

QUICK POLL:

## Nonprofits Look for Investment Management Answers in Response to Ongoing Volatility

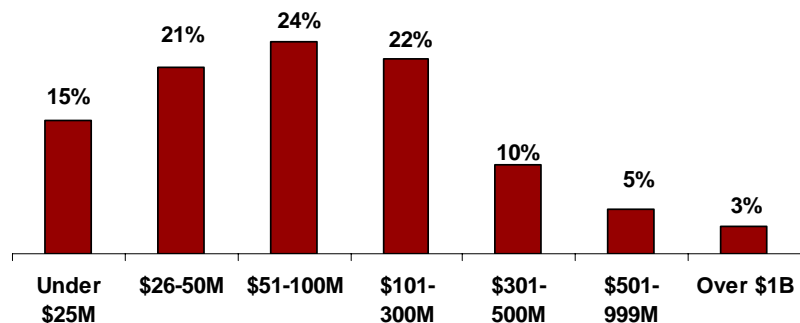
The **Nonprofit Management Research Panel** recently conducted a Quick Poll specific to nonprofit executives and investment committee members responsible for overseeing endowments and foundations. The poll was conducted in June 2009 and was completed by 160 executives overseeing asset pools ranging in size from \$25 million to over \$1 billion. None of the participating organizations were SEI institutional clients. Below is a summary of the key findings.

### Organizations polled

Depending on the type and size of the organization, the challenges can differ greatly. Here is a breakdown of participating organizations based on the type of organization or mission:

- 34% educational institutions
- 19% private foundations
- 13% community foundations
- 10% health and human services
- 8% social services
- 6% cultural or arts
- 5% faith-based organizations
- 3% environmental causes
- 2% other

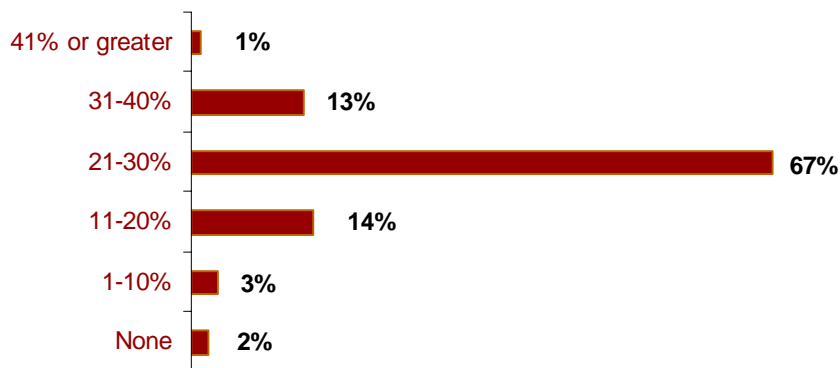
### Respondents by Size of Asset Pools



### Market volatility has taken its toll

As many organizations depend on investment returns to fund the overall mission, the market downturn has had a significant impact on nonprofits. While only a small percentage of overall participants, all of the cultural or arts nonprofits (100%) in the poll said the organization lost at least 21% or more of the overall portfolio. A vast majority of educational institutions (88%) said the same, followed by private foundations (86%) and community foundations (80%). The chart below shows percentage losses of assets experienced this past year:

### Percentage Decrease in Invested Assets in 2008



## Asset allocation changes

Almost three-quarters (71%) of those polled said the organization is making asset allocation changes in response to the current economic environment. On a high level, poll participants are moving assets out of equities and hedge funds and into fixed income and non-hedge alternatives. Of the group making changes, here is the breakdown of whether or not they are increasing or decreasing allocations to specific asset classes:

