

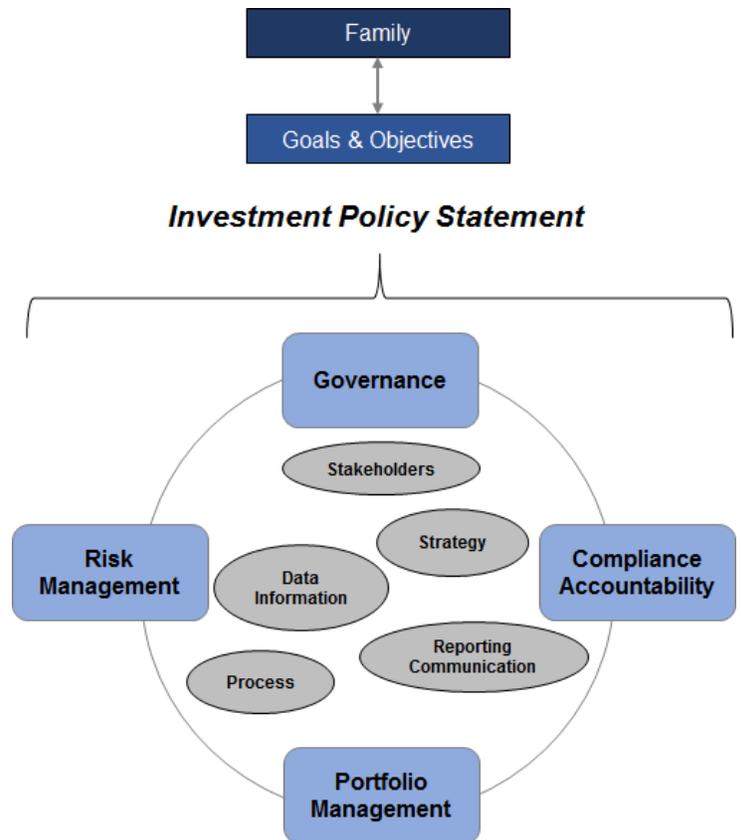
Getting on the Same Page

IMPROVING COMMUNICATION THROUGH AN INVESTMENT POLICY STATEMENT

At some point in our life, even if it was only as a child, you have sung a song with others. Think back to the last birthday party you attended which may have been for an acquaintance or a colleague. To have a passing chance at a pleasing harmony requires that everyone know the words and have a sense for the tune. Thankfully, according to *Guinness World Records*, “Happy Birthday to You” is the most recognized song in the English language (and has subsequently been translated into 18 languages) which means there is a good chance that any group of people can get by singing the 16 words (yes, there are only 16 words in that song).¹

When it comes to just about any other group process, however, it takes more work to communicate, coordinate, and retain to have a successful outcome. The investment process is no exception. A family or institution must be intentional in their process to maintain a consistent effort and evaluation across the beneficial owners and the eco-system of investment, tax, trust and estate, lending, and philanthropic advisors engaged to help reach the objective. The document used to facilitate this process is most often called an Investment Policy Statement.

The purpose of an Investment Policy Statement (IPS) is to be a communication tool that coordinates the efforts of all parties responsible for your financial assets to achieve your goals. An IPS is a “living” document that evolves along with your circumstances and objectives. For it to be effective, the policies set forth must be practical and able to be implemented and monitored. Each IPS is different as it reflects the family or organization it is intended to govern. That said, there are common elements typically addressed. On the following pages, we layout a framework to discuss some of these common pieces to begin the process.



THE ELEMENTS OF AN INVESTMENT POLICY STATEMENT

Below we highlight common elements of an Investment Policy Statement (IPS). Not every IPS has every element. Instead, this list is intended to facilitate dialogue for the investor to evaluate for themselves what is important to capture. Remember, the goal is not to create the longest IPS in history to demonstrate how complete (and often arduous) of a process you went through. Instead, the goal is to create a working document that is referenced often (though adjusted less frequently) so that everyone sings from the same strategic song sheet.

Introduction

- Define the Mission Statement (if any).
- State the purpose of drafting this Investment Policy Statement.
 - Framework for investing
 - Improve communication between product/service providers
 - Guidelines for manager selection/risk management
- Identify the primary governing body responsible for the IPS.

Balance Sheet: Define the portfolio of investments.

- Detail which assets are to be governed by the IPS versus those governed under a different process.
- Summarize any assets which are outside the scope of the IPS but should be taken into account for decision-making.
- Summarize any liabilities relevant for consideration in the investment process.
 - This may include income requirements, future commitments, contingent liabilities, etc.

Roles and Responsibilities

- Identify the various parties that may be involved in the investment process.
- Specify the responsibilities each party may have or delegate.
- Establish the process by which decisions are made.

Investment Objectives

- Define the goals you wish to achieve with your assets.
 - These objectives are likely both general (for example, achieve long-term wealth creation for future generations) as well as specific (specific return objective).
 - These goals may also be absolute in nature as well as relative.
 - Specific benchmarks may be specified here, or in an appendix relevant to the policy allocation determined.
- Describe the time-horizon for the organization's investment decisions.
- Establish a time-frame to measure your managers and your advisors.
- Set a time-frame for which this investment policy statement should apply.

Portfolio Level Risk

- Explain how you define risk (i.e. loss of capital or volatility).
- Describe the measures of risk you intend to use and who is responsible for calculation.
- Establish a frequency for risk calculation to ensure compliance.
- Direct towards an appendix which establishes an expectation for asset allocation ranges appropriate to the risk and return objectives.
- Define the role of leverage (if any) in the portfolio.
- Define concentration limits if appropriate.
- Define liquidity requirements if appropriate.

Implementation Level Risk

- Identify permissible investments (by asset class or overall).
- Define security level or asset-class level criteria if appropriate (for example, minimum credit rating on a fixed income security or portfolio etc).

Rebalancing

- Establish process for rebalancing if desired.

Operating Considerations

- Identify base currency for reporting.
- Provide guidelines for currency hedging policies if appropriate.
- Identify custodians and/or administrators if applicable.

Reporting/Monitoring

- Identify parties with reporting responsibilities.
- Establish a frequency of portfolio review.
- Set responsibility for investment manager monitoring.

Taxes

- Identify the tax circumstances of the assets governed by the IPS.
- Discuss any specific considerations related to taxes.

Special Considerations

- Explain any considerations not addressed above which may affect the process of investment management.

BRINGING IT ALL TOGETHER

There is power in individuals working together as a group; history has shown this time and again. In order to capture those benefits, time must be invested up front for a family or an organization to be truly thoughtful about what is important to them. Specific to the investment process, these decisions are captured in an Investment Policy Statement so that all parties are coordinated and improve the probability of success. Just like the choir of our youth, getting on the same page upfront improves the opportunity for harmony and to maintain it through the generations.

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¹ Source: Wikipedia

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