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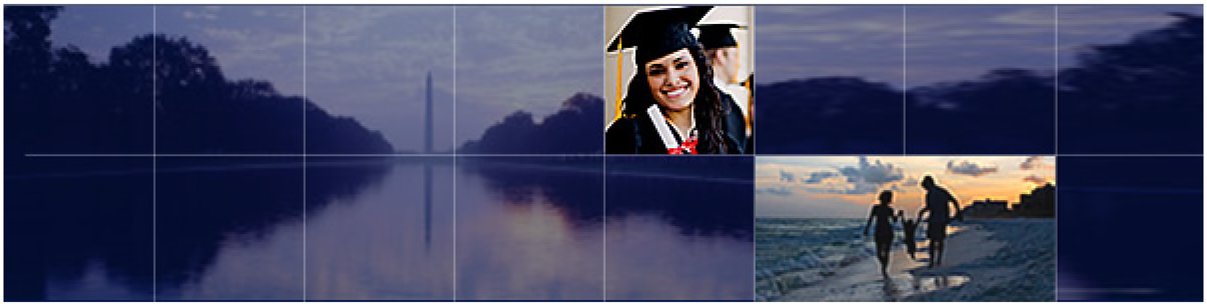


Quarterly Newsletter October 2017 Volume 10 Number 3

NON-PROFIT INVESTMENT REPORT

THIRD QUARTER 2017

In This Issue:

Attention Non-Profit CEOs and CFOs!

This newsletter contains timely information for your non-profit organization. The table of investment asset class returns may help you assess the performance of your investment program and portfolio.

Market Commentary

Portfolio performance for the third quarter of 2017 was led by US large cap, US small cap, and international equity asset classes. Many other asset classes had positive performance as well. The markets continued to reach new highs during the quarter.

Many portfolios are benefitting from these positive results, yet clients are asking "when will the market go down?" We will try to provide our perspective in this seemingly "illogical" and "long-lived" rise in the markets. Read on!

First of all, we think the question may be too simple. We think a better way to ask the question is to pose a group of questions.

- When is the next market downturn?
- How far will the market fall?
- How long will it take the market to recover from the fall?
- Based upon the above answers, what should I do with my portfolio?

There are two ways (at least!) to view the current bull market and form a response to these questions.

The first is to rely upon all of the "soft" information available. That is to say, we all have access to information about the market from the internet, friends, neighbors, newspapers, television, magazines, email, social media, etc. We impose our own personal experience and investment attitudes when absorbing and assessing these data points to reach conclusions. Many of our conclusions are our gut telling us to do something.

Here is an interesting side note before continuing our thoughts. The 2017 Nobel Prize for Economics was just awarded to Richard Thaler of the University of Chicago. He has been one of the pioneers in the field of behavioral economics. His work and conclusions are still being debated by the economics world, but he seems to have captured his peers' attention. He basically concludes that most investors act irrationally.

Many people seem to be having their gut tell them that the current bull market cannot last and now is the time to get out! Unfortunately, using only soft data and asking only one question, the other three questions go unanswered!

The second view is to look at "hard" information available. That is to say, we have access to historical information about the markets from economists, mutual fund companies, portfolio managers, professional investors (i.e., Warren Buffett), and independent third party market data analytics firms (i.e., Morningstar).

As we stated in our last quarterly letter, predicting when a correction will happen in any world market or any specific asset class is not possible. One indicator that is watched for US stocks is the average Forward Price to Earnings ratio (PE). The Forward PE is one measure used by market analysts and investors to assess how much they are willing to pay for a stock right now (price), based upon how much profit (earnings) they expect the company to produce in the next 12 months.

As of the end of the third quarter, the Forward PE ratio for the S&P 500 was 17.7. This is slightly higher than the 25-year average of 16 (highest was 27.2 and lowest was 10.3). A Forward PE ratio higher than long-term averages may signal that this class of investments is becoming overvalued.

