

COMMUNITY Steward

Brought to you by Fragasso Financial Advisor's Nonprofit Advisory Services

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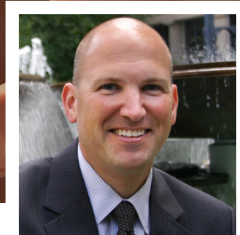
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FRAGASSO
FINANCIAL ADVISORS

WELCOME TO THE FIRST ISSUE OF THE BIENNIAL FRAGASSO FINANCIAL ADVISORS NONPROFIT NEWSLETTER



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As members of Fragasso Financial Advisor's Nonprofit Advisory Services team, Gregg and I welcome you to the inaugural issue of the Community Steward. Our goal with this newsletter is to keep you up-to-date on topics that impact the nonprofit sector and perhaps, influence decisions with which you are faced. Our first issue focuses on retirement plans for nonprofits, the importance of investment policy statements, common investing mistakes, and the pros and cons of socially conscious investing.

Our hope is that the newsletter will be helpful to those who are involved in a charity or foundation, as well as make you aware of the great work being done in our community by nonprofits, making our communities a better place to raise our families.

We also want you to know that Fragasso Financial Advisors enjoys working with nonprofits.

We know the importance of each organization's mission to this region. Our experienced staff, both in financial management and nonprofit management, understands the challenges the sector faces. We are happy to help in any way we are able. Fragasso Financial Advisors is a Registered Investment Advisor, which means, among other things, that we can be a co-fiduciary with you when meeting your investment obligations. We provide financial management advice to boards of directors, trustees and senior staff for endowments and board-directed funds. We provide full retirement plan management for defined contribution and defined benefit plans.

Having worked for years in investment management and having served on numerous boards of directors and local government committees, Gregg Daily's investment advisory work is focused on nonprofits, institutional clients and municipalities. Gregg, along with

our Nonprofit Advisory Services team, partner with clients to crystallize goals and desired outcomes, bringing a focus on preserving and growing investment assets. As an independent investment advisor we adhere to the fiduciary standard, acting with a duty of loyalty and care, and always in our clients' best interests. Gregg has worked with many types of organizations, including human services, the arts, industry groups and municipalities. His experiences both as a board member and an independent investment advisor have given

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SOCIALLY RESPONSIBLE INVESTING

Lisa Brignoni, CFA
Assistant Director of Portfolio Management

Socially responsible investing. Mission investing. Values-based investing. Morally-based investing. Green investing. Sustainable investing. These are all the buzzwords that have been used throughout the investing universe to describe an investment strategy that seeks to align an investor’s personal beliefs to their portfolio allocations while still achieving their financial goals. The concept of socially responsible investing (SRI) is not necessarily a new idea, though it is receiving increased attention as it becomes more familiar to investors, individual and nonprofit alike, who are motivated more by causes rather than performance in their investment decisions. This increased demand has been noted by investment managers who have been busy creating new products to meet the needs of this niche market.




With all of the different investing options available and implications for the overall portfolio, investors need a clear framework from which to work with an objective advisor to construct a portfolio designed to achieve the desired results while still adhering to the investor’s core values.

Socially Responsible Investment Model

For any investor who is contemplating a SRI strategy for their portfolio, the first action to take will be prioritizing their core values, which can be categorized in three groups and include the examples illustrated in the chart to the right.

Making the decision about which core values are important is the easy part. Deciding how you convert those core values into criteria

Socially Responsible Investment Values

 Social	<ul style="list-style-type: none"> • Religious Beliefs • Human Rights • Animal Rights • Minority Owned Businesses
 Environmental	<ul style="list-style-type: none"> • Agricultural • Energy • Sustainable Business Practices
 Corporate Citizenship	<ul style="list-style-type: none"> • Community Involvement • Fair Labor Practices • Legal & Regulatory Compliance • Consumer Protection

for selecting funds or for selecting securities to be included in a social impact fund is where the path becomes cluttered and justifiably confusing.

