

SAMPLE

# Investment Policy Statement

Prepared on: November 12, 2009

Prepared for:

**John and Mary Doe**  
Reston VA 20190

SAMPLE INVESTMENT POLICY STATEMENT

## Executive Summary

Your Name: John and Mary Doe

Type of investor: Individual Investor

Taxable Portfolio or Tax Deferred Portfolio or combination of both (describe your investments)

Type of Policy: Individual

State of Domicile: VA

Tax Id: 00-0000000 (your Social Security number or other tax ID number)

Current Assets: \$1,000,000

Modeled Return:

1-Yr Loss Limit (Worst case scenario):

(Write down the maximum one-year loss you are prepared to incur to stick with your investment plan.)

## Purpose

The purpose of this Investment Policy Statement (IPS) is to assist us/me in effectively supervising, monitoring and evaluating our investment Portfolio (Portfolio). Our investment program is defined in the various sections of this IPS by:

1. Stating in a written document our attitudes, expectations, objectives and guidelines for the investment of all of our assets.
2. Encouraging effective communications between us and all parties involved with the investment management decisions.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by each investment option on a regular basis.
4. Complying with all applicable fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may affect us.

## Statement of Objectives

### Background

The assets covered by this IPS currently total approximately \$1,000,000 in market value. The assets consist of \_\_\_\_\_ (describe your holdings; e.g., mutual funds, individual stocks and bonds).

This IPS has been arrived at upon consideration by us of a wide range of policies, and describes the prudent investment process we deem appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer the opportunity to diversify the portfolio in a manner consistent with the specified risk and return requirements of the portfolio.

### The objectives of the Portfolio are:

Describe your personal situation- why are you investing your money?

-How much income will you need from your portfolio each year? Do you foresee any special withdrawal needs coming up? When and how much?

-How many years do you expect to live?

-What spending rules are you willing to live with? Write out your spending rules. E.g., I want to smooth distributions and want to follow a Yale-type endowment policy; or a simpler spending policy of 4-5% of the value of my portfolio each year, adjusted for inflation.

-What investments return are you looking for? How much does your portfolio have to earn to meet your objectives?

-What percentages of your portfolio are you prepared to lose each year to achieve this return? What is the maximum loss you prepared to sustain in a 3-month period? 5-year period?

OLLI F-205, Fall 2009 Joel Ticknor, CFP®, AIF™ [joel@ticknoratherton.com](mailto:joel@ticknoratherton.com) tel: 703-476-3521

-How much capital do you want to pass on to family members or to your favorite charity or cause? How important is this objective to you relative to drawing income from your portfolio?

### **Time Horizon**

The investment guidelines are based upon an investment horizon of greater than five years—preferably ten years--which is considered “long term.”

Our strategic asset allocation is also based on this long-term perspective.

Our short-term liquidity requirements are anticipated to be: (1) minimal, or at least should be covered by cash inflows; or (2) \$\_\_\_\_\_per month, quarter or year. (Edit to reflect your personal circumstances.)

### **Risk Tolerances**

We recognize that some risk must be assumed in order to achieve our investment Objectives. In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability was considered. We can accept a one-year loss of \_\_\_\_% and a three-year loss of \_\_\_\_% without abandoning our investment strategy.

Our long time horizon, current financial condition and several other factors suggest some interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

### **Performance Expectations**

The desired investment objective is a long-term rate of return on assets that is at least \_\_\_\_\_% over inflation.

The target rate of return has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS. We realize market performance varies and a rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the investment options are set forth in the "Monitoring" section.

### **Duties and Responsibilities**

#### **Custodian**

Our assets are custodied at \_\_\_\_\_ (Schwab, Fidelity, USAA, etc.) Custodians are responsible for the safekeeping of our assets. The specific duties and responsibilities of the custodian are:

1. Value the holdings.
2. Collect all income and dividends owed to the client.
3. Settle all transactions (buy-sell orders).
4. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall client portfolio since the previous report.

### **Asset Class Guidelines**

Long-term investment performance, in large part, is primarily a function of asset class mix. Historically while interest-generating investments, such as bonds, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation.

On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting given our time horizon.

