



Making Your Investment Policy Purposeful & Agile

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Too often an Investment Policy Statement (IPS) is created, filed and rarely reviewed. It is a generic template – rather personalized and purposeful. The services your organization provides will grow and develop, your target markets will evolve, organizational efficiencies will change – and the process by which you select, manage and evaluate investment decisions must change, too. If agility is a top managerial priority (and it should be), it's time to dust off and rethink your IPS.

To review, an IPS is a written policy and procedures manual that helps guide an investment fiduciary to make decisions together with and/or on behalf of its client. As you review your organization's IPS, keep in mind these best practices:

Make it Purposeful

It sounds simple, but the biggest mistake organizations make is choosing a generic template which results in a generic investment solution. So much of a non-profit or association's mission is ingrained in the work and services it provides. Allow that passion and purpose to drive investment objectives. And, don't let some fancy advisor in a suit tell you otherwise. Here's how:

- 1.) Think about your organization's mission in terms of how you serve your constituencies and include any ideas for improving that experience and reach.
- 2.) Sort these services and/or products into short-, mid-, and long-term projects. For example, an annual conference would be a short-term project. An enhanced continuing education system or process that requires additional resources would be a mid- or long-term project. Prioritize items in each category.
- 3.) Assign time horizon bands (e.g., 2-3 years) to each project.
- 4.) Assign a savings strategy and an investment risk profile for each project. Consider current reserves and your annual operating budget.
- 5.) Selecting the investment solution, is surprisingly, the easiest (and last) step. The hard work and time spent here is upfront, but if done properly, if your IPS is truly *purposeful*, you will have an investment solution that is *driven* by your organization and its goals.

Allow for Agility

Circumstances change and most of us typically feel like they change faster than we can prepare for them. The question becomes how in the world can we document a process that allows for deviations to both the organization and the broader economy.

The Global Economy: A Rebalancing Process

Put simply, government policy (monetary & fiscal), economic indicators (employment, corporate profits, etc.) and world events (elections, natural disasters, acts of terrorism, etc.) influence global markets. Each IPS, written properly, should have a Strategic Investment Allocation, the long-term allocation to different asset classes (i.e., stocks, bonds, cash, alternatives and real estate). As global markets change, you can make tactical adjustments to that allocation to seek opportunities and/or avoid challenges. Good IPS documents include:

- 1.) Upper and lower percentage allocation bands to allow for adjustments, typically small, to respective asset classes.
- 2.) A portfolio rebalance standard (recommended annually), which includes a process to rebalance the allocation to its strategic allocation. This discipline, by definition, requires an organization to buy or sell back to its intended risk profile and mandates buying and selling “opportunistically.” For example, if half of the portfolio is invested in a high performing investment, at the end of the year, that investment will represent more than the original half of your portfolio. If you follow the discipline and sell it, you will sell it in this scenario at an inherent gain.

The Organization: An Annual Assessment

Frequently, organizations are averse to changing the IPS because it often requires separate approval from a finance committee and board of directors. Get over it. Good practices include:

- 1.) Mandate an annual organizational review. It is standard to include a semi-annual or annual review of investment performance, but organizations rarely take the time to revisit their current operating environment, planned projects, and/or unforeseen needs for liquidity from the prior year. All of these items have a place in a working IPS document.
- 2.) Create amendments rather than presenting the entire document for approval. This way, it often only takes a few minutes on the agenda to keep your IPS current and productive.

Bottom line: An IPS always should include standard language about selecting investments, monitoring performance, and duties and responsibilities of the organization and investment fiduciary. Don't stop there. A little more effort and you can have an investment policy that is deliberate in its actions, agile, and something with which you can actually engage.