The methods for applying core values to a portfolio allocation can be categorized in a two-dimensional model. One dimension denotes how strongly the investor wants to adhere to their core values; whether they want to be flexible in their criteria or follow strict adherence. Along the second dimension is the type of investment screen. A positive screen means that the objective is to include companies or funds that meet the guidelines dictated by the investor’s values. This is often a common screen utilized for investors who want to seek out companies with sustainable business practices. A negative screen is one

whose objective is to exclude companies or funds that violate the guidelines of one’s values. These screens are often used for religion-focused funds, an example of which is the exclusion of gambling or weapons companies from a Christian-based portfolio. In our model, we use the terms “inclusive” and “exclusive” to describe these screens. Working within this framework, we developed four general strategies:

- **Only Include These Securities** – Only allows investments that meet the criteria for the core values, such as a proponent of renewable energy sources.
- **Always Exclude These Securities** – Common with religion-based funds, in this scenario an investor seeks to eliminate any

OPPORTUNITY

investment that violates the criteria for their core values.

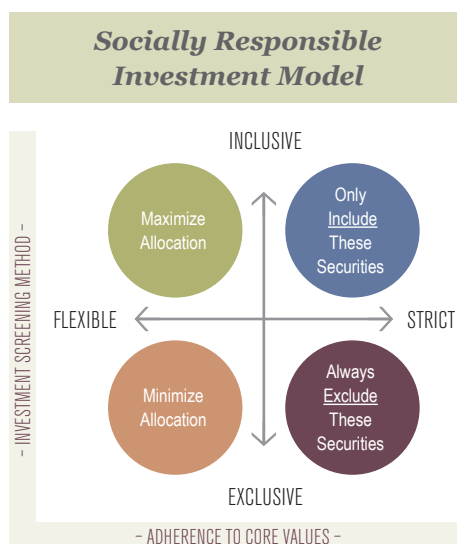
- **Maximize Allocation** – This is a more personalized approach that allows the investor to specifically choose which core values to target in their portfolio strategy and allocate investments accordingly.
- **Minimize Allocation** – Investors who have a very long list of disqualifying criteria may perhaps seek to minimize the allocation to these undesirable investments so as not to drastically restrict their choices of solidly performing investments.

The main pros and cons that accompany any SRI strategy tend to originate along the spectrum of how strongly an investor adheres to their core values, from flexible to strict. Investors who maximize or minimize their allocations tend to have greater personalization without unnecessarily restricting diversification benefits. The downside however is that this strategy is relatively difficult to implement as it requires additional analyses, as well as more frequent monitoring. The downside of this strategy mirrors the benefit of following a strict adherence, which is ease of implementation due to the availability of 'ready-to-order' SRI-based funds.

Key Takeaways

By discussing the different options available to socially responsible investors along with their advantages and disadvantages, we have merely scratched the surface of the issues involved with this type of investing. Socially

Responsible Investing does not have to be an "all or nothing" strategy. Investors can choose both the core values on which their portfolio is based as well as the degree to which these core values are utilized. As this niche of investment strategy evolves, it is important to us at Fragasso Financial Advisors to continuously educate ourselves on how we construct personalized portfolios with solid performance for all investors. We recognize a growing need to proactively address the concerns of the socially responsible investor as this niche of investment strategy evolves.



If you want to learn more about socially responsible investing, give us a call. ■

[Welcome - continued from cover]

him an appreciation for the joys and challenges that organizations face, and a sense of purpose in helping our partners fulfill their fiduciary responsibilities.

I have been deeply involved in the nonprofit community for most of my life. I have been a volunteer, board member, and was proud to serve as the CEO of Visiting Nurse Foundation (aka Health Hope Network). Prior to my career in the nonprofit sector, I was an executive leader in the steel industry, learning a broad range of skills that our clients have found valuable, particularly dealing with business and mission-related challenges. I have found that successful organizations are unique in their talents and missions, but also share many similar qualities. With our Nonprofit Advisory Services team, I use my leadership and executive experience with our partners to be their nonprofit liaison, giving our clients an added level of support, advice and service.

