Catholic Foundation of Southwest Iowa

What Is an Investment Policy Statement (IPS)?

An investment policy statement (IPS) is a **formal document drafted between a portfolio manager or financial advisor and a client that outlines general rules for the manager**. This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives.

Specific information on matters such as **asset allocation, risk tolerance, and liquidity requirements** are included in an investment policy statement.

A well-conceived IPS enables both the manager and the investor **to stay focused on the long-term objectives**.

It provides **guidance for informed decision-making and serves as both a roadmap to successful investing and against potential mistakes or misdeeds**.

A well-conceived IPS also delineates asset allocation targets as well. For instance, **it specifies the target allocation between stocks and bond**s, further breaking down the target allocation into sub-asset classes, such as global securities by region. The targets should then have a minimum and maximum deviation that, when exceeded, will trigger portfolio rebalancing.

An IPS should give special attention to describing the investor's risk/return profile. That includes **naming asset classes that should be avoided—as well as those that are prefer**red.

The IPS **should include monitoring and control procedure**s to be followed by everyone involved in the investment process. This includes establishing the frequency of monitoring, **specifying benchmarks for comparison of portfolio returns**, and **concrete procedures for making any future changes to the IPS**.

The basic components of a proper Investment Policy Statement should include:

1. Scope and purpose
2. Governance
3. Investment
4. Return and Risk Objectives
5. and Risk management

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Conflict of Interest

A policy governing conflicts of interests is perhaps **the most important policy a nonprofit board/entity can adopt.** To have the most impact, the policy should be in writing, and the board/committee and staff should review the policy regularly.

What should a conflicts of interest policy include?

A policy on conflicts of interest should (a) require those with a conflict (or who think they may have a conflict) to disclose the conflict/potential conflict, and (b) prohibit interested board/committee members from voting on any matter in which there is a conflict.

Beyond including those two basic directives, each nonprofit needs to determine how the board will manage the conflict.

Often people are unaware that their activities or personal interests are in conflict with the best interests of the nonprofit so a goal for many organizations is to simply raise awareness, encourage disclosure and discussion of anything that MAY be a conflict, and constantly encourage a "culture of candor."

1. Conflicts can be nuanced and **have more to do with a "duality of interests"** than a financial conflict.

2. Many charitable nonprofits make it a **regular practice to take time at a board meeting at least once a year to discuss the types of hypothetical situations** that could result in a conflict of interest, and then discuss how the board would manage that potential conflict, role-playing, so that when a real conflict arises the board will be ready to handle it with more ease.

3. **Minutes of board meetings should reflect when a board member discloses that s/he has a conflict of interests and how the conflict was managed**, such as that there was a discussion on the matter without the board member in the room, and that a vote was taken but that the "interested" board member abstained (board members with a conflict are "interested" – board members without a conflict are "disinterested").

4. Many nonprofits circulate **a questionnaire each year** to find out whether any board member/committee member (or staff member) has a conflict of interest. Typically the questionnaire asks board/committee and staff members to disclose existing conflicts and reminds them to disclose any that may crop up in the future.

Conflict of Interest continued

Why Does a Nonprofit Board Need a Conflict of Interest Policy? Nonprofit boards need a conflict of interest policy **because it prevents board directors from benefitting in any way from board service**. A conflict of interest policy fulfills legal requirements and prevents unexpected penalties.

When does a conflict of interest occur? A conflict of interest occurs **when a director, officer, committee member, key employee, or other person in a position to influence the nonprofit** (an "insider") may benefit personally in some way from a transaction or relationship with the nonprofit organization that he or she serves.

What is a Conflict of Interest? A conflict of interest occurs **when an individual's personal interests – family, friendships, financial, or social factors – could compromise his or her judgment,** decisions, or actions in the workplace or in a positon serving a not for profit.

Fiduciary

What is a fiduciary and how does it apply to us?

A fiduciary must place the interest of their clients/parishioners first, under a legal and ethically binding agreement. Importantly, fiduciaries are **required to prevent a conflict of interest between themselves and the business/organization they represent.** Among the most common forms of fiduciaries are financial advisors, bankers, money managers, board and finance committee members and insurance agents. At the same time, fiduciaries are present across many other business relationships, such as corporate and not for profit board/committee members and stakeholders.