



Creating an Investment Policy for Nonprofit Organizations

PRESENTATION

Presented By:

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Introduction

CBM's Nonprofit and Wealth Management teams collaborate seamlessly to navigate investment policies for not-for-profit organizations. Leveraging the Not-for-Profit Team's deep understanding of charitable missions and regulatory requirements and the Wealth Management Team's expertise in investment strategies and risk management, we provide a holistic approach to managing financial assets.



Judy Barnhard

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**Manager of Divorce Financial
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Why have an Investment Policy?

According to research from the MIT Sloan School of Management, only **11.2%** of not-for-profit organizations hold investment accounts.



A Race Against Time

Every year, not-for-profit organizations work hard to raise funds for their mission and every year the money they collect loses a portion of its value to inflation.

The Benefit of Investment Policies:

Fight the Effects of Inflation

Help Reach Financial Goals

Establish a Path of Long-term Operational Viability

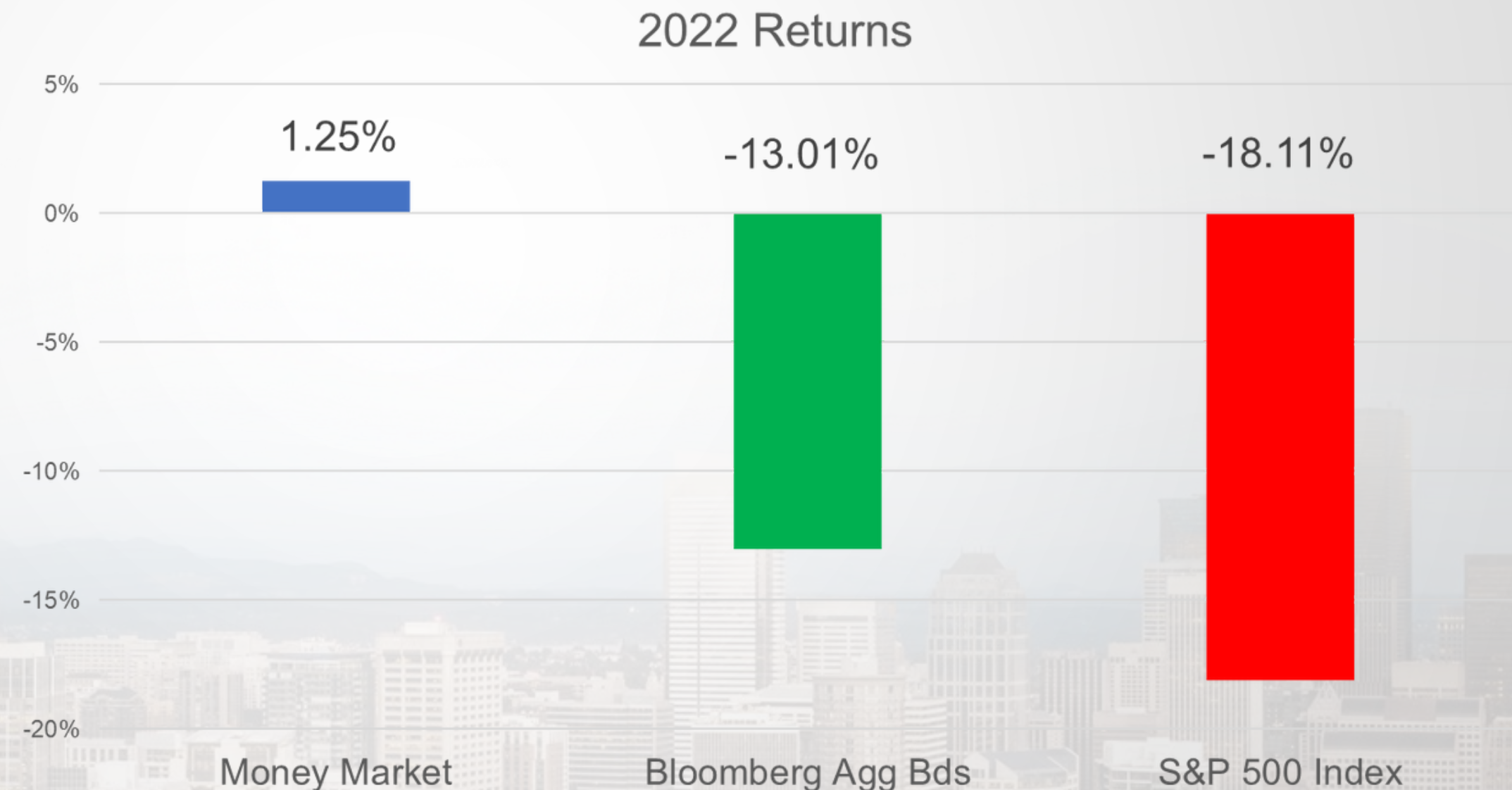
Expands the Organization's Fundraising Capabilities



