



Building a Mission-Aligned IPS

Working With Your OCIO To Integrate Purpose and Performance

What it is

We explore best practices to work with your OCIO to align your IPS with your organization's mission and goals.

Why it matters

The IPS is a critical tool that ensures investment objectives, performance targets, and mission are in sync.

Where it's going

A modern IPS is a fluid document, requiring on-going maintenance and revision to keep up with a quickly shifting investment and policy landscape.

As organizations aim to align financial goals closer with their mission, investment committees are increasingly looking to align portfolios with mission-related objectives while also meeting performance targets. Crafting an effective Investment Policy Statement (IPS), that includes language speaking to the intentions, purpose and principles surrounding an investment program's mission-related goals, is the foundation for clarifying fiduciary responsibility, outlining key investment objectives, and reflecting organizational values throughout the investment process. For example, commitments to environmental stewardship, social equity, or educational advancement can be reflected in manager selection, asset allocation, portfolio construction, and oversight.

This guide details how IPS language can communicate a high level philosophy, detailing priorities and goals required to aligning investments with core organizational values. It offers best practices for translating those core values into investment decisions, setting measurable objectives, and establishing governance and reporting structures that support your organization's long-term values and objectives.

No matter where an organization is in its evolution, your outsourced chief investment officer (OCIO) should serve as a dedicated partner to work alongside your organization's investment committee to align, build, support, and amend an IPS. Whether your organization recently switched OCIOs, began using an OCIO for the first time, or has clear and changing intentions that need to be documented, there is an opportunity to look at your IPS from a fresh perspective and ensure you are incorporating best practices into aligning mission related and investment philosophy objectives.

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How an OCIO Partnership Can Create Positive Impact

- An OCIO partner should become an extension of your investment committee and staff by fostering collaboration and knowledge sharing, including mission alignment.
- Your OCIO can assist in streamlining investment process, operations and governance, allowing your team to focus on advancing your mission through foundation and endowment activities.
- OCIOs can help increase mission alignment by collaborating with investment committees and staff to identify tailored solutions to align/achieve your mission-related objectives and enhance effectiveness over time.

1. Underscoring the IPS’ Purpose

Traditionally, an IPS is designed to outline investment objectives, risk tolerance, and governance processes. However, for clients interested in a sustainability focused mandate, an IPS can also communicate measurable mission- and values-based objectives with the goal of allowing an organization’s beliefs and mission to guide investment fulfillment.

To aid in execution, best practice for foundations, endowments, and universities utilizing an OCIO, is to establish IPS language regarding sustainable investing objectives that will guide the portfolio construction and decision making process. This guidance can be included in the full IPS, as an amendment/appendix item, or as a stand-alone guidance document.

Consistently applying organizational investment beliefs throughout an

investment practice can create value for the entity and its stakeholders. It’s critical to make the connection between investment beliefs and identify how those beliefs can translate into a material risk or opportunity for investors. Identifying key risks associated with core values and opportunities to “close gaps” is a great starting point to think about where values can or cannot be integrated into investment philosophy. For example, a foundation whose philanthropic efforts benefit environmental causes can identify specific sustainability criteria such as climate change, energy efficiency, and resource depletion and build metrics to measure how publicly traded companies are performing.

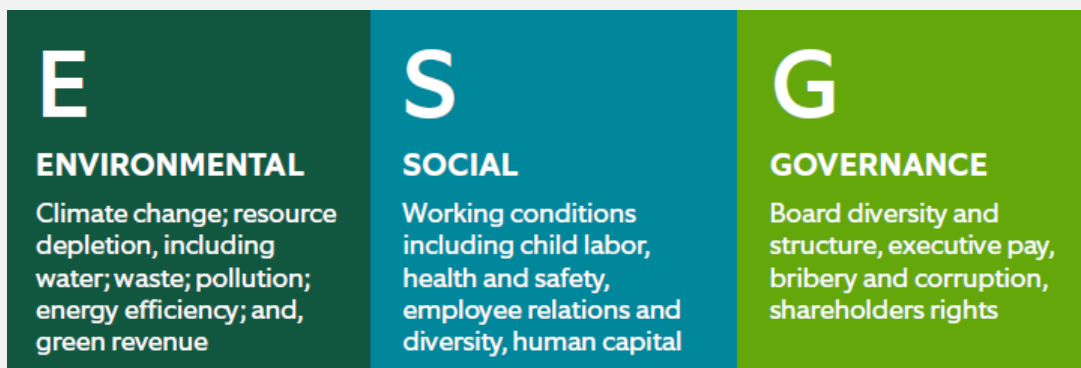
Investors should outline their sustainability approach identifying how screening and integration can be utilized in the investment process, which can include specific datasets

regarding controversial business involvement or widely used industry frameworks. International norms and standards, including the Organization for Economic Cooperation and Development (OECD) Guidelines, the United Nations Global Compact (UNGC) and the International Labor Organization (ILO) Core Conventions, can provide guidance on best practices on how to align standards with investment beliefs.

