

Using Principia to Create an Investment Policy Statement

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Using Principia to Create an Investment Policy Statement

This manual will show you how to create an Investment Policy Statement for use with clients.

The Investment Policy Statement (IPS) is a document that provides the general investment goals and objectives of a client, and describes the strategy to achieve these goals.

Having an IPS on record with a client allows an advisor to do the following:

- Establish objectives for structuring an investment proposal suitable to the long term needs and risk tolerance of the client.
- Formulate policies for selecting appropriate and suitable investments within the framework of that structure.
- Establish prudent procedures for monitoring and evaluating the performance of investments within the proposal and for addressing changes in the policy.

Overview

What is the purpose of an IPS?

Creating Investment Policy Statements

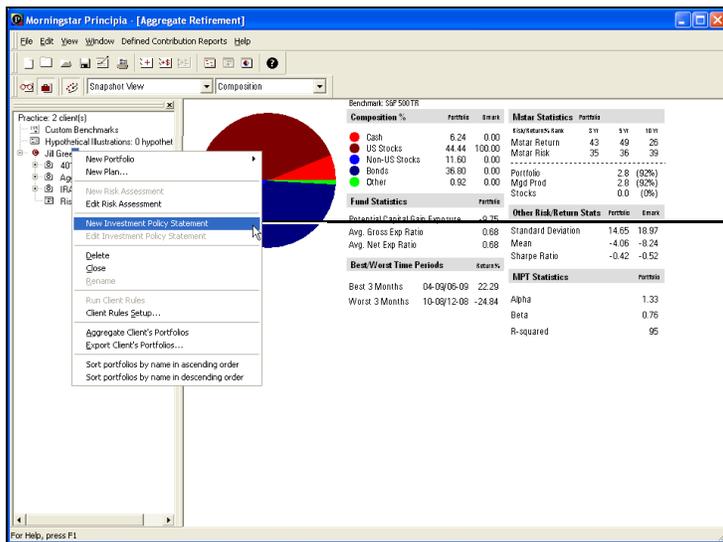
This section will show you how to create an IPS for a client.

Overview

To create an Investment Policy Statement do the following:

Creating an Investment Policy Statement

1. From the Advisor Palette in the Portfolio Mode of Principia, right-click once on a client's name to select it.
2. From the menu, click **New... Investment Policy Statement**. The Morningstar Investment Policy Statement window appears.

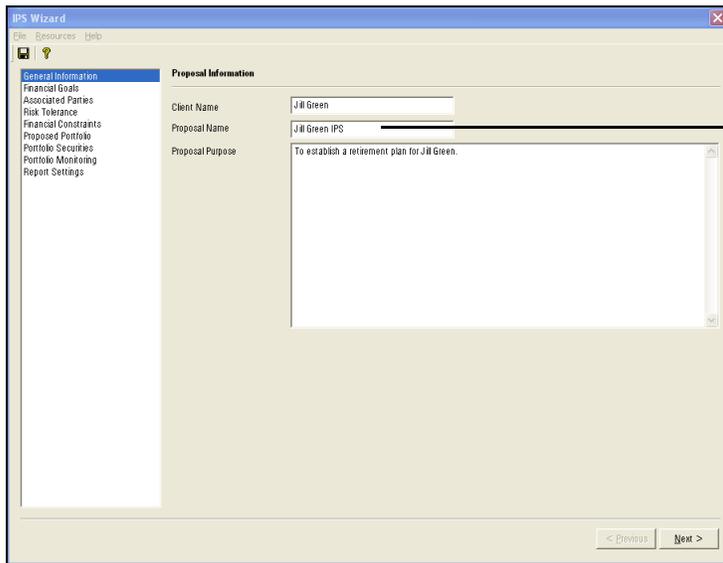


Right-click on a client's name, then select **New Investment Policy Statement**

The table below provides information about the fields available on the General Information step.

Field Name	Description
Client Name	This is the client file name you selected in Principia before opening the IPS wizard. This should be entered automatically for you.
Proposal Name	Type a name for the proposal here. This will appear on the cover page of the report.
Proposal Purpose	Enter the main purpose of the plan. For example: To establish a retirement plan for Jill Green.