Short-Term Outlook

Investing can be scary for not-for-profit organizations, where money is already tight. In the short-term, the market is subject to risk meaning anything can happen including negative returns similar to 2022.

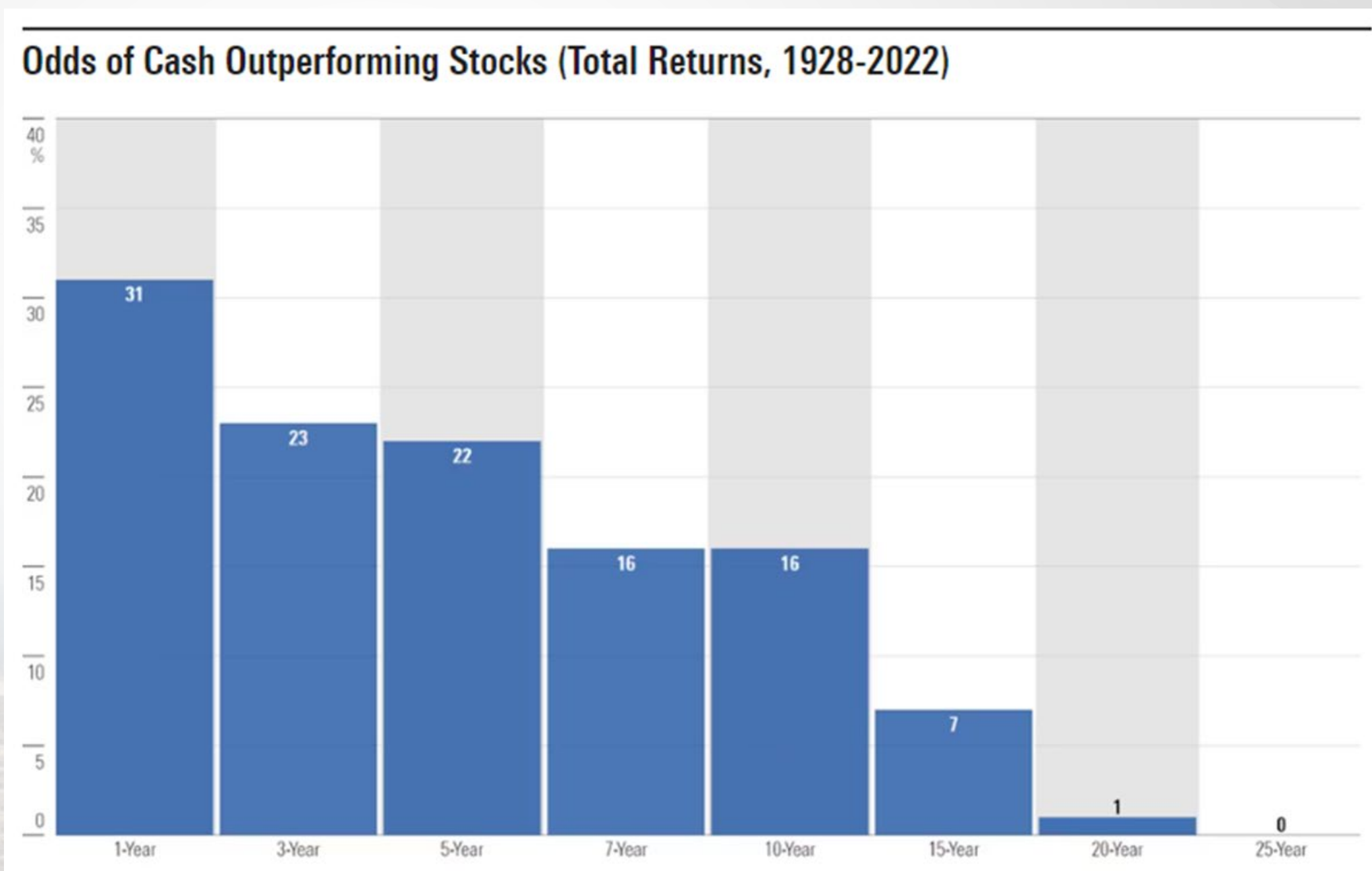
- Savings Accounts (Money Market) maintained a positive return
- Fixed Rate Investments and Stocks performed poorly



Source: S&P, Bloomberg, Lipper

Long-Term Outlook

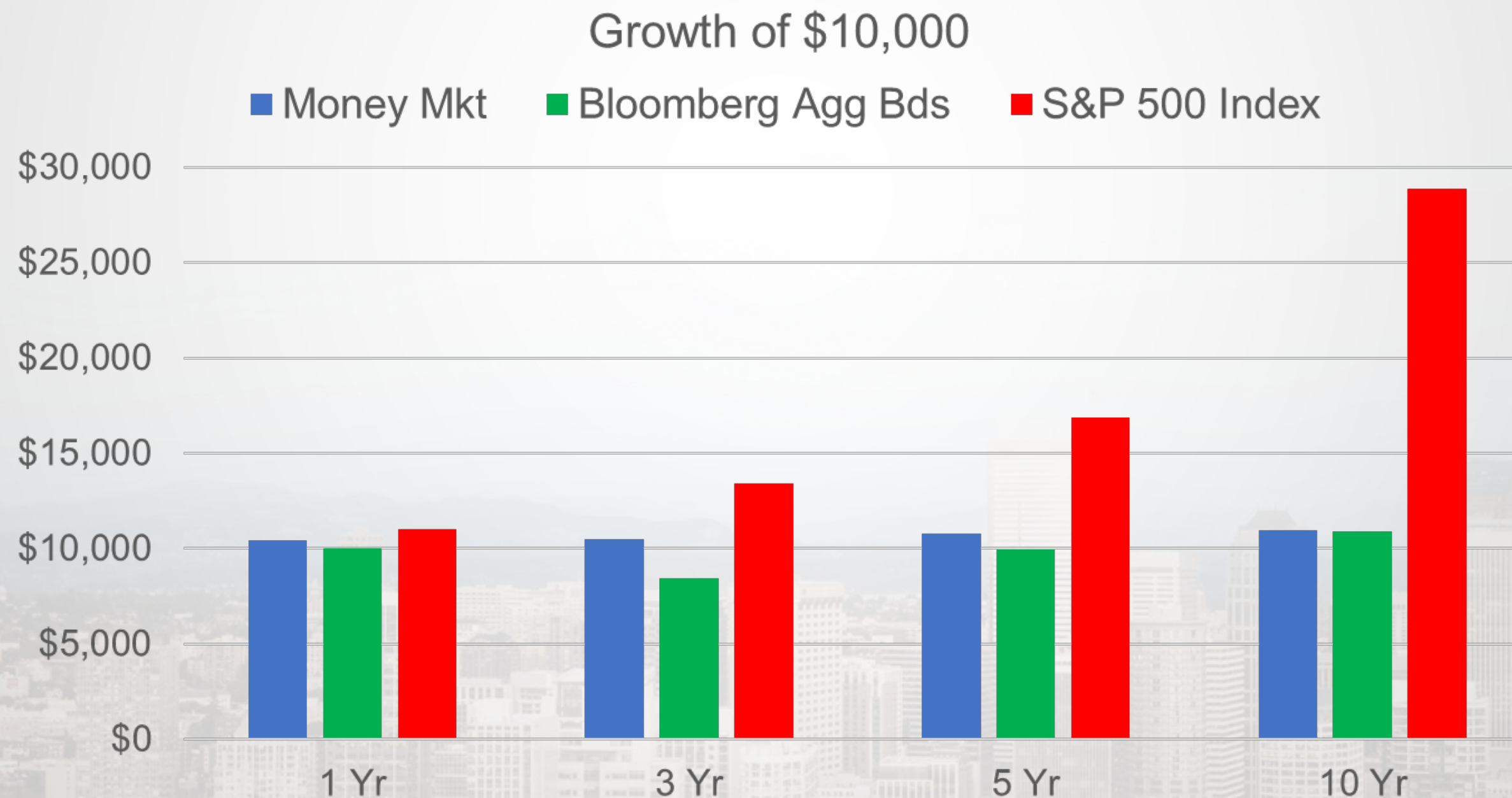
While investments inherently carry risks, the temptation to hold an organization's funds in a savings account may seem more secure. However, over time, this conservative approach proves less favorable. The longer an organization waits, the more likely the organization's funds could have earned a better return within an investment account.



Source: MorningStar

A Noticeable Difference

Investing, similar to not-for-profits, aim to make an impact in the long-term and they do...



Source: S&P, Bloomberg, Lipper

What About Risk?

We understand that risk can still be a challenge for not-for-profit organizations on a year-to-year basis, that is why it is so important for an organization to diversify their investment portfolio.

CLASS RETURNS QUILT

Ranks the Highest to Lowest Investment Returns By Asset Class Over the Past Decade



2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Null
International Emerging 18.63%	Small Cap 38.85%	Real Estate 31.66%	Real Estate 4.18%	Small Cap 21.36%	International Emerging 37.75%	Cash Alternatives 1.82%	Large Cap 31.26%	Large Cap 20.80%	Real Estate 45.50%	Commodities 15.71%	Large Cap 13.04%
International Developed 17.90%	Mid Cap 34.50%	Large Cap 13.08%	Large Cap 0.82%	Mid Cap 13.58%	International Developed 25.62%	Fixed Income 0.05%	Mid Cap 30.31%	Small Cap 19.89%	Large Cap 26.27%	Cash Alternatives 1.57%	Balanced 7.97%
Mid Cap 17.13%	Large Cap 32.93%	Mid Cap 13.03%	Fixed Income 0.48%	Large Cap 11.91%	Large Cap 21.53%	Balanced -2.97%	Small Cap 25.42%	International Emerging 17.56%	Commodities 23.28%	Fixed Income -14.98%	International Developed 5.48%
Real Estate 16.81%	International Developed 23.29%	Balanced 9.84%	Balanced 0.37%	Commodities 11.77%	Mid Cap 18.32%	Real Estate -4.30%	Real Estate 22.73%	Mid Cap 16.91%	Mid Cap 22.38%	Real Estate -16.57%	Cash Alternatives 4.19%
Small Cap 16.39%	Balanced 17.91%	Fixed Income 6.04%	Cash Alternatives 0.03%	International Emerging 11.60%	Small Cap 14.66%	Large Cap -4.91%	International Developed 21.94%	Balanced 16.26%	Small Cap 14.62%	Balanced -16.97%	International Emerging 2.24%
Large Cap 16.27%	Real Estate 0.96%	Small Cap 4.94%	International Developed -0.39%	Balanced 8.63%	Balanced 13.75%	Mid Cap -9.13%	Balanced 21.67%	International Developed 7.92%	Balanced 14.09%	Mid Cap -18.74%	Mid Cap 1.14%
Balanced 11.33%	Cash Alternatives 0.05%	Cash Alternatives 0.02%	Mid Cap -2.57%	Real Estate 6.36%	Fixed Income 3.53%	Small Cap -11.02%	International Emerging 17.67%	Fixed Income 7.42%	International Developed 11.23%	Large Cap -20.39%	Commodities -0.03%
Fixed Income 4.04%	Fixed Income -2.15%	International Emerging -1.82%	Small Cap -4.33%	Fixed Income 2.56%	Real Estate 3.50%	Commodities -11.25%	Fixed Income 8.68%	Cash Alternatives 0.44%	Cash Alternatives 0.03%	Small Cap -21.62%	Small Cap -1.45%
Cash Alternatives 0.08%	International Emerging -2.27%	International Developed -4.48%	International Emerging -14.60%	International Developed 1.51%	Commodities 1.70%	International Developed -13.36%	Cash Alternatives 2.07%	Commodities -4.08%	Fixed Income -1.67%	International Developed -22.42%	Fixed Income -3.41%
Commodities -1.06%	Commodities -9.52%	Commodities -17.01%	Commodities -24.66%	Cash Alternatives 0.26%	Cash Alternatives 0.82%	International Emerging -14.25%	Commodities 1.21%	Real Estate -11.37%	International Emerging -3.72%	International Emerging -28.66%	Real Estate -5.27%

Source: May Barnhard Investments, LLC, Morningstar



What is an Investment Policy?

Definition

a defined set of guidelines and strategies governing the management of the organization's financial assets to align with its mission and financial objectives while managing risk and optimizing returns.

The Role of Investments in Nonprofits

- Mission Support
- Financial Stability
- Asset Growth
- Risk Mitigation
- Donor and Stakeholder Confidence
- Legacy Building

Investments in nonprofits are the financial backbone that supports their mission, growth, and resilience, enabling them to drive positive change and serve their communities. By effectively managing and leveraging their investments, nonprofits can secure their future and make a lasting impact on the causes they champion.

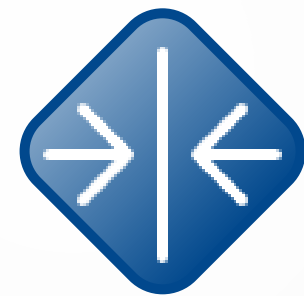
Supporting the Mission

Effective investments can help nonprofits achieve their mission by providing the necessary financial resources for program development and implementation, thereby enabling them to make a more significant impact in their chosen cause.



Focus on the Mission

Identify your organization's mission and objectives.



Align Your Financial Goals

Calculate the economic need to accomplish your mission and each of your objectives. Include operational costs and emergency funding.



Aim for Long-Term Financial Sustainability

Think not only of everyday costs but the growth of your assets and costs in order to account for long term changes.

Establish an Investment Committee



Team

For a manageable committee, 5 to 10 members bring diversity of thought without losing coordination



Diversity

Members should be of varying skills, knowledge, attitudes, abilities and demographics. Diversity is key.



Policies

Set a list of policies committee members must adhere to including how long a member can be on the board.