Because we understand the importance of the work of our nonprofit clients, we are happy to provide support for their fundraising efforts. We enjoy forming informal partnerships, providing guidance where possible. Gregg and I thank you for taking the time to read this letter. We are interested in hearing your opinion of our first issue. Please feel free to email us at dbechtol@fragassoadvisors.com or gdaily@fragassoadvisors.com and let us know what you think. And feel free to suggest subjects you would like to see addressed. ■



THE FIVE INVESTMENT MISTAKES NONPROFITS MAKE

Daniel Dingus, AIF®
President and Chief Operating Officer

Many of the nonprofit organizations with whom we work are focused on mission delivery to their communities every single day. It is easy to understand how investment management strategy can get a little lost behind all of the stresses, successes and great things nonprofit officers are doing to realize the organization's vision. Though certainly not fatal to the grander mission of the organization, these five critical mistakes can often be avoided by putting an appropriate investment management plan in place and by partnering with an advisor who understands their unique needs. Taking the time to understand and avoid these investment mistakes can help a nonprofit have a stronger and longer-term economic impact on the communities they serve.

1

Poor or No Investment Policy Statement

Too often we work with nonprofits that either do not have an investment policy statement (IPS) or have an IPS that is grossly outdated. The IPS, as illustrated further in the article, "The Importance of an Investment Policy Statement and Guidelines" on page 7 by my colleague Gregg Daily, forms the foundation for all investment decisions. As such, many other mistakes can be avoided with a proper IPS that is reviewed and updated regularly.

2

Poor Asset Allocation

Many nonprofits are not fully allocating their investments across all appropriate asset sectors. This is often an extension of issues with the IPS. If the IPS does detail the basic tenet of asset allocation for the organization's funds, then you must determine if that guideline is being followed.

Years ago, I was reviewing a long-established endowment that did not include international stocks as part of its asset allocation. There were a few larger issues at play, but to my dismay it became evident that the board was unsure as to why they did not have international stocks. As the world evolves, it is necessary to ask which asset classes are not included and analyze why and whether they should be. For example, as emerging markets and other economies grow, many nonprofits have added guidelines for that asset class inclusion.

3

Not Having an Outside Party Act as a Fiduciary

What is the difference between a broker or retirement provider and a Registered Investment Advisor (RIA)? Most people do not know the answer to that question even though the distinction is a crucial one.

4

Absent Review of Performance to Indices and Goals

An investment committee should regularly review investments and the overall portfolio to track against standard benchmarks and organizational goals. It's too simple to assume that your portfolio did or did not perform well or not based on absolutes. In addition, risk must be considered and reviewed to

RIAs are required to act in the client's best interest and will partner with the organization in their fiduciary responsibility. Many investment advisors, brokers and insurance professionals are limited in their role and are not held to the higher standard expected of a RIA. It is important to ask your investment professional if they are able to act as a fiduciary and then obtain that commitment in writing.

As Dan Halle, vice president and manager of Fragasso Retirement Plan Advisors, illustrates in his article, "Navigating the 403(b) World" on page 6, many organizations with retirement plans do not have a fiduciary partnering with them. The advisor may focus on the endowment investment management but fail to connect the fiduciary responsibility needed in the employee retirement plan as well.



PARTNER PROFILE: THE EARLY LEARNING INSTITUTE

Dotti Bechtol

Fiduciary Asset Business Development Officer

The Early Learning Institute was founded in 1958 as St. Peter's Child Development Centers at St. Peter's Episcopal Church in Brentwood, PA. This pilot program was designed to provide parents of children with special needs an alternative to institutionalization. In 1994, St. Peter's Child Development Centers changed its name to The Early Learning Institute (teli) to reflect the expansion of services to include early intervention and supportive services.

teli currently provides the following programs to over 1,100 children each year:

- Early Intervention (EI) services and evaluations provided in the home for infants and toddlers ages birth to three across Allegheny and Washington Counties;
- Trainings to community-based providers;
- Early learning programs for children ages two to five; and
- Outpatient rehabilitation services for children aged three to young school age.

teli has 56 years of experience in providing therapeutic early intervention and inclusive early education programming and supports to children with special needs. In a field that is often characterized by high staff turnover, teli's strong focus on mission helps the agency to retain highly professional, dedicated staff. The average tenure of teli's staff is 13 years!