- On the General Information tab of the Morningstar Investment Policy Statement wizard, type a **Proposal Name**.



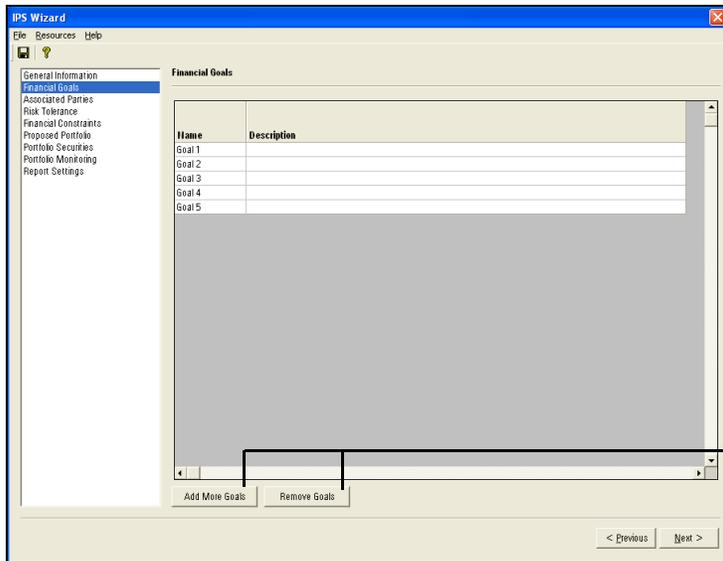
Enter IPS Proposal Name here

- Optionally, enter information in the **Proposal Purpose** field.
- Click **Next**. You should now be on the Financial Goals step.

In this section, you will enter financial goals for the client. Do the following:

Entering Financial goals

- In the Description field, enter a **description** of financial goals for the client.



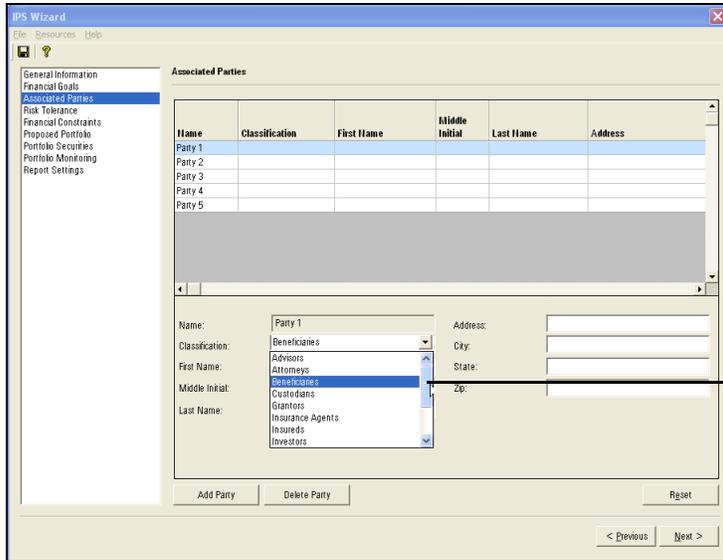
Use these buttons to Add or Remove goals

- Click **Next** when done. You should now be on the Associated Parties step.

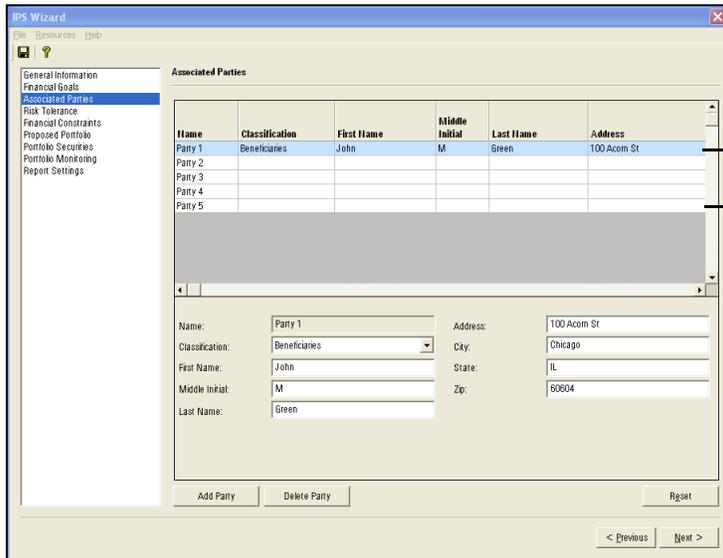
In this section, you will enter the information for all parties associated with this plan. To enter information for Associated Parties, do the following:

Entering information for Associated Parties

1. From the form area at the bottom of the step, make a selection from the **Classification** field.



2. Enter **name** and **demographic** information in the rest of the form area.

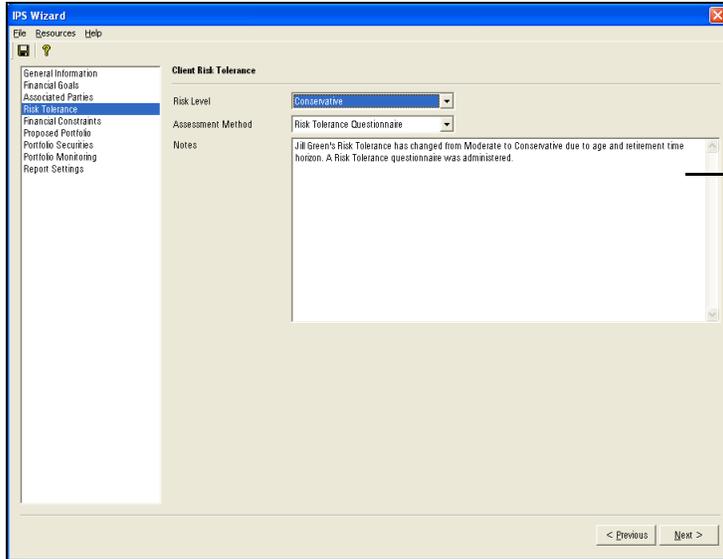


3. To save the data and have it appear in the grid at the top of the step, click on the row for Party 2.
4. Repeat steps 1-3 for all additional parties.
 - ☞ To add a sixth party (or more), click the **Add Party** button. To delete a party, select the party's row, then click the **Delete Party** button. To erase information in the form area, click the **Reset** button.
5. Click **Next**. You should now be on the Risk Tolerance step.

In this section, you will enter details relating to the client's risk tolerance. Do the following:

Entering a client's Risk Tolerance

1. Select a **Risk Level** from the drop-down field.
2. Select the **Assessment Method** from the drop-down field.
3. Enter any additional **Notes** describing why you selected this risk level.



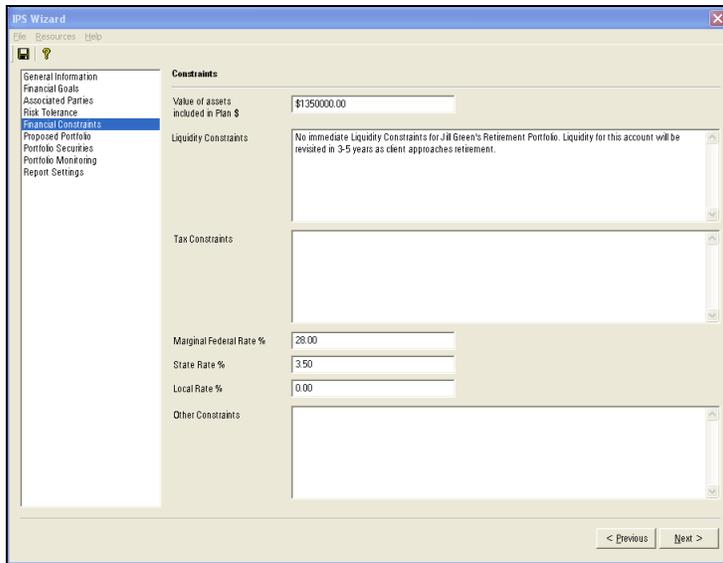
You can enter notes regarding the client's risk tolerance here.

