

# KEY ELEMENTS OF AN INVESTMENT POLICY STATEMENT AND ITS EFFECT ON PORTFOLIO IMPLEMENTATION

**Does your company have a well-thought-out investment policy? Does your policy have clear, measurable objectives? Has it been written down and shared with the appropriate team?**

Putting your policy in writing is the foundation of effective investing. Your policy should provide benchmarks to help you evaluate how well it is working and what changes may be needed to make it more effective.

While every company is different, there are several elements that should be part of any policy:

- Investment objectives, time horizon and risk tolerance
- Liquidity and income needs
- Permissible asset classes, constraints and restrictions
- Investment guidelines, including asset allocation ranges and performance measurement
- Monitoring and reporting

## **WHAT THE INVESTMENT POLICY STATEMENT ESTABLISHES**

The Investment Policy Statement establishes a clear understanding of the objectives for your investment accounts and provides the investment manager with guidelines and a framework for decision-making.

You will need to define your investment objectives in terms of growth and rate of return over a specified time period.

### **What about liquidity and income needs?**

Sufficient liquidity is important to deal with an emergency or an emerging opportunity. You will need to determine how much of the portfolio can be liquidated over a set period of time.

### **What is your risk tolerance?**

Typically, higher rates of return are associated with higher risks, lower rates of return with moderate or low risk. The goal of the investment process is to achieve your required rate of return while remaining within your risk comfort zone.

### **What is your investment horizon?**

Five, ten, or twenty years?

### **Do you want to emphasize certain types of investments and rule out others?**

For example, you might want to invest in marketable equity and debt securities and money market securities, and avoid commodities, private placements and real estate.

**How do you want assets to be allocated?**

For example, what percentage should be in fixed income and how much in equity?  
How do you want to address cash reserves?

**How will you measure account performance?**

What benchmark will you use for performance rating?

**When should you consider rebalancing?**

The portfolio asset mix may fluctuate from the recommended asset mix over time due to market movement or other factors, such as large cash flow.

Your time horizon and risk tolerance might also change over time. The portfolio allocations should be reviewed at least annually, and rebalancing should be considered when there are variances.

**An investment policy statement is an important step toward more effective investing. For more information, please contact your Institutional Client Advisor or visit [pnc.com/ideas](http://pnc.com/ideas).**

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