

# BUILD A SUCCESSFUL INVESTMENT POLICY STATEMENT FOR YOUR NONPROFIT

An investment policy statement (IPS) provides a clear roadmap for managing your organization's investments and spending over time. When carefully crafted, an IPS can help you define your investment philosophy and process.

## 1

### Why do I need an IPS?

This document promotes investment strategy continuity and:

- Articulates and memorializes the fundamental objectives of your organization's portfolio.
- Establishes a framework your board members and investment professionals can follow on an ongoing basis.
- Provides guidelines to help ensure your organization's investments are managed consistently with your short- and long-term investment goals and objectives.
- Creates guidelines for periodic review and rebalancing.
- Helps board members fulfill their fiduciary responsibilities (such as the "duty of care" provision of the Uniform Prudent Management of Institutional Funds Act).
- Demonstrates to donors the funds they contribute are being prudently managed.

## 2

### What are key elements of an IPS?

- **Statement of purpose.** Include a clear and concise description of your organization and its mission, and how the portfolio supports that mission.
- **Delegation of authority.** Describe the roles and responsibilities of board members, committees, staff, outside advisors and custodian.
- **Investment philosophy**
- **Spending policy and liquidity requirements**
- **Risk tolerance**
- **Clear and realistic investment objectives.** Articulate the short- and long-term goals of the portfolio. A realistic understanding of the return and risk potential of major asset classes is essential to avoid disappointment later. Carefully balance spending policy and the portfolio's ability to generate the required return with an acceptable level of risk.
- **Asset allocation targets and rebalancing procedures.** Provide guidelines within which the portfolio should operate along with flexibility to manage within a wide range of investment environments.
- **Benchmarking.** Base the total portfolio's benchmark on the target asset allocation to create an objective way to evaluate relative performance during any type of market environment. Specific benchmarks should be used to evaluate asset classes and individual investment solutions.
- **Monitoring and reporting requirements**
- **Liquidity requirements or limits on illiquid investment strategies**
- **Any specific investment restrictions**

## 3

### Questions your IPS should answer

- What is the investment goal of the portfolio (capital preservation, consistency of payout, real return, maximum long-term growth, etc.)?
- What is the appropriate risk/return posture for the portfolio?
- What is the approach to managing investment activities?
- Are there any diversification requirements, prohibited investments or strategies or unique investment restrictions (example: social responsibility guidelines)?
- What are your investment allocation targets/ranges?
- What is your portfolio rebalancing process?
- What are the criteria for terminating an advisor, consultant or manager?

## 4

### Additional considerations and recommendations

- Outline what you don't want rather than trying to cover all the things you will allow.
- Don't corner your organization by being specific unless that is exactly what you intend, otherwise you risk violating your own policy.
- Establish parameters for the desired investment management process, yet do not be so restrictive as to not allow any flexibility on the part of the investment manager.
- Use caution when broadly excluding investment strategies your external managers/fund employ routinely. These strategies often include securities lending, the use of derivatives, the use of leverage or the use of commodity contracts.
- Discuss managing the risks of alternative investments, such as illiquid assets.
- Assign responsibility for risk management, monitoring and reporting. This should be carried out by both internal staff and external investment managers.
- Address the goals and objectives of different asset classes supporting your mission, depending on the purpose and size of the various pools of assets, such as liquid, endowment, special purpose or planned giving.
- Don't "set it and forget it." Review your IPS annually and provide written notice of changes on a timely basis

#### QUESTIONS? WE HELP YOU FIND ANSWERS

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**Darius A. Gill, CFA**, National Practice Executive, 312-444-7153, [DAG9@ntrs.com](mailto:DAG9@ntrs.com)

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