



# Investment Policy Statement

FINANCIALEDGE<sup>7</sup>

## Investment Policy Statement (IPS)

### Investment Policy Statement

- Formal document
- Strategic guide to the planning and implementation of an investment program

#### Purpose

- Documentation and guidance for decision making
- Identifying responsibilities



Identifies the **goals and objectives** for a portfolio



Produced for both **individual and institutional investors**



**Systematic** but also **highly customized**



**Dynamic** document but **infrequent changes**

FINANCIALEDGE<sup>7</sup>

## IPS Components

FINANCIALEDGE<sup>7</sup>

## Investment Objectives

### RISK OBJECTIVES

Risk tolerance, the ability to bear risk and attitude towards it



### RETURN OBJECTIVES

Overall and typically specific investment performance objectives

Low probability losing more than 10% of capital in any 12-month period



INDIVIDUALS

Required real growth rate of 3.5% to fund retirement needs in 10 years

Portfolio volatility to be within plus or minus 3% percent of the benchmark



INSTITUTIONS

To fund the endowment's spending requirements and to preserve the real value of the portfolio, the portfolio should return at least 6% annually

FINANCIALEDGE<sup>7</sup>

## Investment Constraints

**LIQUIDITY**

Likely need to make withdrawals from portfolio

Need for liquid assets

**TIME HORIZON**

Length of time of the investment

Generally, more risk can be taken with a longer time horizon

**TAXES**

Most important for individual investors

Differing tax rates on differing sources of return

**LEGAL / REGULATORY**

Legal and regulatory restrictions on portfolio

Restriction on investment types or weights

**UNIQUE FACTORS**

Other issues that may impact on the composition of the portfolio

Examples: Ethical preferences, restricted holdings that can't be sold

FINANCIALEDGE<sup>7</sup>FINANCIALEDGE<sup>7</sup>[www.FE.training](http://www.FE.training)

Please do not redistribute these materials without the express permission of Financial Edge Training.

FINANCIALEDGE<sup>7</sup>