4. Click **Next**. You should now be on the Financial Constraints step.

In this section, you will enter details relating to the client's financial constraints. Do the following:

Entering a client's Financial Constraints

1. In the **Value of assets included in Plan \$** field, enter a dollar amount.
2. Enter any **Liquidity Constraints**.
3. Enter any **Tax Constraints**.
4. Enter the **Marginal Federal Rate %**.
5. Enter the **State Rate %**.
6. Enter the **Local Rate %**.
7. Enter **Other Constraints**.



Liquidity, Tax, and Other Constraints can be added to the appropriate sections of this window

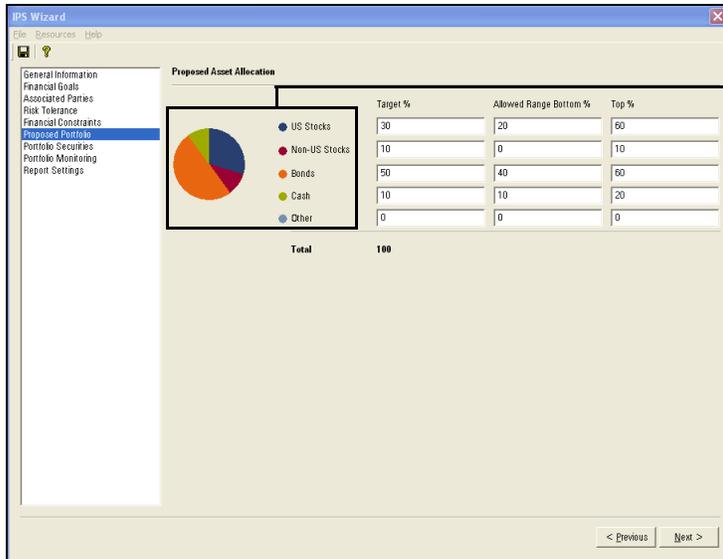
8. Click **Next**. You should now be on the Proposed Portfolio step.

In this step you can enter a proposed portfolio’s target asset allocation.

Creating a Proposed Portfolio

To enter the Proposed Asset Allocation, do the following:

1. In the Target % column, enter the **target allocation** for each asset class.
 - ☞ The Total value at the bottom of this column must equal exactly 100% before you can proceed.
2. In the Allowed Range Bottom % field, type the **minimum allowed percentage** for each asset class.
3. In the Top % field, type the **maximum allowed percentage** for each asset class.



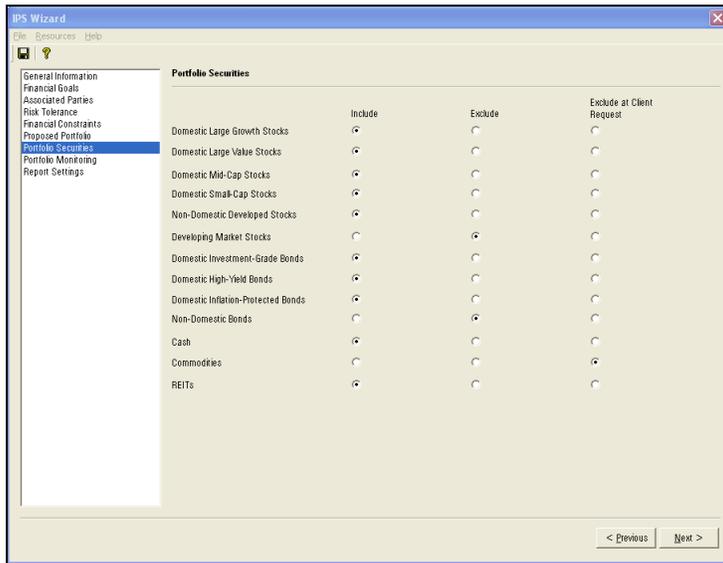
The pie chart displays the Proposed Asset Allocation

4. Click **Next**. You should now be on the Portfolio Securities step.

In this step, you can decide which asset classes to include or exclude from a client’s portfolio. To include or exclude portfolio securities, do the following:

Selecting securities for a portfolio

1. To include an asset class, choose the option under the **Include** column.
2. To exclude an asset class, choose the option under the **Exclude** column.
3. To exclude an asset class by client request, choose the option under **Exclude at Client Request**.



