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If you're part of the team managing investments for a non profit, your job is to make sure that organization's money is invested wisely to support its missions and programs in perpetuity. But how do you go about this important and seemingly complex task? One key step is to create an investment policy statement.

An IPS is a formal document that explains the guidelines and procedures for how to manage an organization's investment portfolio. Typically, an IPS will define the organization's investment goals, risk tolerance, asset allocation, and other key policies. It gives clear directions to finance staff, investment committee members, Having a written IPS provides several benefits.

Most importantly, it helps ensure consistency and accountability and how the portfolio is managed over time, regardless of who is managing it. An IPS may also promote better long term investment performance. By establishing a disciplined process upfront, it can help prevent emotion based or reactionary investment decisions.

That might undermine the portfolio success. The policies contained in an IPS act as a guide to help the organization stay on track, even when markets are volatile. So what exactly goes into an IPS? There are several key elements. First, you'll want to outline the organization's investment objectives. Is the overall goal to preserve capital, generate income, or grow the portfolio's value over time?

What are the long term goals, and are there other, shorter term goals you want to achieve? Next, make sure to specify the organization's time horizon, and risk tolerance. Then give details about asset allocation. What percentage of the portfolio should be invested in stocks, bonds, alternative investments, and other asset classes?

Your IPS should also include the organization's policies regarding diversification, liquidity needs, rebalancing the portfolio, and selecting and monitoring investment managers. It's a good idea to document any investment restrictions as well. including companies or sectors of the economy that are off limits from an investment point of view or that conflict with the mission or values of the organization.

Lastly, be sure to explain the investment decision making process, reporting requirements, and oversight procedures. Some organizations also choose to include their conflict of interest policy within their IPS. Keep in mind that creating an IPS is not something to be done hastily. It's a thoughtful and sometimes lengthy exercise that should involve lots of key stakeholders, including investment committee members.

Board members and staff, as well as professional advisors. Once you have created a draft of your IPS, it will need to be approved by your board of directors or other governing body. And it should be reviewed and updated on a regular basis, typically once a year or whenever there's a major change in the market environment.

By documenting investment objectives, policies, and procedures, an IPS promotes continuity, accountability, and better investment outcome. That's why it's a crucial part of effective, long term portfolio management for all organizations. For help developing an IPS for your organization, call CAPTRUST. Our financial advisors have the expertise and experience to guide you through the process.