We have decided to use the following asset classes to implement our portfolio (examples):

- U.S. Stocks – total stock market index mutual fund or Exchange Traded Fund (ETF)
- International Stocks – total international stock index fund or ETF
- U.S. Bonds
  - Intermediate Treasury Bonds (individual bonds, index fund or ETF)
  - U.S. Treasury Inflation Protected Securities (TIPS) (individual bonds, index fund or ETF)
- Real Estate – U.S. and foreign Real Estate Investment Trusts (REITS), index funds or ETFs
- Cash Equivalents (money market fund or U.S. Treasury Bills)

## Setting and Rebalancing of Strategic Allocation

We have established a globally diversified strategic asset allocation of \_\_\_\_\_% stocks and \_\_\_\_\_% bonds as appropriate to our investment objectives and risk tolerance. We will review the portfolio allocations and rebalance the allocations at least annually if they differ from our target allocations by at least plus or minus five percent.

## Implementation

We will apply the following due diligence criteria in selecting each money manager, mutual fund or exchange traded fund.

### Implementation Criteria

1) The fund (or ETF) must place in the top 25% (or 50%) of its peer group. For example, U.S. large cap growth stocks, value stocks, small stocks, international developed market stocks, and so on. Low cost, passively managed (index) funds are preferred. If we use actively managed mutual funds:

- a. Track record: The fund should have a minimum three year history.
- b. Assets in the fund: The fund should have at least \$75 million under management (total across all share classes).
- c. Stability of the organization: The portfolio manager should have at least a two-year tenure. In a management team setting, the most senior manager's tenure should be at least two years.
- d. Composition consistent with asset class: A minimum of 80% of the fund's securities should be consistent with the peer group's asset class.
- e. Style consistency: The fund's category and current style box should be the same.
- f. Expense ratio/fees relative to peers: The expense ratio for the fund should be above the bottom quartile (most expensive) of the peer group.
- g. Risk-adjusted performance relative to peers: The fund's Alpha and Sharpe Ratio should be above the peer group's median.
- h. Performance relative to peers: The fund's 1-, 3- and 5-year trailing performance should be above the peer group's median.

## Monitoring - Performance Objectives

We acknowledge fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in

performance, we intend to evaluate investment performance from a long-term perspective.

We are aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis. We may take corrective action to replace a fund manager or passive investment vehicle at our discretion.

On a timely basis, but not less than quarterly, we will review each investment; specifically:

1. The investment option's adherence to the Watch List Criteria identified below;
2. Material changes in the investment option's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the investment options organization.

### **Monitoring - Benchmarks**

Performance benchmarks have been established for each investment option. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

#### **Peer Group**

#### **Benchmark Index**

### **Monitoring - Watch List Criteria**

The decision to retain or terminate an investment option cannot be made by a formula.

Extraordinary events do occur that may interfere with the investment option's ability to prudently manage investment assets. It is our confidence in the investment option's ability to perform in the future that ultimately determines the retention of an investment option. An investment option may be placed on a Watch List and a thorough review and analysis of the investment option may be conducted, when:

#### **Monitoring Criteria**

- 1) The fund must place in the top 25% (or 50%) of its peer group.
  - a. Track record: The fund should have a minimum three year history.
  - b. Assets in the fund: The fund should have at least \$75 million under management (total across all share classes).
  - c. Stability of the organization: The portfolio manager should have at least a two-year tenure. In a management team setting, the most senior manager's tenure should be at least two years.
  - d. Composition consistent with asset class: A minimum of 80% of the fund's securities should be consistent with the peer group's asset class.
  - e. Style consistency: The fund's category and current style box should be the same.
  - f. The expense ratio for the fund should be above the bottom quartile (most expensive) of the peer group.
  - g. Risk-adjusted performance relative to peers: The fund's Alpha and Sharpe Ratio should be above the peer group's median.
  - h. Performance relative to peers: The fund's 1-, 3- and 5-year trailing performance should be above the peer group's median.

### **Monitoring - Measuring Costs**

We will review at least annually all costs associated with the management of the portfolio, including:

1. Expense ratios of each mutual fund or ETF against the appropriate peer group.
2. Administrative Fees; costs to administer the portfolio, including record keeping, custody and trust services.
3. The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the portfolio. [AVOID FUNDS WITH 12B-1 FEES!]

### **Investment Policy Review**

We will review the IPS at least annually to determine whether stated investment objectives are still relevant and feasible. We do not expect that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustment to the IPS and we will not try to time the market by buying and selling assets in response to market fluctuations.

**Prepared by:**

**Signature and Date**

**Name**

**Signature and Date**