

The Investment Policy Statement (IPS) is perhaps the most important document for any institutional investor. The IPS outlines the objectives, strategies, and guidelines for managing an investment portfolio. It serves as the north star for how an institution thinks about investing and its role in funding and amplifying mission.

What Should be Included in An Investment Policy Statement?

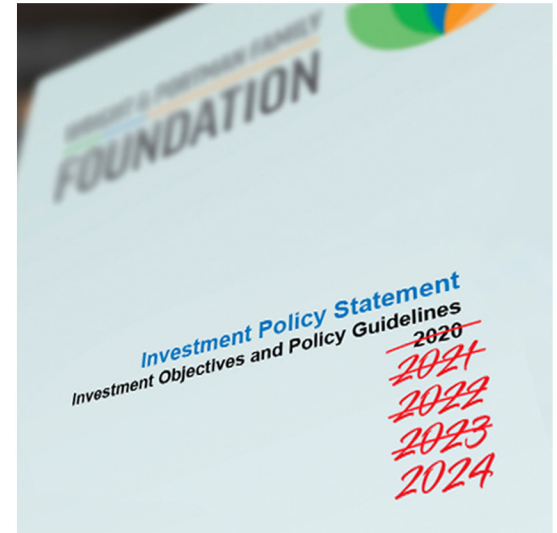
Depending on the size and scope of the institution, an Investment Policy Statement can vary in length but should provide information on mission and purpose, governance, investment objectives, performance measurement, and risk tolerance.

Here are some of the primary components of a well-constructed IPS:

- **Mission and Description** – Describes the overall organization, its mission, and its mandate, providing important and relevant context for the management of its assets.
- **Statement of Purpose** – Defines the role of the IPS and its commitment to legal fiduciary standards. Outlines what assets are covered by the IPS and what is excluded.
- **Governance Structure** – Outlines the roles and responsibilities of the Board, Investment Committee, Trustees, Investment Manager, and other stakeholders. Defines the decision-making process including frequency of meetings and review processes.
- **Investment Objectives** – Outlines desired returns and acceptable levels of risk over defined time horizons. This is also where benchmarks are identified, also known as the policy benchmark.
- **Asset Allocation** – Defines strategic and tactical asset allocation, including target allocation ranges. Outlines the process for changing asset allocation ranges.
- **Investment Guidelines** – Outlines how assets are invested. Identifies types of securities that are approved and prohibited by the board, diversification parameters, and customization guidelines.
- **Risk Tolerance** – Defines an acceptable level of variability of returns.
- **Performance Measurement and Monitoring** – Defines how performance is measured against a policy benchmark. Outlines the process for regular performance reviews.
- **Liquidity Requirements** – Details liquidity needs for operational expenses and required cash reserves.
- **Measuring Costs** – Outlines the process for measuring all costs associated with the management of the portfolio relative to comparable standards.

By incorporating these key characteristics, a thoughtfully crafted Investment Policy Statement provides a comprehensive framework for managing an institution's investment portfolio, aligning it with its mission, and ensuring prudent management of assets.

For more information on Investment Policy Statements, contact james.lumberg@southcoladvisors.com



Is Your Investment Policy Statement Outdated?

“Let’s wait until next year” is not an effective strategy – or a fiduciary best practice – when it comes to reviewing the Investment Policy Statement.

Fiduciary best practice is that the Investment Policy Statement should be reviewed every 12 months to ensure that it remains current with the institution’s mission and is reflective of changes in the market.

If your IPS has not been reviewed in the past 12 months, it may be time to contact your investment advisor for an IPS review.