The approach and objective of a sustainable investing strategy can be multi-dimensional and may apply differently between asset classes and/or geographies. While sustainable investing characteristics may be broad in nature, our view focuses on certain key issues and specialized approaches. For example, the appropriate management of climate risk can distinguish industry leaders from industry laggards.

EXHIBIT 1:

Incorporating Organizational Values



Source: Northern Trust Asset Management

2. Defining Key Objectives: Financial and Mission-related Goals

An effective sustainable and mission-related IPS begins by clearly articulating key objectives, including exceeding or meeting market returns and sustainability objectives defined by an organization's values and mission statement. Having a strong conviction of key organizational values and key beneficiaries can act as an anchoring principle of how said values can be reflected in an investment strategy. It's important to note that an IPS is high level in nature, but it's possible to outline mission-aligned objectives in a guidelines document in a more granular way, going into a finer level of detail.

At Northern Trust Asset Management we take an innovative, flexible approach that combines investors' sustainable investing goals with leading market expertise in order to meet both their financial and mission-alignment goals. Through working with clients to identify the optimal solution to meet their objectives we continue to expand our sustainability solutions and perspective on the market.

Investors can consider risks and opportunities relevant to financial return goals and identify specific sustainability criteria to mitigate risk, capitalize on opportunities, and align with companies with similar values. Including impact and alignment with an organization's mission as a key component of an investment philosophy can frame mission-related objectives as a value-add and risk mitigation tactic. For example, an organization focused on improving human rights can invest in companies with strong policies and practices promoting human rights, which can also lower risk associated with human capital management controversies.

The definition of success for a mission-aligned approach is highly customized for each investor. While many of our clients have adopted sustainable investing or values based intentions into their investment policy, these investors are at different stages in the adoption process. We believe a fully aligned portfolio is aspirational, which requires continued due diligence and decision making to improve alignment.

To aid you in achieving alignment, in the implementation process we act in partnership as an extension of your

team to understand your goals and objectives for incorporating sustainability factors into the investment process, and then collaborate with you to build portfolios aligned with your core standards. Through this partnership, we can support your organization in understanding the landscape of sustainable investing strategies and tools across different asset classes, how similar organizations are approaching this space, work with you to articulate your goals into an investing strategy, and advise on how this strategy should inform portfolio construction.

We also help your leadership team embed that approach via language in your IPS, investment guidelines and talking points to share with your constituents, donors and/or other interested parties. Finally, we utilize sustainable investing tools and data to provide additional insight to boards and other stakeholders on balancing a portfolio's risk and return objectives — including potential risks and opportunities that may emerge over the long term. To illustrate an example, poor governance practices such as a lack of proper oversight and accountability can result in increased litigation risks that may impact a companies' valuation over time.

Policy in Action

One can look to leaders in the marketplace on how sustainable investing objectives can be extracted from investment beliefs. The California Public Employees' Retirement System (CalPERS) investment [policy](#) explicitly details their investment beliefs, focusing on their commitment to long-term value creation and perspective on maximizing return for risk taken.¹ CalPERS then details their sustainability and governance principles that serve as the foundation for achieving long-term sustainable investment returns. These principles are detailed at a high level in the policies appendix of their IPS, allowing for flexibility in application across various asset classes and evolution based on changing market dynamics.

Another example is the inaugural impact playbook from Builder's Vision that details their approach to key focus areas, including oceans, agriculture, and energy; and demonstrates clear alignment of investment objectives across those themes.² In their approach, they describe how they drive impact through three methods including deploying capital, supporting partners "beyond the check", advocating for change, and identify both near- and long-term outcomes. Their report is a great example of how to document key outcomes based on available data, while also acknowledging where high-quality data is lacking.

¹ See: CalPERS. (2024). California Public Employees' Retirement System Total Fund Investment Policy. Effective June 10, 2024.

² See: Builders Vision. (2022). Impact Playbook: A resource for measuring and managing the impact of your company from seed to growth. October 14, 2023.

How to Navigate Private Market Investments

Private equity investing under a mission-related umbrella possesses additional nuance that is driven by the fact that the entity with a mission-related focus does not know what the general partner (GP) will be investing in over time, and has less transparency into the investments made. In addition, because a private equity allocation is considered a primary growth driver in any asset allocation, it is important to consider and understand the return expectations of incorporating mission-related goals to this illiquid asset class. Given its long duration nature, making sure that “private equity like” returns can be achieved is an important consideration to ensure the total portfolio’s return objectives will continue to be met. As a result, it is important that the IPS speak specifically to the above, and should potentially also include the following:

- Capacity of the mission-related portfolio to specifically identifying, if appropriate, what percentage of total committed capital is allotted for mission-related investments.
- Diligence required before commitment to ensure the GP satisfies the mission-related goals of the entity.
- Risks associated with the commitment relative to its expected return and the long-term objectives of the total investment program.

