ESTABLISHING AN INVESTMENT POLICY STATEMENT (IPS)

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INTRODUCTION

An Investment Policy Statement (IPS) outlines the objectives, constraints, and guidelines for managing an investment portfolio. To establish an IPS, follow these steps:

- **Define your investment objectives:** Identify your goals and the time frame for achieving them, such as income requirements, retirement, college education, or buying a second home.
- **Determine your risk tolerance:** Assess how much risk you are comfortable taking and how much volatility you can handle in your investments.
- **Assess your current financial situation:** Consider your current assets, liabilities, and cash flow to determine how much you can afford to invest.
- **Identify any constraints or limitations:** Consider factors such as taxes, regulatory restrictions, or other financial obligations that may affect your investment decisions.
- **Design asset allocation:** Your asset allocation will be heavily determined by your goals and tolerance for risk and volatility. Creating the right mix of local and foreign equities, cash, fixed income, property, venture capital and private equity will help to ensure your financial goals are met.
- **Develop investment guidelines:** Based on your objectives, risk tolerance, financial situation, and constraints, develop specific guidelines for managing your portfolio, such as asset allocation targets, diversification guidelines, and investment selection criteria.
- **Review and update regularly:** Your IPS should be reviewed and updated regularly to reflect changes in your personal circumstances and market conditions.

It's important to keep your IPS in line with your changing goals and circumstances to ensure your investments align with your long-term financial objectives.

OUTWARD OR INWARD INVESTING MODEL?

Should you adopt an outward or inward investing model?

The choice between an outward or inward investing model depends on your personal investment goals and risk tolerance.

An outward investing model, also known as an active investment strategy, involves actively buying and selling securities based on market conditions, economic trends, and other factors. This approach is suitable for individuals who have the time, knowledge, and resources to actively manage their portfolios and are comfortable with a higher level of risk.

An inward investing model, also known as a passive investment strategy, involves a more hands-off approach and focuses on investing in a diversified portfolio of low-cost index funds or exchange-traded funds (ETFs) that track a particular market index. This approach is suitable for individuals who have a long-term investment horizon, are risk-averse, and prefer a low-cost, straightforward investment strategy.

Ultimately, the best approach for you will depend on your financial goals, risk tolerance, and investment knowledge and experience. It is recommended that you seek professional financial advice to determine the most appropriate investment strategy for your individual circumstances.

ENGAGING WITH INVESTMENT MANAGERS

How should you engage with wealth and investment managers?

Engaging with wealth and investment managers is an important part of managing your investments and achieving your financial goals. Here are some tips for effectively working with wealth and investment managers:

- **Clearly define your investment goals:** Before meeting with a wealth or investment manager, take the time to define your investment objectives and risk tolerance. This will help ensure that your investments align with your long-term financial goals.
- **Choose a qualified professional:** Look for a qualified and experienced wealth or investment manager who has a proven track record and who is familiar with your specific investment needs and goals.
- **Ask questions and educate yourself:** Don't be afraid to ask questions and learn as much as you can about your investments and the strategies being used to manage them. Understanding your investments is key to making informed decisions.
- **Communicate regularly:** Regular communication with your wealth or investment manager is important to ensure that your investments are aligned with your goals and that any changes in your financial situation are taken into account.
- **Monitor performance and review regularly:** Regularly review your portfolio's performance and make adjustments as necessary to ensure that it remains aligned with your investment goals and risk tolerance.
- **Be open and honest:** Be transparent about your financial situation and investment goals and be honest about your level of risk tolerance. This will help your wealth or investment manager tailor a strategy that is right for you.

Ultimately, the success of your investment strategy will depend on your willingness to actively engage with your wealth or investment manager and your ability to effectively communicate your goals and expectations.

GLOBAL OR BESPOKE ENGAGEMENT

The choice between engaging with investment managers on a global or bespoke basis depends on your personal investment goals, risk tolerance, and financial situation.

Global investment management involves investing in a diversified portfolio of assets that spans multiple countries and regions. This approach is suitable for individuals who have a long-term investment horizon and are seeking to reduce the impact of market volatility by spreading their investments across different geographical locations.

Bespoke investment management involves tailoring an investment strategy to the individual needs of a client. This approach is suitable for individuals who have specific investment goals and a high net worth and are looking for a more personalized and tailored approach to managing their investments.