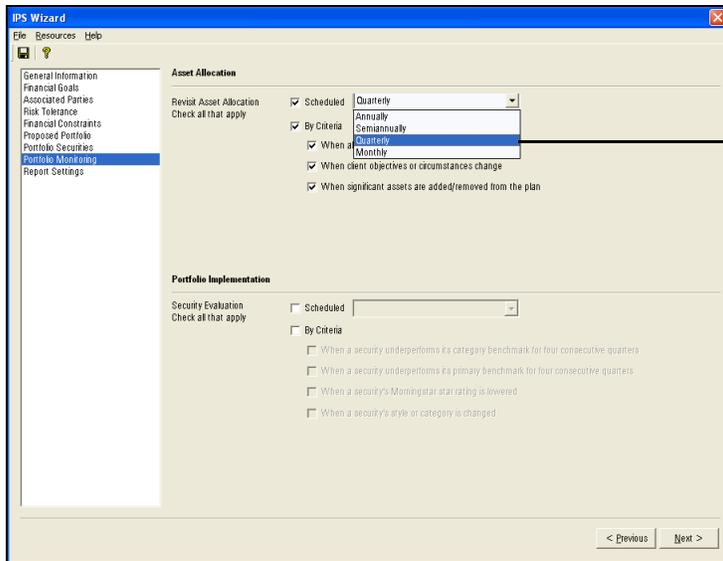
Use the Portfolio Securities section to identify which asset classes are included or excluded from the IPS.

4. Click **Next**. You should now be on the Portfolio Monitoring step.

In this step, you can define the frequency with which the asset allocation and portfolio implementation will be reevaluated. You can also use this step to determine the criteria for reevaluation. To determine the frequency and criteria for reevaluating the asset allocation, do the following:

Establishing portfolio monitoring for an IPS

1. From the Asset Allocation section, check the **Scheduled** box next to Revisit Asset Allocation.
2. From the drop-down field, select the **frequency** for reevaluation.
3. To establish criteria for reevaluation, check the **By Criteria** box and one or more of the selections.

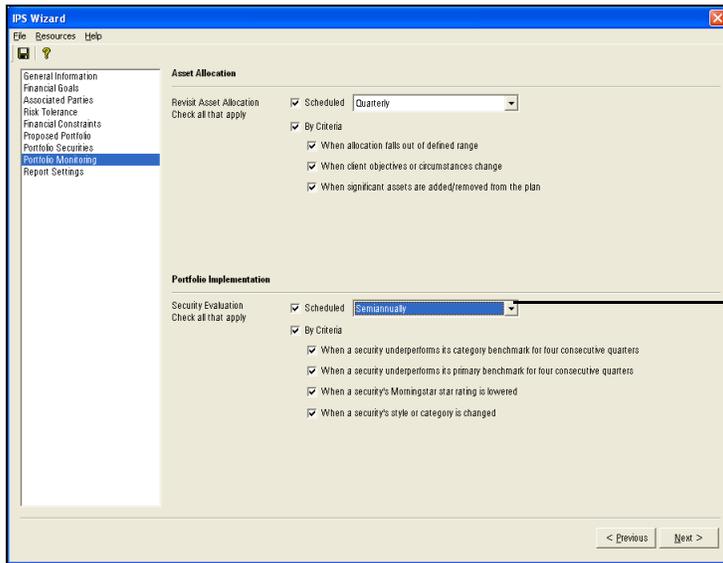


Select the frequency with which to revisit the asset allocation

To determine the frequency and criteria for reevaluating the portfolio implementation, do the following:

Establishing the portfolio implementation settings for an IPS

1. From the Portfolio Implementation section, check the **Scheduled** box next to Security Evaluation.
2. From the drop-down field, select the **frequency** for reevaluation.
3. To establish criteria check one or more of the **By Criteria** boxes.