3. Governance, Monitoring, and Reporting

Governance structures must be established to review both investment performance and alignment towards mission-related objectives. Investors should identify who is responsible to ensure the policy is being implemented according to the principles outlined in the policy. Therefore, the IPS should define the roles and responsibilities of the investment committee, OCIO, and third-party advisors in the sustainable investing and mission-aligned process.

All components of an investment policy statement, including mission alignment, need to be monitored and reviewed on an annual basis to measure progress and make necessary updates. Reporting from investment managers and service providers should be reviewed annually to help track progress. These reviews should also inform how revisions can be incorporated to the IPS. An annual review can also assess the latest regulatory environment to ensure that legal requirements are being addressed in the policy.

Investment committees may seek to commit to transparent and consistent reporting for the board on both sustainability, impact, and performance metrics. The IPS should formalize

reporting expectations of an organization’s sustainable investing activities to internal and external stakeholders. Reporting is an opportunity for investors to reflect on what information is most material for stakeholders, what sustainable investing key performance indicators to disclose, how the organization wants to measure impact of their sustainable investing activities, and how frequently to report.

Given the nature of the differences between asset classes, it’s important to identify and report on metrics that are material to specific asset classes. For example, reporting on renewable energy investments can be assessed for both public equity and fixed income investments. However, it’s important to recognize limitations with data availability across asset classes and being practical about what is realistic from a reporting perspective.

These challenges are especially prevalent in private markets where there’s a lack of transparency in sustainability and impact frameworks and data availability. We recommend organizations begin reporting with available data with the mentality that as data availability improves and impact perspectives evolve, so will reporting

practices. It’s important to understand that reporting will not be perfect in the beginning and the key is to focus on phased implementation of your organization’s reporting journey.

Establishing sound governance practices and controls are essential parts of an effective IPS. It’s important to identify an internal process for reviewing and verifying sustainable investing activities, including who will be responsible for conducting said review and ensuring those individuals are a curated group from across the organization, alongside third party auditors.

Mission-aligned and impact investing are dynamic spaces, requiring an IPS that incorporates these investment approaches and is updated to current standards, while also constantly evolves to the ever changing landscape. In addition to reviewing policies, the committee should conduct annual reviews of the IPS and include flexible language to permit for revision as the objectives and mission of the organization advance. An effective review process can ensure that an IPS remains relevant to sustainability and impact standards and regulations as well as shifts in broader investment markets.

Policy in Action

A strong example of impact reporting is the [Ellen MacArthur Foundation](#), which details their impact from a quantitative and qualitative perspective.³ For example, food security and greenhouse gas emissions related to food manufacturing are key foci for the foundation and they highlight the number of people reached through their programs and detail an example of how they work to provide healthy food to insecure veterans.

Conclusion

The modern IPS is more than an occasionally reviewed guidance document for investment rules and returns; it is a critical statement or roadmap of how the organization will continuously align investments with mission-related objectives. Clear IPS language, along with sound governance processes for assessing the IPS over time, assist staff and/or

investment committees to better field inbound stakeholder questions or concerns, as they are easily interpreted and can be routed for review as needed.

For OCIOs, building an IPS that integrates certain material sustainability and impact criteria is critical to align with organizational values and future-proof investments

against systemic risks and capturing long-term opportunities.

With a clear purpose, detailed objectives, and rigorous governance processes, investors can utilize the IPS as an efficient tool to engage with their clients and achieve competitive returns along with positive mission-related objectives.

³ See: Ellen MacArthur Foundation. (2025). Impact Report Summary 2024. As of August 31, 2024.

About Northern Trust Asset Management

Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments in efforts to realize their long-term objectives.

Entrusted with nearly \$1.3 trillion in assets,⁴ we understand that investing ultimately serves a greater purpose

and believe investors should be compensated for the risks they take — in all market environments and any investment strategy. That's why we combine robust capital markets research, expert portfolio construction and comprehensive risk management in an effort to craft innovative and

efficient solutions that seek to deliver targeted investment outcomes.

As engaged contributors to our communities, we consider it a great privilege to serve our investors and our communities with integrity, respect, and transparency.

Learn More

Visit our [website](#) to learn more about our investment capabilities.

⁴ Assets under management as of June 30, 2025.

IMPORTANT INFORMATION

At Northern Trust Asset Management ("NTAM"), we define Sustainable Investing as encompassing NTAM's investment strategies and accounts that utilize values-based and norms-based screens, best-in-class and ESG integration, and/or thematic investing that may focus on a specific issues such as climate risk. NTAM's Sustainable Investing platform includes portfolios designed by NTAM as well as those portfolios managed to client-defined methodologies or screens. As data, analytical models, and portfolio construction tools available in the marketplace have evolved, so has NTAM's Sustainable Investing platform. NTAM's Sustainable Investing platform, originated from client-specified Socially Responsible Investing tools, now encompasses a broader set of tools and capabilities.

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