Both approaches have their advantages and disadvantages, and the best choice for you will depend on your individual circumstances and investment goals. It is recommended that you seek professional financial advice to determine the most appropriate investment strategy for your individual circumstances.

ESTABLISHING AN INVESTMENT COMMITTEE

An investment committee is a group of individuals responsible for overseeing and managing a portfolio of investments. To establish an investment committee, follow these steps:

- **Define the purpose and goals of the committee:** Clearly state the purpose and goals of the committee, such as managing the investments of a nonprofit organization or overseeing a pension plan.
- **Determine the size and composition of the committee:** Decide on the number of members and choose individuals with a diverse range of backgrounds, expertise, and experience. Consider individuals with financial and investment knowledge, as well as legal, accounting, and other relevant expertise.
- **Establish a decision-making process:** Determine how decisions will be made, such as by consensus or majority vote, and establish a clear chain of responsibility for investment decisions.
- **Develop an investment policy statement:** Create a written document that outlines the objectives, constraints, and guidelines for managing the investment portfolio.

ESTABLISHING AN INVESTMENT COMMITTEE

- **Establish a reporting and monitoring process:** Decide how the committee will receive and review information about the portfolio's performance and make adjustments as necessary.
- **Determine the responsibilities of committee members:** Clearly define the roles and responsibilities of each committee member, including who will be responsible for research, analysis, and reporting.
- **Schedule regular meetings:** Set a regular schedule for meetings to review the portfolio's performance and make any necessary adjustments.

Establishing an investment committee can help ensure that investment decisions are made in a structured and transparent manner and that portfolios are managed in line with investment objectives and risk tolerance. It is recommended that the investment committee seek professional financial advice and engage with qualified investment managers to assist with portfolio management.

REVIEWING INVESTMENT PERFORMANCE

Reviewing investment performance is an important part of managing your investments and monitoring progress towards your financial goals. Here are some best practices for reviewing investment performance:

- **Set clear investment goals:** Clearly define your investment objectives, including expected returns and risk tolerance, before making any investments. This will help you determine whether your portfolio is meeting your expectations.
- **Use benchmark indices:** Compare your portfolio's performance to benchmark indices that are relevant to your investment objectives. This can help you assess whether your portfolio is outperforming or underperforming the market.
- **Regularly review portfolio holdings:** Regularly review the composition of your portfolio and make adjustments as necessary to ensure that it remains aligned with your investment goals and risk tolerance.
- **Monitor market conditions:** Stay informed about market conditions and economic trends that may impact your portfolio's performance.
- **Rebalance your portfolio:** Consider rebalancing your portfolio on a regular basis to maintain your desired asset allocation and minimize the impact of market fluctuations.

REVIEWING INVESTMENT PERFORMANCE

- **Seek professional advice:** Consider seeking professional financial advice if you have concerns about your portfolio's performance or if you need help with investment strategy.

By regularly monitoring and reviewing your investment performance, you can ensure that your portfolio remains aligned with your investment goals and risk tolerance. This can help you make informed decisions and maximize your long-term investment returns.

INVESTMENT PERFORMANCE BENCHMARKS

The best benchmarks to review investment performance depend on the type of investment and the investment goals. Here are some commonly used benchmarks, however that are other benchmarks that are equally as good:

- **Equity investments:** For equity investments, the Standard & Poor's 500 Index (S&P 500), S&P/ASX Net Total Return, MSCI World Index or the Dow Jones Industrial Average (DJIA) are widely used benchmarks.
- **Fixed income investments:** For fixed income investments, the Bloomberg Ausbond Bank Bill Index, the Barclays Capital U.S. Aggregate Bond Index or the Bloomberg Barclays Municipal Bond Index are commonly used benchmarks.
- **Real estate investments:** For real estate investments, the ASX 200 Accumulation AREIT Index and the National Association of Real Estate Investment Trusts (NAREIT) All Equity REITs Index are commonly used benchmarks.
- **Alternative investments**: For alternative investments, such as hedge funds, private equity, and commodities, there is no single benchmark that is widely used. In these cases, it may be more appropriate to compare performance to a custom benchmark that is tailored to the specific investment strategy.

It's important to keep in mind that benchmarks are not perfect indicators of investment performance and should be used as a reference point rather than a guarantee of performance. Factors such as market conditions, economic trends, and individual investment goals should also be considered when assessing investment performance.

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