



The Focused Fiduciary

Welcome to the Nottingham Focused Fiduciary. In this month's issue we will discuss the importance of an Investment Policy Statement (IPS).

To begin the discussion we must first ask the question: **What is an Investment Policy Statement?**

"An IPS is a living document drafted to provide a well thought out guideline from which prudent investment decisions can be made."

Each client has a unique set of circumstances and because of this, there is no one approach when constructing an IPS and they can range in length from 1-30 pages.

An IPS is a very valuable document when drafted correctly. It should not only highlight an investment process & procedure, but it should support the mission of the overall organization. A comprehensive IPS will define responsibilities of the Investor & Advisor, establish reasonable expectations, and encourage effective communication between the two parties.

"The IPS is the "Road Map" when determining an appropriate Asset Allocation."

Investment Policy Statements are a critical piece of a sound investment practice. This is why, as a Trustee, establishing and maintaining an IPS may be your most important function as a board member. An indirect goal of the IPS may be preventing ad hoc investment management. Ad hoc practice tends to overweight short-term issues and lead to emotionally driven decisions. It may also lead to inconsistencies in objective resulting in mediocre returns and unreliable performance data. The IPS should keep the attention on long-term issues and solutions, while providing a consistent approach that in turn will provide an objective way to measure progress. Lastly, an IPS provides continuity during times of board turnover.

Setting the tone of the document and providing commentary on the organization, every IPS begins with the *Client Profile*. This section includes the Investors

background, names the Investment Manager, determines key decision makers/fund Trustees, and identifies other pertinent information.

When drafting the IPS it is the Investment Managers responsibility to set appropriate performance benchmarks and communication expectations. An IPS ideally should be reviewed annually.

Tip: Trustees should be wary of any asset manager claiming to bestow extraordinary returns. An Investment Manager of modest disposition may be more favorable.

Every organization no matter the size or scope should have a clear and concise investment policy. Below I have listed a few questions that you might find valuable to engage the board in conversation...

Key Questions Trustees Should Ask Their Peers

1. Does our organization have a formally written IPS?
2. What duties do we have as Trustees under our Investment Policy?
3. What factors would cause us to rethink our current IPS?
4. During "On-Boarding" are new Trustee's exposed to our Investment Policy?
5. How often is our IPS reviewed and who is responsible to lead the effort?

As always, if you have any questions regarding your Fiduciary role please feel free to give Nottingham Advisors a call at 716-633-3800 or contact me by e-mail at brock.wilkinson@nottinghamadvisors.com.

In the next series of articles we will be discussing the various components of an IPS individually in greater detail. If you'd like any other topics explored for future newsletters, please feel free to contact me. Thank you for reading, and have a great day.