The highest praise for teli's work comes from the parents of the children they serve, as nearly 25 percent of teli's referrals are from other parents of teli alumni, friends or family members.

Nobel Prize winner James Heckman's work in economics, which has since been replicated by the RAND

Corporation, provided strong evidence for the long-term financial and social benefits of early childhood programs that serve at-risk children. In one example, research found that when \$12,356 was spent on a child to attend and receive high-quality early childhood learning experiences, that investment resulted in a \$70,786 savings through reduced K-12 expenditures, higher adult earnings and reduced crime. Economists estimate a return on investment for high-quality, targeted early childhood education between \$4 and \$16 for every dollar invested (Knudsen, E., Heckman, J., Cameron, J & Shonkoff, J., 2006).

The average repeat rate for kindergarten is 5 percent. Assuming a 5 percent repeat rate on a district class of 300 children and an average expenditure per student of \$10,000, this would cost the district \$150,000 annually in kindergarten tuition costs. Without investments in early education and early intervention, taxpayers will bear the burden of additional expenditures later through higher special education costs, higher costs of grade repetition and lost aid as unprepared students become unsuccessful students and eventually some become dropouts.

Funding for early intervention continually faces reductions, and eligibility for the services has been modified, dramatically impacting the number of children who are able to access services. Despite these challenges, teli has continued to stand firmly behind its mission of providing support to children with developmental delays, believing in the possibility of every child. teli brings this mission to life through its work every day, and last year provided over \$300,000 in charitable and unfunded care to children with developmental delays.

We at Fragasso are proud to have been selected by teli to help them fulfill their mission and help children with developmental delays to reach their full potential. Like teli, we believe in the possibility of every child!

For additional information about teli, including resources for parents and caregivers, how to access services, or to make a donation, visit their website at: www.telipa.org

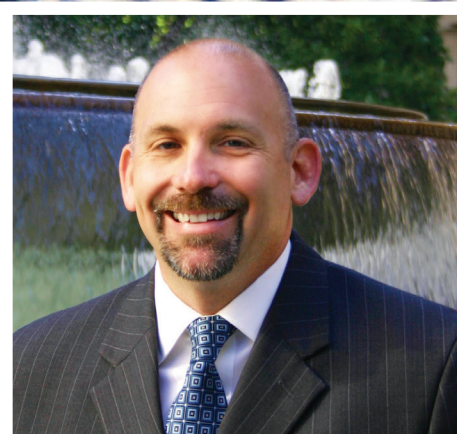
understand where your portfolio ranks against similarly allocated portfolios. Retirement plan investments should be regularly monitored and reviewed for performance and proper asset allocation. Too often it is assumed these are being reviewed by the financial professional. Both you and the financial professional have a duty to review the investments regularly. If something is failing your IPS criteria, changes may be necessary.

5

Unintended Illiquidity

Liquidity or lack thereof is often misunderstood. When reviewing nontraditional assets such as real estate, private equity, timber and gold, understand what implication this type of illiquid investment may have when funds are needed. Frequently these esoteric asset classes are used as diversifiers and as alternatives to your core holdings. But once purchased and implemented, to the dismay of the board or investment committee, the asset may be illiquid for an extended period with sub-par or poor returns in the end.