Select the frequency with which to revisit Portfolio Implementation

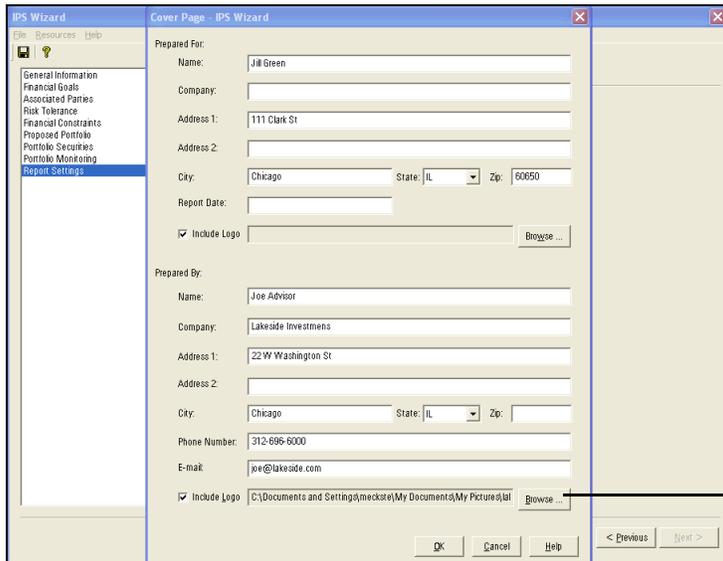
4. Click **Next**. You should now be on the Report Settings step.

In this step, you will edit the cover page, generate the report, and save the IPS Report. Note that you can add a logo both for your client, and yourself.

Selecting and entering the report settings

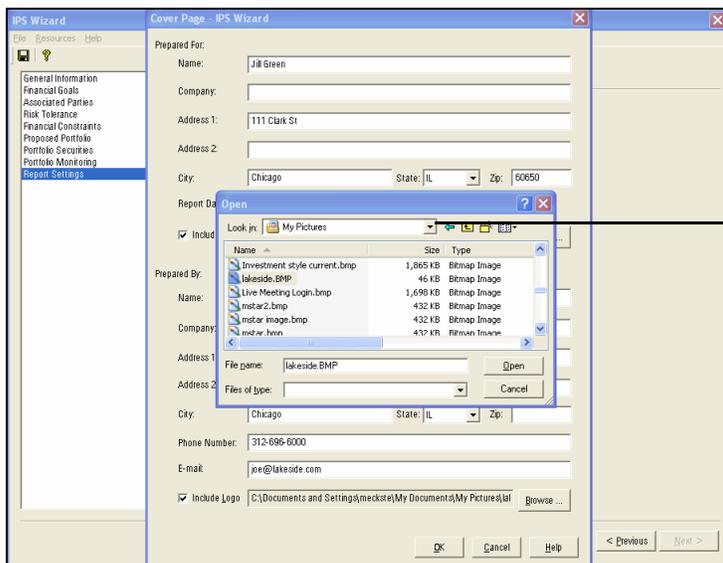
To edit the cover page, do the following:

1. From the Report Setting tab, click the **Edit Cover Page** button.
2. Enter the **Prepared For** and **Prepared By** information.
3. To include a logo, check the **Include Logo** box.
4. Click the **Browse** button. The Open dialog box appears.



Click the **Browse** button and navigate to your saved company logo.

