

INVESTMENT POLICY STATEMENT

FI 412

INVESTMENT PRINCIPLES

OBJECTIVE: One of the most critical parts of the investment process is creating a comprehensive investment policy statement (IPS) that accurately reflects the goals, risk tolerance, constraints, liquidity needs, and tax considerations of the client. Whether you are investing for yourself, a foundation, an institution, or other type of client, a well-defined and carefully crafted IPS is paramount. The purpose of this project is to create an IPS which you will use to manage your Stock Trak portfolio throughout the class. Rather than simply creating an IPS for your own personal account, you will partner with someone in the class, interview them, and draft an IPS for them based on their “hypothetical” needs.

PART I: Interviewing your Client

For Part I of the assignment, you will partner with someone in class. Each of you should assume a persona of a hypothetical client, not yourself. Once you have decided what type of “client” you will be, answer the questions as that client. This part of the interview will help you draft the Objectives (Risk and Return) portion of the IPS.

Next you will use the Morningstar IPS Worksheet to find out more information about your “client’s” investor constraints (asset allocation, desired benchmark, investment philosophy and security selection.) **Note regardless of your hypothetical “client” everyone only has \$100,000 to invest and it must be allocated to equities (both stock and mutual funds) and bonds. Further selling short must be allowed as a part of the investment strategy.**

Part II: Drafting your IPS

After you have met with your “client” to learn about their objectives and constraints, you must draft a professional investment policy statement which names you as the investment manager. Listed below are the sections and items which **MUST** be included in your IPS; however, it is not exhaustive and I encourage you to be creative and include as many details about how you will invest the \$100,000 as you can.

Section I: Investment Objectives

This section of the IPS should clearly state your client’s return goals, their benchmark, what the portfolio will be used for (scholarships, retirement, payout future liabilities, etc.), detailed information on their risk tolerance, and their investment horizon.

Section II: Asset Allocation and Diversification

Section II will be crucial when you begin to invest your Stock Trak portfolio. Based on your interview in Part I you should provide details on asset allocation including a range and target for each asset class. You should also include details on diversification (how much can be invested in a single security, use of mutual funds, etc.) **Note the portfolio must allow for stocks, mutual funds, and bonds and must allow at least 5% to be invested in a single equity security and at least 4% to be allocated in mutual funds.** Also include information on how often the portfolio should be rebalanced to maintain the allocations.

Section III: Investment Strategy

In outlining your investment strategy for the client, include information on how securities will be selected, top-down versus bottom-up, etc., whether the portfolio will employ market timing, and eligible securities within each asset class. **Note the strategy must be active and allow for investment in individual securities and closed and open end mutual funds.**

Your report should be professionally written, and leave little doubt that you clearly understand your clients objectives and constraints.

You should be have a rough draft of your IPS prepared on **Monday February 13th** to reconvene with your partner and have them review the statement. They will be using time in class to review your IPS for accuracy of their goals and using the evaluation criteria below. You should then revise your IPS based on your partners' comments. Failure to bring a rough draft will affect your overall grade for this assignment.

This assignment is due at the beginning of class on **Wednesday February 15th**

Evaluation Criteria

	Name:	Exceeded Expectations	Met Expectations	Did not meet expectations
Content	Did you meet with your "client" and discuss their risk tolerance and return objectives?			
	Do you clearly understand and state the client's investment objectives?			
	Do your asset allocations and diversification policies align with your client's investment objectives?			
	Do you define a clear investment strategy which meets your client's needs?			
	Are your asset allocation and diversification policies within the guidelines set forth by the assignment			
Writing	Did you review your statement with your "client" and make revisions?			
	Is the report professional, free of grammatical and spelling errors?			
	Does the report correctly target the requested audience (your "client")?			
	Are the sections of the policy statement clear, concise, and address the assignment requirements?			

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