investment policy
- Prepare all required disclosures on a periodic basis and report to those charged with governance on a periodic basis
 - Year-end only reporting could come as a shock

Audit Committee Responsibilities

- Relevant audit committee's responsibilities:
 - Ensure compliance with legal and regulatory requirements for financial reporting and auditing of financial statements (eg., FASB, PCAOB, stock exchanges)
 - Review critical accounting policies, practices, judgments, estimates, significant issues, significant transactions, adjustments, unusual items, complex issues and business arrangements

Audit Committee Responsibilities (Cont.)

- Must be knowledgeable of the entity's investment policy
- Require that management implement the investment policy
 - Along with the investment committee and the finance committee, oversee the process of implementation as it relates to the financial statements and disclosures

The Audit

- Should serve as a year-end check up
- Should not be the only time that the policy is examined
- Should not be the only time that the information for the new requirements are gathered and reported

The Audit (Cont.)

- The auditor should report back to the audit committee on:
 - Compliance with the investment policy
 - Whether the investment policy has taken into account the requirements of any new standards
 - Implementation of any new standards

Standards Of Performance Review And Evaluation

- Semi-annual meetings; July and January
- Changes in financial world or investment vehicles
- Asset allocation model
 - Asset class target percentages
- Internet Morningstar mutual fund fact sheet
- Portfolio composite vs. benchmarks
 - S&P 500 (stocks)
 - Barclays Aggregate Bond Index (fixed income)
 - MSCI EAFE Index (international securities)
- Review expenses and fees

NFP

Investment Policy

July , 2009

I. Scope

This policy applies to the investment of all operating funds of NFP , hereinafter called “the corporation.”

II. Statement of Philosophy

NFP enhances the dignity and quality of life of individuals, families, and communities by eliminating barriers to opportunity and helping people in need reach their fullest potential through the power of work.

Corporations are more than just institutions for making money. They do not operate in a vacuum. They can provide quality and service, and promote innovations in their products. They can make efforts to improve the lives of their workers and the communities in which they operate. They can take effective action to promote an improved quality of life for those with whom they come in contact. The purpose of this corporation is to better the lives of those around us and help them to reach their greatest potential. To this purpose, we believe that our portfolio should also reflect these goals and values. In striving for this end, we will seek out companies who have consistently proven that their products, services and methods of conducting business enhance the human condition.

We also recognize that no company is perfect and that companies may excel in one social criterion and fall short in others. We will look for quality of disclosure and consistent efforts to respond to social concerns and changes as we evaluate possible investments on an individual basis for their ethical suitability.

III. Scope

The Purpose of the following policy, which is to be reviewed annually by the board of the directors of the corporation, is to:

- Establish the investment objectives, policies, guidelines and eligible securities relating to any investment owned or controlled by the corporation any of its subsidiary organizations.
- Identify the criteria against which the investment performance will be measured.
- Communicate the objectives of the Board, staff, investment managers, brokers, donors and funding sources that may have involvement.
- Serve as a review document to guide ongoing oversight of the management of the corporation's investments.

IV. Responsibility for Management of Funds

All fund of the corporation shall be managed by the board of directors. At the discretion of the board, an external agent or agencies may be engaged to manage funds of the corporation; in which case, the external manager(s) shall be responsible directly to the board of directors.

V. External Management of Funds

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

The duties and responsibilities of each investment manager appointed to manage the corporation's assets are:

1. Managing the assets in accordance with the policy guidelines and objectives expressed herein, or expressed in a separate written agreement when deviation is deemed prudent and desirable.
2. Exercising complete investment discretion within the guidelines and objectives expressed herein. Such discretion includes decisions to buy, hold or sell securities in amounts or proportions reflective of the manager's current investment strategy and compatible with the objectives of the corporation's objectives.
3. Promptly informing the investment committee regarding all significant matters pertaining to the investment of the assets. The investment committee should be kept apprised of major changes in investment strategy, portfolio structure, market value and other matters affecting the investment of assets.
4. Managers shall periodically distribute all ordinary income earned in their respective portfolio.

On a quarterly basis, the investment committee will review each manager's performance and adherence with the guidelines set forth in this document and report to the board of directors. Reviews will include:

1. Market and total fund returns
2. Total portfolio volatility
3. Individual manager returns vs. indices, benchmarks and universes
4. Adherence to mission related guidelines and objectives
5. Asset allocation and spending policy
6. The continuing appropriateness of this document

VI. Investment Objectives

- a. Preservation of capital
- b. Liquidity
- c. Competitive return with an established flow of income resulting from interest and dividends

VII. Permitted Instruments

Includes cash equivalents such as US treasury bills, US guaranteed agency(s) discount notes, repurchase agreements, money market funds, bankers acceptances, commercial paper, certificates of deposit, time deposits and loan participation certificates/agreements; fixed income securities such as US Treasury and US guaranteed agency(s) obligations and corporate debt obligations; and investments in common and preferred stock ("equity"); mutual Funds, exchange-traded funds and foreign securities.

VIII. Non-permitted Instruments and Prohibited transactions

1. Debt obligations and equity in companies engaged in the manufacturing, marketing and selling/distributing of alcoholic beverages or tobacco products
2. Letter stock or private placement which may not be sold publicly without registration under the Securities Act of 1933.
3. Short sales, use of options or futures
4. Margined securities
5. Hedge funds
6. Commodities
7. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market.

IX. Quality of Instruments

All fixed income securities and cash equivalents, other than obligations guaranteed by the US government must be rated AA/Aa or better and no lower than A1/P1, respectively, by either Standard & Poor's ("S&P") or Moody's, at the time of purchase. In the event of a downgrade in an investment holding, such that both S&P and Moody's rating are less than AA/Aa, the Investment committee will have responsibility for deciding appropriate action.

X. Maturity of Investments

1. The maximum maturity for fixed-income securities will not exceed five years. The average maturity, however, should not exceed 2 years.
2. The maturity limitation is established to provide an appropriate degree of liquidity and may be amended to reflect the corporation's operating requirements.

XI. Diversification

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of securities. Diversification strategies shall be established and periodically reviewed. The diversification of the investments shall be as follows:

Type of Security

Range

US treasuries and securities guaranteed by the Govt

Collateralized time and demand deposits

Collateralized repurchase agreement

Money Market Funds

Equities

Fixed Income Securities

Mutual Funds

Exchange-traded Funds

1. Exposure to a single obligor shall not exceed 10% of the total market value of the portfolio
2. Exposure to a single industry group/sector shall not exceed 25% of the total market value of the portfolio.

XII. Benchmarks

The benchmarks for evaluating performance of the two main asset classes will be:

- Equities: S&P 500 Index – Goal: To exceed the average annual return over a full market cycle (3-5 years)
- Fixed Income: Barclays Aggregate Bond Index – Goal: Exceed the average annual return of the index in a full market cycle (3-5 years)

It will be the responsibility of the Investment committee to regularly review the performance of the investment account and investment policy guidelines, and report to the board of directors at least quarterly with updates and recommendations as needed.

XIII. Spending Policy

Each year, the corporation is authorized to withdraw ___% of the total market value of the portfolio for the corporation's operating purposes as measured by the last day of the preceding year. The dollar amount and timing of any distribution from the investment account will be left up to the discretion of the Executive director and Treasurer.

XIV. Ethics and Conflicts of Interest

Directors and agents involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or could impair their ability to make impartial decisions. Directors and agents shall disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Directors and agents shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the corporation.

XV. Authorized Individuals

The following individuals are authorized to engage in securities transactions as contemplated by and further described in the NFP Investment Policy dated July , 2009:

- President and controller