**FAST FACT:**  
**Downturn has forced tough decisions**

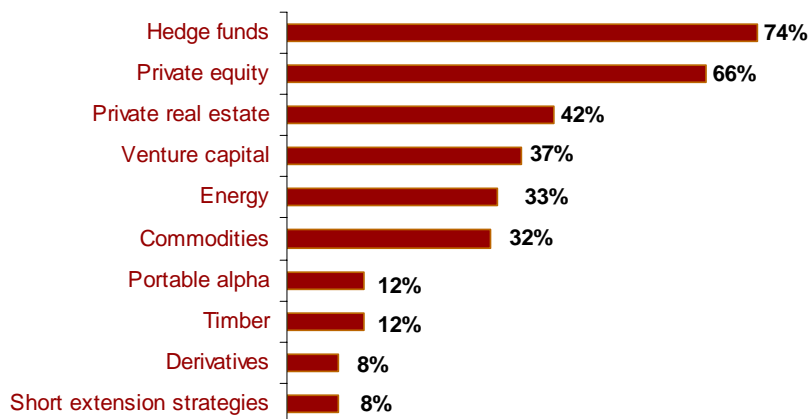
*Nearly half (45%) of those polled said the economic downturn has forced the organization to decide between reducing staff and making cuts to programs.*

	Increasing	Decreasing
<b>US Equities</b>	<b>44%</b>	<b>56%</b>
<b>Non-US Equities</b>	<b>37%</b>	<b>63%</b>
<b>Fixed Income</b>	<b>69%</b>	<b>31%</b>
<b>Hedge Funds</b>	<b>42%</b>	<b>58%</b>
<b>Other Alternatives</b>	<b>67%</b>	<b>33%</b>

## Interest in alternatives remains high

Historically, nonprofit organizations led the institutional investor movement into alternative asset classes. This appears to still be the case as 82 percent of the participants said the organization invests in alternatives. Here are the alternative products currently being used by poll respondents:

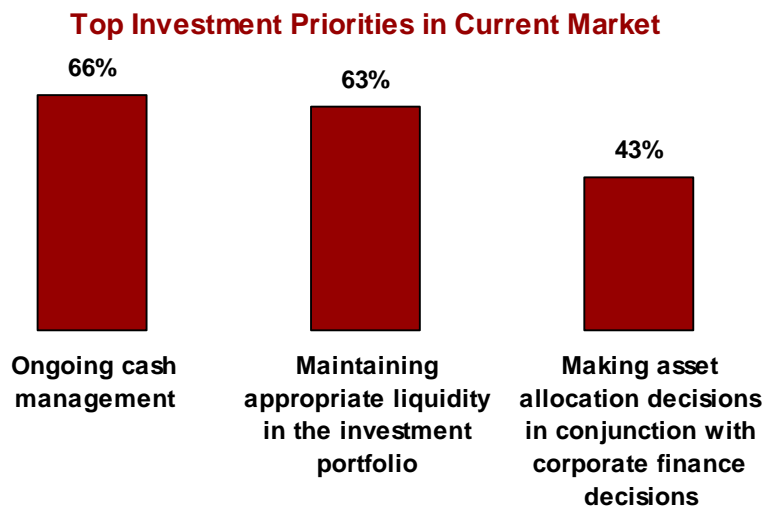
### Percentage Currently Investing in Alternatives



Almost all (89 percent) of the larger nonprofits in the poll – more than \$300 million in assets – include hedge funds in their portfolios. By contrast, only 36 percent of those with \$50 million or less in assets invest in hedge funds.

## Liquidity is a priority in building investment strategies

As nonprofit investment committees invest in alternatives, the capital markets have responded with increased access to dozens of offerings that had previously been reserved for many of the larger endowments and foundations. Many of these strategies would be classified as illiquid asset classes as they often require extended lock-up periods and the events of the past year have forced many investment committees to try to gain a better understanding of their organization's tolerance for illiquidity. Those polled listed the following top three investment priorities, each of which can impact liquidity management:



The overall liquidity challenge becomes greater considering the fact that almost half (45 percent) of the poll respondents said the organization's investment committee has not yet established a formal liquidity policy. An additional 16 percent just created the policy in the past year, meaning only 39 percent of the organizations polled has had a formal liquidity policy for more than a year.