This basic list is a good way to get officers talking about where their organization may be exposed. Institutionalizing these lessons into processes and procedures may prevent other mistakes not listed here. Always bear in mind that maintaining a high fiduciary standard is critical to any nonprofit's mission and financial health. ■



NAVIGATING THE 403(B) WORLD

Daniel Halle, AIF®, RPA®

Vice President and Manager, Retirement Plan Advisors

In January of 2009, new IRS regulations governing 403(b) plans, which cover plans sponsored by public sector educational institutions, churches, and government and nonprofit organizations, took effect. This was significant as this was the first comprehensive guidance from the IRS pertaining to 403(b) plans in 43 years. The new regulations are written to cover both ERISA and non-ERISA 403(b) plans. Their intent is to reign in the insurance company dominated marketplace and begin the process of making 403(b) plans operate more like their more efficient 401(k) counterpart by bringing increased scrutiny to the operation, fee structure and practices prevalent in the 403(b) retirement plans.

There are some distinct differences between 401(k) and 403(b) plans that have allowed the large insurance companies that dominate the 403(b) market place to react slowly to these changes and continue operating with a “divide and conquer” approach. The 403(b) market has long been highly individualized and focused on retail pricing while the for-profit based 401(k) market has been more focused on pooling individuals into group plans and institutional pricing. Additionally, each plan has its own provider model. Most 403(b) plans offer a multiple-provider model where their employees are able to select annuity products from several different insurance companies. This might sound like a benefit. However, these products often have the same investments within them creating confusion, fund overlap

and higher pricing due to multiple products with differing fee schedules. Most 401(k) plans use the single-provider model that offers a multi-fund family platform, which lets the participant select investments from several different fund companies housed on a single platform, allowing for asset pooling and lower pricing.

In the multiple provider model offered for most 403(b) plans, fixed and variable annuities known as Tax-Sheltered Annuities (TSAs) have long been the product of choice by some of the largest insurance companies. Nearly 80 percent of participants’ 403(b) retirement money resides in individually-priced fixed or variable annuities. These individually-priced annuities typically have high investment, mortality and risk expenses that drastically reduce the investment performance. They normally have long and costly surrender penalties if money is withdrawn. By using these products that do not recognize group pricing and pooling of assets, the insurers offering these products have been able to effectively “divide and conquer” the retirement plan, allowing them to keep their expenses and margins higher than those offered in the corporate 401(k) plan. This eliminates the plan sponsor’s ability to effectively negotiate lower fees for their plan and participants. What’s more, many well-intended employers trying to offer more choices to their employees have allowed several annuity products from differing companies in their plan, which further hinders

employer’s control. Fiduciary liability is another big issue affecting 403(b) plan sponsors and in some cases their board of directors. As a fiduciary, the employer representative or trustee is tasked with ensuring that the plan is run in the best interest of the employee. Plan trustees and board members can be held personally liable if there is a breach of this fiduciary responsibility. This means that the trustee needs to understand the pricing structure, fund offering and operation of the plan and feel comfortable it is being run in the best interest of the employee. If there is a multiple-provider structure to the TSA and if there is a long list of annuities being sold, it can be difficult for the trustee to fully understand what is being offered to the employee. This can present fiduciary and legal issues in the future.

As an employer sponsoring a 403(b) plan, what can you do to take more control and begin to move toward a single-provider platform that helps reduce employee confusion and investment costs? Here are some things to consider:

1

Hire a consultant or advisor that understands both ERISA laws and the pricing and fee structures associated with TSA accounts. You may want to work with an advisor who will partner with you as a fiduciary.

2

Move away from more costly, individual TSA products. Use a single-provider option that is priced on a group basis. These platforms mirror the products available to group 401(k) plans. Moving to a single provider gives the employees the ability to select mutual funds from some of the best known mutual fund providers and pools the participants' assets for pricing purposes. The single-provider structure also allows plan trustees to better manage what is being offered to the participants, providing more negotiating power when working with the various product platforms available.

3

Create a plan to stop new contributions into these higher-cost products. In some contracts, each new contribution activates a new deferred sales charge. This can further extend the time it takes to move from these TSA contracts. Some 403(b) providers can provide a buyout to help absorb these deferred sales charges. The key to remember is that the process will take some time. Put together a multi-year strategy that moves the plan assets to a new provider and stick to it.