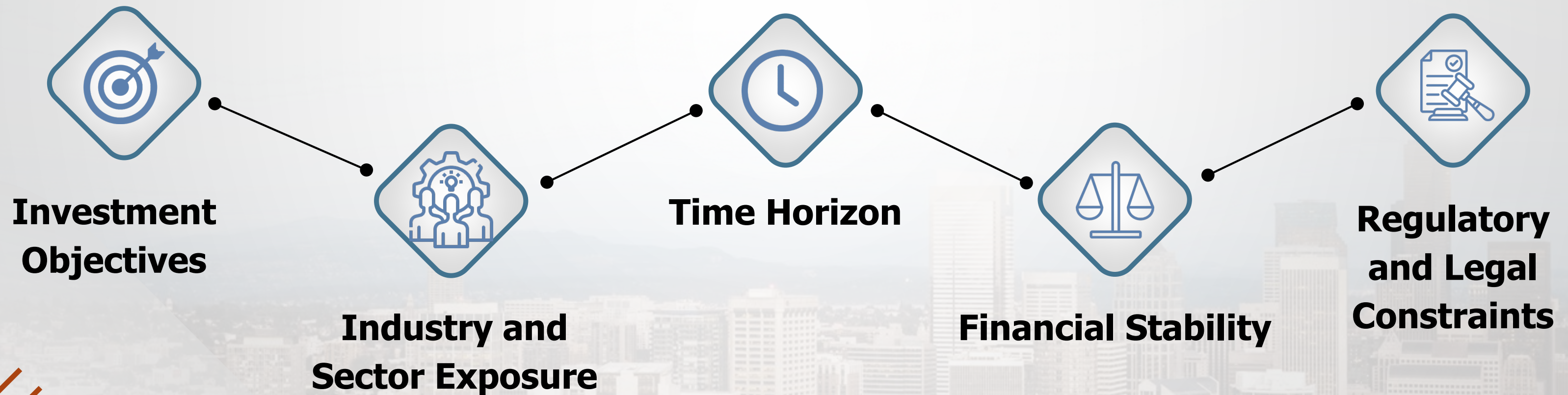
Outsource

Smaller and less experienced committees may look to obtain an expert to handle the day-to-day procedures.

Facing Risk

Risk Tolerance: The degree of risk that an investor is willing to endure given the volatility in the value of an investment

Risk Capacity: The amount of money that an organization can acceptably risk.



Making a Statement

Investment Policy Statement (IPS): A document that outlines the rules and guidelines for investing an organization's assets

Scope & Purpose

Governance

Investment

Return & Risk Objectives

Risk Management



Selecting an Investment Manager

Selecting an investment manager that performs well and works collaboratively with your organization's culture is important.

Here are some criteria to look for:

- Organization Background and Ownership
- Employees and their Experience
- Investment Philosophy and Process
- Performance Reporting
- Assistance with Investment and Spending Policies
- Fees

In addition to interviews, organizations should perform background checks and create a system of evaluating performance.



Investment Monitoring and Reporting

The Investment Committee should establish regular times of review for the organization's investments. Setting clear performance benchmarks will help the committee understand if the performance strategy is effective in regards the organization's goals.

Presenting a summarized finding of the investment's key metrics and analysis to the stakeholders will boost confidence in the organization's ability to recognize strong and weak points in their strategy.



Ethical and Responsible Investment Practices

- Positive Screening
- Negative Screening
- Best-in Class Approach
- Shareholder Activism and Engagement
- Thematic Investing



Compliance and Legal Considerations

Nonprofits must ensure that their investment strategies and policies comply with federal, state, and local laws, as well as any specific regulations governing nonprofit financial management. Prudent investor standards, the requirement of organizations to invest with the same care, skill, and diligence that a prudent person would exercise, is one of these regulations. Nonprofits must also navigate any restrictions placed on investments, such as those related to endowments or restricted funds. Legal oversight is necessary to prevent the organization from facing complications.






Revision and Review of the Investment Policy

**Review the
Investment Policy
Periodically**

**Adapt the Policy to
the Organization's
Current Financial
Needs**

**Aim to Continuously
Improve the
Organization's
Strategy**



Conclusion

Key Takeaways:

- Align your policy with your mission
- Establish a strong and diversified team
- Keep in mind your organization's risk tolerance
- Create a clear investment policy to guide you
- Hire an experienced and trusted investment manager
- Monitor and report the organization's investments regularly
- Adhere to ethical investing practices
- Ensure compliance with your organization's legal requirements
- Review and revise the investment policy periodically



Q & A



We're excited to hear your questions, thoughts, and insights. This is your opportunity to dig deeper into any topics we've discussed, seek clarification, or share your experiences.





Thank You

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