Source: JP Morgan Guide to the Markets, Sept 30, 2017, Pages 4 & 5

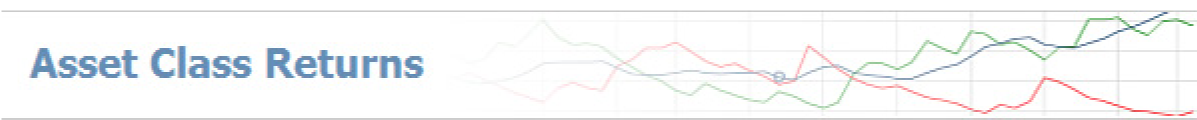
Although this is one of many interesting statistics, it is not necessarily predictive of what will happen in the future. Sometimes overvaluation can lead to a correction. However, there are also many other factors that contribute to market behavior. Another market correction could occur at any time.

Financial "experts" try to use the "hard facts" to reach a conclusion about the future and what do to about it. Unfortunately, using hard data and asking only one question, the other three questions go unanswered.

We believe long-term investors are reaping the benefits of asset classes like the Dow and the S&P 500 reaching new record highs. We also believe that adjustments will inevitably occur. History has shown that when you average positive returns with negative returns over long periods of time, the positive is quite often the winner!

Therefore, here are our answers to the four questions:

- When is the next market downturn?
    - We don't know. It is unpredictable.
- How far will the market fall?
    - We don't know. It is unpredictable.
- How long will it take the market to recover from the fall?
    - We don't know. It is unpredictable.
- Based upon the above answers, what should I do with my portfolio?
    - We believe your individual circumstances are the best gauge of what actions may be appropriate. For long-term investors, little or no action has proven to be the best decision in similar circumstances in the past.



Here are the third quarter 2017 returns and YTD 2017 returns of typical benchmarks for selected asset classes. A diversified portfolio may include some investments in many (or all) of these asset classes. This table is sorted by (3rd quarter 2017) percentage return.

Asset Class	Q3 2017	YTD 2017	Benchmark Index
International Stock Small Cap Blend	7.46%	25.42%	MSCI EAFE Small Cap Net Total Return
Real Estate International	5.85%	19.62%	FTSE EPRA/NAREIT Global Real Estate excl. US
Domestic Stock Small Cap Blend	5.67%	10.94%	Russell 2000 Index
International Stock Large Cap Blend	5.40%	19.96%	MSCI EAFE Net Total Return
Commodities Natural Resources	4.90%	-0.77%	Dow Jones UBS Commodity Total Return
Domestic Stock Large Cap Blend	4.48%	14.24%	S&P 500 Composite Total Return
Domestic Stock Large Cap Value	3.11%	7.92%	Russell 1000 Value
International Fixed Income Un-Hedged	2.52%	8.22%	J.P. Morgan Global Non-US Un-Hedged
Annual Inflation Rate	2.23%	2.23%	Consumer Price Index (1 Yr)
Real Estate United States	1.11%	6.04%	FTSE EPRA/NAREIT Equity
Domestic Fixed Income Treasury Inflation Protected (TIPS)	0.86%	1.72%	Barclays TIPS Index
International Fixed Income Hedged	0.64%	0.82%	J.P. Morgan Global Non-US Hedged
Domestic Fixed Income Intermediate Term Bond	0.60%	2.34%	Barclays Intermediate US Government/Credit Bond
Domestic Fixed Income Short Term Bond	0.43%	1.58%	Barclays 1-5 Year Government/Credit Bond

• Asset Class Returns in this table are represented by Benchmark Index performance numbers derived from Morningstar. Organizations cannot invest directly in an index. Index returns do not include investment advisory fees or trading expenses. An investment benchmark is a standard against which the performance of an individual security or group of securities is measured. For example, the average annual performance of a class of securities over time is a benchmark against which the current performance of members of that class and the class itself can be measured.

• Actual portfolios should be constructed based upon an individual or entity's specific financial resources, investment goals, risk tolerances, investing time horizons, tax situation, and other relevant factors. Not all recommendations will be suitable for all investors. Individual allocations and performance will vary.

• Performance results shown do not include a deduction for investment management fees or expenses. If management fees and expenses were included, the returns would likely be reduced by one percentage point or more for the annualized management fee, and there would also be additional trading commissions and expenses.

• Past performance is not a guarantee of future results. There is no guarantee that historical returns will be repeated, achieved, or met in the future. There is no guarantee that annual returns will be achieved or met in any year, especially during times of high market volatility.

Additional Market Indicators

Interest rates, energy prices, unemployment rates, and major market benchmarks are some of the fundamental macro indicators about the health of the U.S. economy.

2017 Market Indicators	Q2 2017	Q3 2017	Q3 2017 Change
Federal Funds Rate	1.25%	1.25%	0.00%
Prime Rate	4.25%	4.25%	0.00%
Oil (Barrel)	$46.04	$51.67	12.23%
Gasoline (Gallon)	$2.37	$2.68	13.08%
Unemployment Rate	4.40%	4.40%	0.00%
Dow Jones Industrial Average	21349.63	22405.09	4.94%
S&P 500 (Price)	2423.41	2519.36	3.96%
NASDAQ Composite	6140.42	6485.96	5.63%

What to do with extra cash?

When your non-profit is fortunate enough to have "extra" cash, there is often a question about the most prudent way to handle this surplus to try to realize some modest rate of return and still ensure your actions are in the best interests of the organization.

One of the most conservative and simple approaches is to move surplus cash to a money market deposit account at a bank. This simple action still leaves you with choices. Your current banking relationship for the general operating account may offer a competitive rate. You may also want to consider other banks, even "on-line" banks, that may offer a higher rate of return.

If the extra cash is not needed to support the organization's expenses for the current budget year, then it may be appropriate to consider a "reserve" fund. A reserve fund is a common financial governance practice that enables a non-profit to set aside funds as a resource when they have an unexpected increase in expenses or an unexpected drop in revenue.

The size of the reserve fund is not the same for all organizations. It depends on stability of revenue, amount of fixed expenses, amount of variable expenses, and many other factors unique to an organization.

Having between three months and six months of a normal annual operating budget in a reserve fund can provide a welcome resource that enables the board and leadership to have some time to address the unexpected expense/revenue issues. Even if the extra cash you have on hand now is not sufficient to fully fund your targeted reserve amount, starting with current extra and adding to it over time can be a good strategy.

Any formal reserve fund should have an investment approach documented by a written Investment Policy Statement that accurately and consistently states the investment goals, objectives, and guidelines in sufficient detail to guide the actions of the organization and any potential investment advisor.

Fiduciary Duty

The board of directors of a non-profit has a fiduciary duty to manage and protect the assets of the organization and ensure the non-profit's operations and activities use the assets to further their unique mission.

Duty of Care - The duty of care describes the level of competence that is expected. It requires the individual to fulfill their duties in good faith, with the care that a reasonably prudent person in a similar position would exercise under similar circumstances. It further requires one to discharge duties in a manner one reasonably believes to be in the best interest of the organization. The individual must devote the time, attention, and resources necessary to understand and prudently oversee the affairs of the organization.

Duty of Loyalty - The duty of loyalty is a standard of faithfulness. It requires the individual to place the interests of the organization over their own personal interests and to refrain from using their position of trust to further their own personal gain.

Duty of Obedience - The duty of obedience requires individuals to act in accordance with the organization's mission, bylaws, and articles of incorporation, as well as applicable state and federal laws.

The board, when appropriate, may seek assistance and counsel from other professionals to support the organization, but in so doing, they are never relieved of their fiduciary duty.

Disclosures

The discussion of investment strategy and philosophy found in this newsletter is not intended as any form of substitute for individualized investment advice. The discussion is general in nature, and therefore not intended to recommend or endorse any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with their own professional advisers, including investment advisers and tax advisors. Rembert Pendleton Jackson can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.

The S&P 500 index is presented as a general representation of the behavior of the domestic equity markets. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices. An investor may not directly invest in an index.

Information presented herein is based upon facts derived from publicly available information, and is also based on certain assumptions, including that there are no additional changes to current law, and that demographic information regarding retirement plan contributions also remains unchanged.

Some information in this presentation is gleaned from third party sources, and while believed to be reliable, is not independently verified.

RPJ Investment Advisory Services

If you are considering using the services of an investment advisor to assist with the prudent management of your funds, we would consider it a privilege to have the opportunity to serve you.

For more information about our firm and our services please visit our website or give us a call at 703-821-6655.

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