4

Avoid products with long, back-end deferred sales charges. Today's retirement products typically do not have any back-end deferred sales charges. It is rarely advisable to enter into these contracts.

The regulatory updates were intended to help plan sponsors and trustees of 403(b) plans better manage their retirement plans and fiduciary obligations. Unfortunately the industry supplying products for these plans has been slow to embrace the transition. However, the advent of many new 403(b) products is allowing employers to better control costs while increasing fund choices. As a trustee, fiduciary or board member for a 403(b) plan, you should consider working with an independent advisor who is willing to share fiduciary liability and who can provide you with the advice and planning needed to move your organization away from these standard TSA products. ■



THE IMPORTANCE OF AN INVESTMENT POLICY STATEMENT AND GUIDELINES

*Gregg Daily, AIF®
Manager, Institutional Investment Accounts*

Nonprofit trustees have many responsibilities when it comes to managing investment assets. One of the most important elements of any investment plan is the Investment Policy Statement & Guidelines (IPS). Those who work with foundations and endowments – or any organization that has a pool of resources invested to meet a specific purpose – must familiarize themselves with the concepts that go into the creation of an IPS.

What is an IPS?

An IPS outlines the process for properly determining roles and responsibilities, reporting, measurement of outcomes, and how and why to select certain types of investments and investment managers, all of which is designed to help meet certain goals for the funds. The success or failure of accomplishing these goals has an impact on other areas of an organization as well. If the investments are not selected based on criteria appropriate for the organization and therefore do not perform as expected, then an organization may either fall short of fully funding the intended goals, or must find other ways of doing so.

What should an IPS do?

When its function, design and impact on outcomes is thought out and understood, an IPS puts the organization and the advisor on the same page so that investment fund decisions can be made with clarity and long-term goals in mind. While the IPS itself is not a magic formula for success, you have a much better chance of meeting your investment goals if:

1. You properly research how an IPS should be structured; and
2. You understand the dynamics of how costs, asset allocation, risk, risk measurement and investment selection are all tied together in the pursuit of meeting your objectives.

Moreover, an IPS must create a system of monitoring and accountability that determines what data to collect, how it will be collected, who will be responsible for monitoring it and how to compare information on expenses, performance and outcomes.

Investment policy is a process, not a “set it and forget it” plan. Like any process, your investment policy must be reviewed often enough to help ensure continued understanding of its ability to drive outcomes, and adaptable enough to change if those outcomes are not being met.

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INVESTMENT POLICY STATEMENT AND GUIDELINES

Within an organization, these guidelines must be seen not only for what they will help accomplish now, but for how they will guide future boards, trustees and fiduciaries in accomplishing your organization's goals and fulfilling your responsibilities.

At Fragasso, we know the importance of proper design, implementation and maintenance of an IPS and we have experienced the benefit of an IPS in our work with organizations of all types. We have made it a point to help guide our clients in creating a strategy that serves their needs, using our experience and understanding of process design and goal-driven investment management.

What can Fragasso do to help?

- We partner with the organization to manage and monitor their investment portfolio.
- You can be more confident that your portfolio allocation and investments are chosen based on thorough analysis of the funds and your needs and objectives.
- We will keep you informed of the fund's progress via monthly, quarterly and annual reports and fund performance analysis.
- We work with your organization to establish best practices that help to inspire confidence in potential donors.

How do we make it happen?

- Establishment of an investment policy statement and guidelines.
- Identification of appropriate investment portfolio asset allocation.
- Ongoing comprehensive management of fund investment assets.
- Creation and maintenance of a reporting system to keep trustees apprised of the plan's progress.
- Assist with donor and employee financial education.

Your organization's work is important to the people you serve and to the surrounding community. Our role at Fragasso Financial Advisors is to help make your investment plan more effective so that your organization is better positioned to realize your mission for years to come.



Investing in You

Investment advice offered through Fragasso Financial Advisors, a registered investment advisor.