5. Using the **Look in** drop-down, navigate to and select the logo.



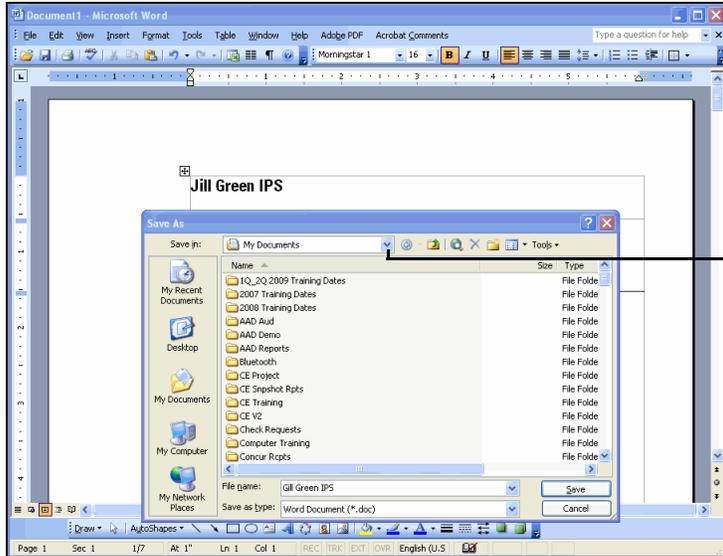
Click the **Look in** drop-down to navigate to your saved company logo

6. Click **Open**.
7. Click **OK** to return to the Report Settings page.
8. Click **Generate Report**. The report appears in a new window as a Microsoft Word document.
9. Click **OK** when the Finished generating report dialog box appears.

To save the IPS Report as a Microsoft Word document, do the following:

Saving an IPS report in Microsoft Word

1. From the Report Setting tab, click the **Generate Report** button. The report generates as a Microsoft Word document.
2. From the menu bar, click **File...Save As**.
3. In the **File Name** field, enter the name of the file.



Click the **Save in** drop-down and navigate to the location where you want to save the IPS file

4. Click **Save**.

Saving and Editing an Investment Policy Statement

In this section, you will learn how to save an IPS, as well as how to open or edit a saved IPS.

You can save an IPS at any point while you are using the tool. To save an IPS, click **File... Save** at the top of the page.

To open or edit an IPS, do the following:

1. From the Advisor Palette in the Portfolio Mode of Principia, right-click once a **client's name** to select it.
2. From the menu, click **Edit Investment Policy Statement**. The IPS Wizard window appears.
3. Make any modifications you want, then click the **Save** icon.
4. From the menu bar, select **File... Exit** when all changes have been made.

Overview

Saving an Investment Policy Statement

Opening and editing an Investment Policy Statement

Adding Your Own Selections in the IPS Window

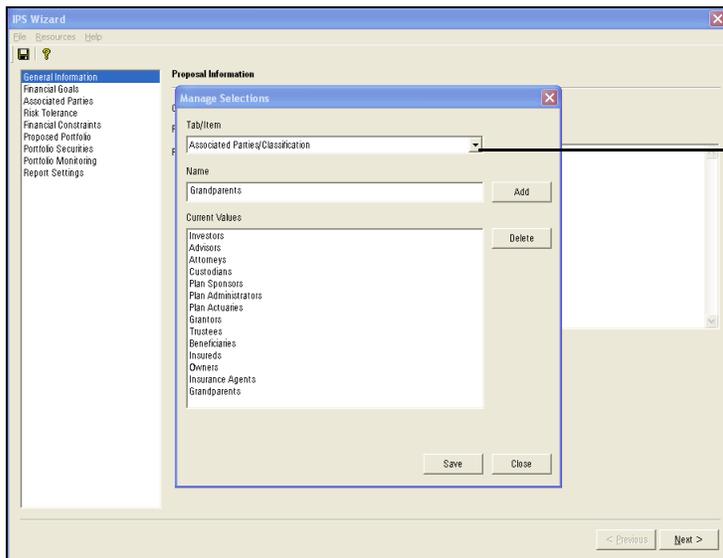
This section will show you how to add selections to a number of different drop-down fields available on most of the tabs in the Investment Policy Statement wizard. If the existing options do not meet your needs, this is your chance to create values that match your practice.

You can add new selections for the following tabs and items:

- Associated Parties/Classification
- Financial Constraints/Assessment Method
- Financial Constraints/Risk Level
- Portfolio Monitoring/Allocation by Criteria
- Portfolio Monitoring/Evaluation by Criteria
- Portfolio Monitoring/Revisit Schedule
- Portfolio Monitoring/Security Evaluation Schedule
- