

MEMORANDUM

TO: SSSP Board of Directors
FROM: Susan M. Carlson, Treasurer and Investment Advisor
DATE: July 2, 2021
RE: Financial Condition of the Society for the Study of Social Problems

Article IV, Section 8 of the SSSP By-laws states that, “The Treasurer shall oversee the funds of the Society, subject to expenditures, at the instruction of the Board of Directors.” As part of this oversight responsibility, the Treasurer provides an annual report to the Board of Directors that gives an overview of the financial condition of the Society and its investments, reviews the results of the annual audit, and offers comments concerning any issues that affect the future financial wellbeing of the Society.

Financial Condition of the Society

Last August, the Budget, Finance, and Audit Committee (BFA committee) projected a deficit of \$90,272 for 2020. However, the Society finished the year with an increase in net assets of \$64,995, up from \$1,065,835 at the end of 2019 to \$1,130,830 at the end of 2020. This increase was due to unrealized (paper) gains on investments of \$114,455. However, holding aside the paper gains on investments, expenses exceeded revenue by \$53,386 in 2020. Expenses also exceeded revenue by \$59,583 in 2019. To pay for these excess expenses, reserve funds that had been invested in two \$50,000 CDs with community development financial institutions were used, as well as reserve funds held in money market accounts. Should expenses continue to exceed revenues in ensuing years, reserve funds invested with SR/SI/ESG mutual funds will need to be used. The BFA committee is looking at strategies to enhance revenues to stave off further reductions in the Society’s reserve funds.

The audited figures for 2020 show a total drop in revenue of 27.8% (\$573,160 in 2020 compared with \$793,955 in 2019), primarily due to canceling the 2020 in-person annual meeting (drop in annual meeting revenue of 97.8%) and a 28.3% drop in membership dues revenue (\$114,932 in 2020 compared with \$160,400 in 2019). Total expenses also dropped by 26.8% (\$512,091 in 2020 compared with \$699,254 in 2019) due almost entirely to cancellation of the in-person meeting. All expense categories came in at, close to, or below budget in 2020.

Overall, 2020 was an unexpectedly good year for the Society’s finances as net assets experienced an overall increase. However, the budget surplus was due to the unrealized/paper gains in investments. Revenue increased but did not keep pace with increases in expenses, which is a two-year trend that the BFA committee sees as a concern.

The 2021 budget approved by the board in August 2020 projected a budget deficit of \$231,984. The BFA committee now projects a budget deficit of \$77,732. There has been good news concerning a potential for journal revenue to come in over budget and less of a deficit for the

virtual annual meeting than initially anticipated for a hybrid meeting. However, expenses are expected to exceed revenues for the third straight year.

Investment Portfolio and Performance

The SSSP board-approved investment policy and guidelines for investing in community development financial institutions require that the Society's reserve funds be invested in diversified socially responsible/sustainable investment/environmental, social, governance (SR/SI/ESG) mutual funds and community development financial institutions (CDFIs). The community development investments are rotated on a three-year basis to benefit low-wealth communities around the nation.

In accord with this policy and the guidelines for CDFI investments, the current investment portfolio consists of investments in three SR/SI/ESG mutual funds, one community development financial institution, and a money market account and miscellaneous savings accounts with a local community bank. Of the Society's \$1,403,437 reserve and restricted funds as of June 24, 2021, 76.8% is invested with three SI/SR/ESG funds—the Walden Balanced Fund (WSBFX, 17.9%), the Parnassus Endeavor Fund (PARWX, 20.5%), and the Parnassus Core Equity Fund (institutional shares, PRILX, 38.3%). Another 14.9% of the reserve and restricted funds is invested with one community development financial institution that provides banking and other services to low-wealth communities—the Self-Help Credit Union in North Carolina (a CD [Gittler bequest] and a money market account). The remaining reserves (8.4%) are deposited in a money market account and contributions savings accounts with Home Federal Bank in Knoxville.

Fund prospectuses that detail the investment objectives and strategies of the Parnassus Funds and Walden Asset Management Fund are available from their respective websites: <https://www.parnassus.com/> <https://waldenassetmgmt.com/> Differences in fund objectives and strategies provide some protection from market fluctuations, and are reflected in the graphs in the following section.

Investment Performance

In 2020, there was a net unrealized (paper) gain on the Society's SR/SI/ESG mutual fund investments of \$114,455.72. Total interest, dividends, and capital gains income on investments (mutual funds, money markets, and savings) was \$37,187.72. Total investment income was 5.98% less than in 2019.

Figures 1 through 4 compare the performance of the Walden Balanced Fund (blue lines), the Parnassus Core Equity Fund (red lines), Parnassus Endeavor Fund (green lines) and the Standard and Poor 500 Index (black lines) in 2020, and for one year, five years, and ten years in mid-May, respectively. Overall, these graphs show that the funds performed relatively well compared with the S&P 500 market standard in the short term, but less well over the longer term. Differences in the performance of the mutual funds are consistent with the investment objectives of the funds—long-term capital growth and income for the Walden Balanced Fund, capital

appreciation and current income for the Parnassus Core Equity Fund, and capital appreciation for the Parnassus Endeavor Fund. More specifically, Figure 1 shows the solid performance of all funds in 2020, with all funds doing very well relative to the market standard S&P 500. Figure 2 shows the exceptionally strong performance of the Parnassus Endeavor Fund, relative to the S&P 500 and to the performance of the more conservative funds from May 2020 to May 2021. Figure 3 also shows the stellar performance of the Parnassus Endeavor Fund over five years, and Figure 4 shows the strong performance of the funds over 10 years.

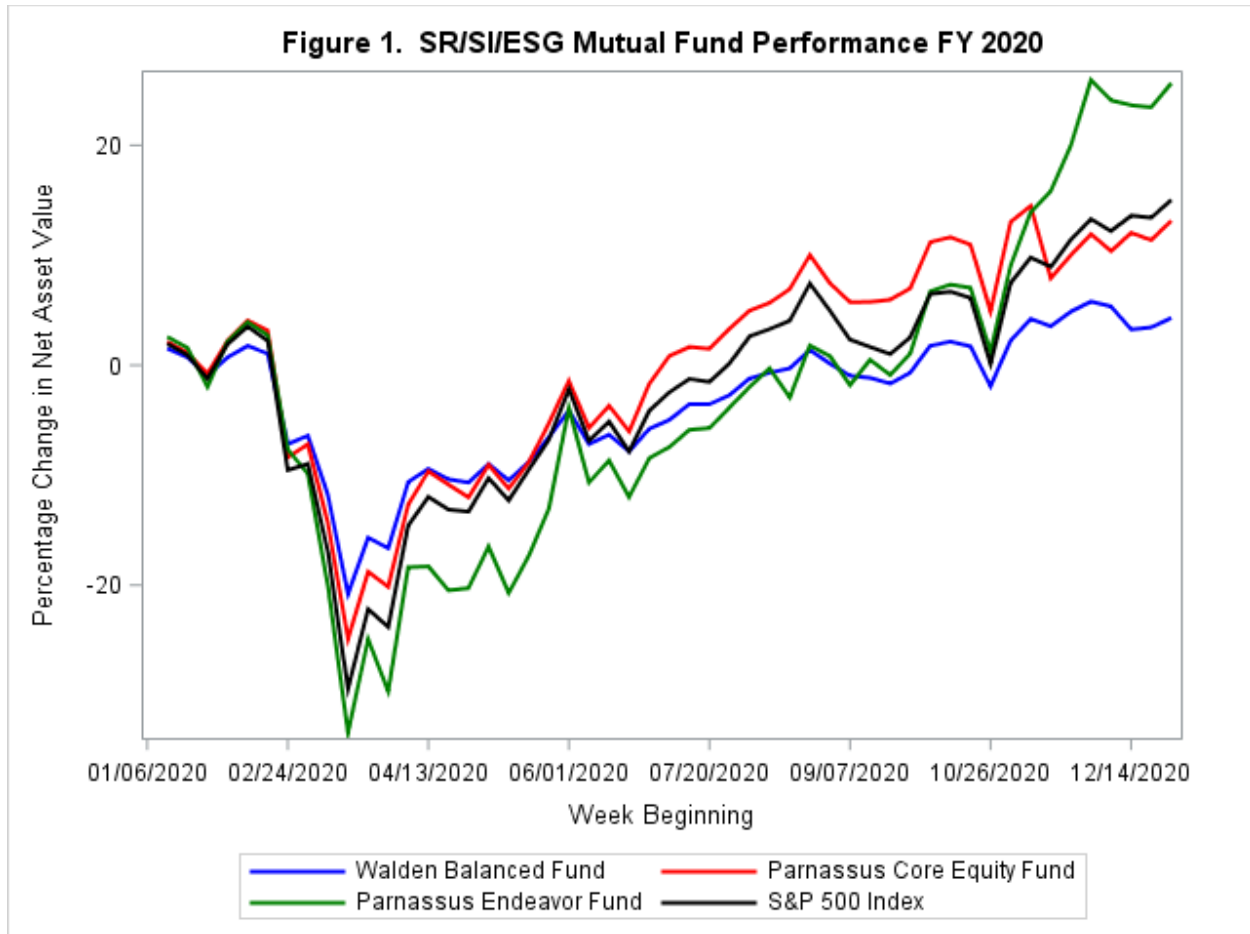


Figure 2. One-Year Comparison of SR/SI/ESG Mutual Fund Performance

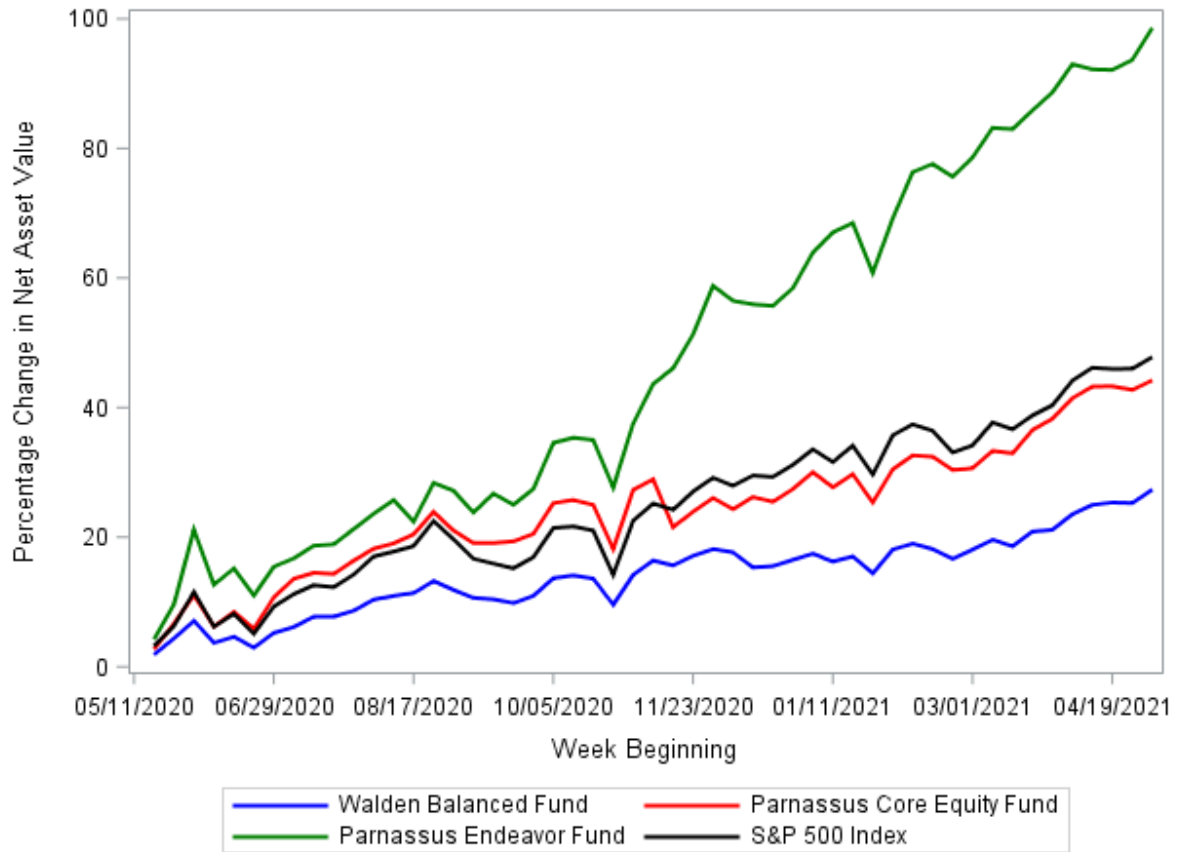
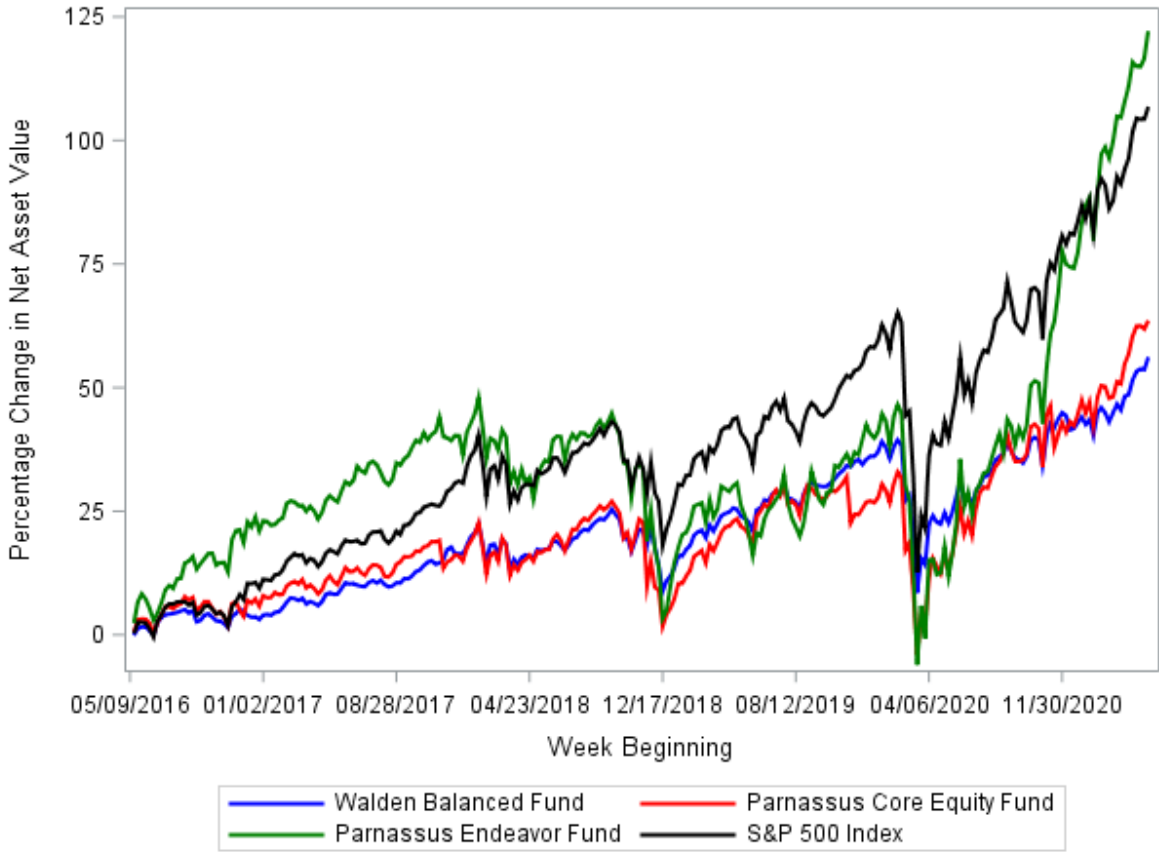
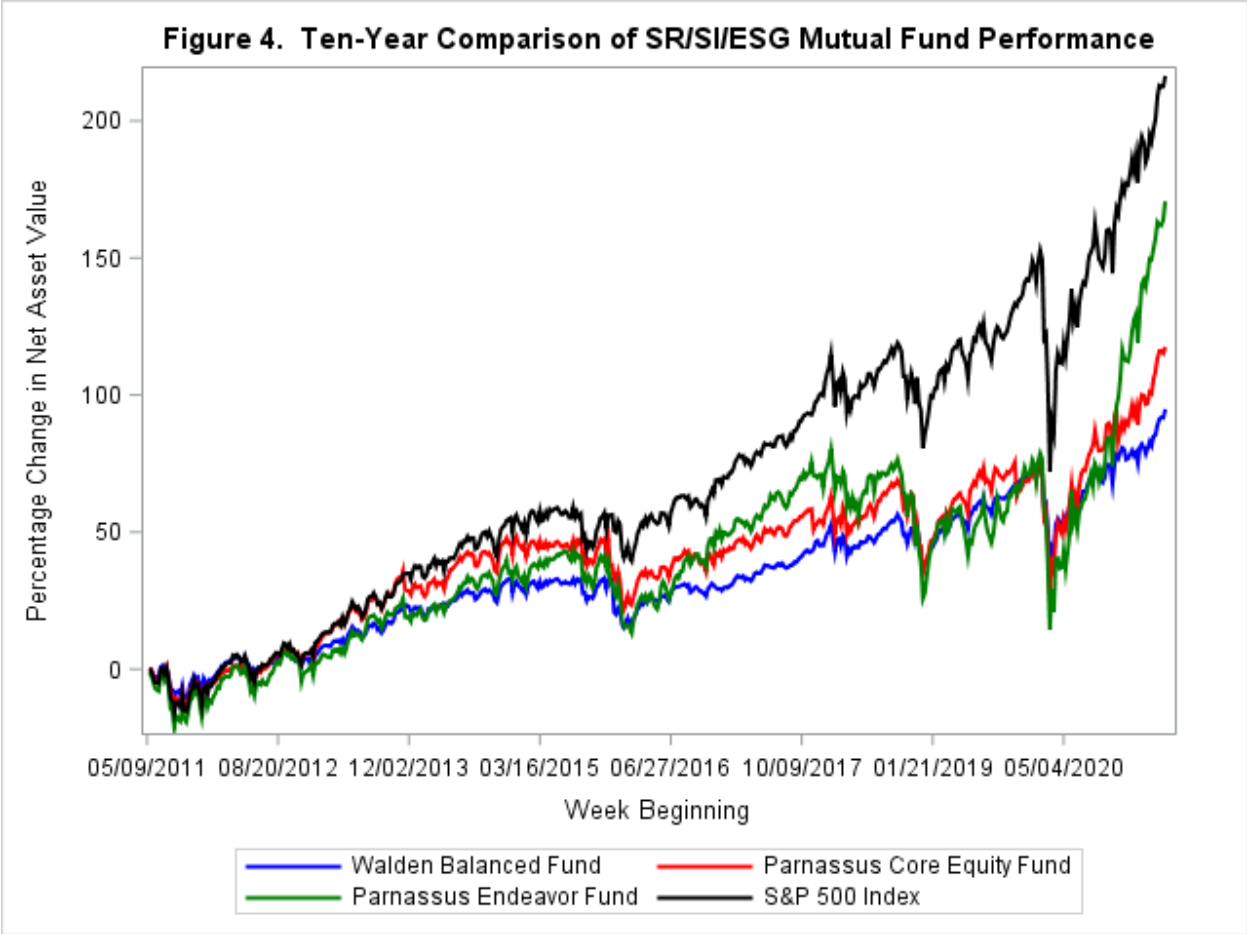


Figure 3. Five-Year Comparison of SR/SI/ESG Mutual Fund Performance





Review of the Annual Audit

Lattimore Black Morgan & Cain, PC in Knoxville Tennessee conducted the annual audit of the Society’s financial statements for the year ended December 31, 2020. Bill Kelso, Audit & Advisory Shareholder, LBMC, reviewed and discussed the findings of the audit with the members of the BFA Committee at its May 21st online meeting. The results of the audit were clean with no unusual findings. LBMC deems the financial statements to fairly represent the financial position of the Society for the Study of Social Problems, and the changes in net assets and cash flows.