## Defining fiduciary roles leads additional investment management priorities for nonprofits

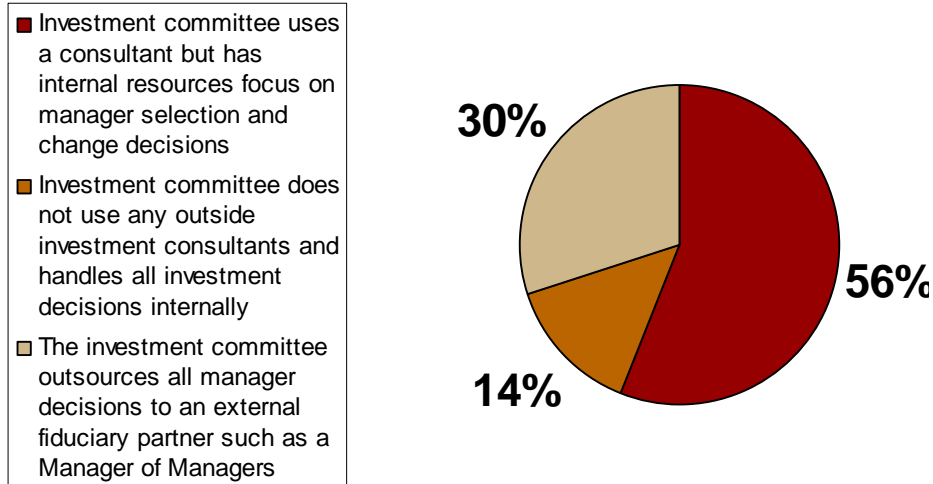
In the wake of investment losses as well as some investment scandals that directly impacted the nonprofit community, organizations are re-evaluating the overall fiduciary management process.

- **30% of those polled said that defining investment management fiduciary responsibilities for trustees and investment consultants is a priority**
- **31% of the organizations polled said they outsource investment decisions to an external fiduciary partner such as a Manager of Managers**
- **65% of those using the Manager of Managers model said they are confident the resources are in place to perform the necessary due diligence around investment managers moving forward**
- **53% of those using the Manager of Managers model said the trustees are confident that outsourcing investment decisions to an external fiduciary partner provides a layer of increased fiduciary protection**
- **45% of those handling investment decisions internally said the heightened investment risk has made the investment committee more concerned about meeting fiduciary obligations**

Additional priorities for nonprofits in the poll included developing comprehensive multi-year capital plans, inflation hedging, protecting the organization's credit rating and the use of market simulation tools to evaluate the effect of potential investment market changes on invested assets.

## Nonprofits evaluate investment management process

The impact that the market has had on nonprofit organizations is also dependent on the management model that was implemented. Below is a chart of the investment management models currently implemented by poll participants:

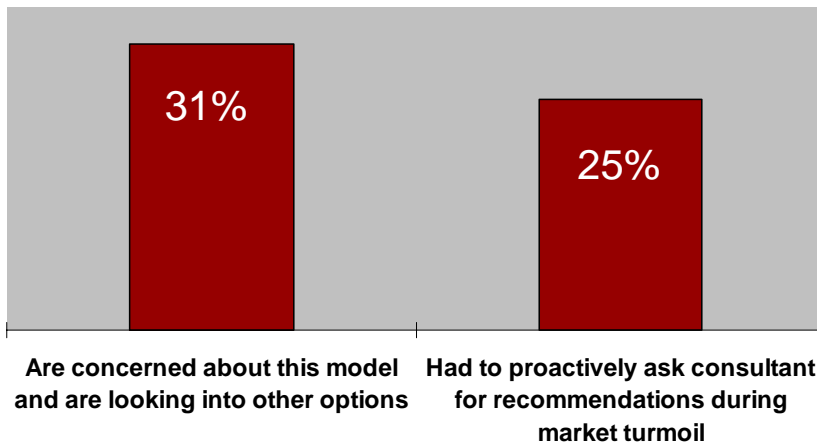


Poll participants are looking at their investment portfolio as a way to manage donor concerns and help control ongoing challenges:

- **31% said there is an increased focus on building donor confidence in their investment strategies**
- **29% are attempting to decrease volatility by increasing diversification via new asset classes**

## Consultant model comes under question

Finally, those using a consultant model are questioning the effectiveness of this model moving forward:



**FAST FACT:**  
**Consultants slow to respond**  
 Almost half (45%) of the organizations using a consultant model said they feel there should have been a higher level of proactive communication from the consultant during recent market turmoil.

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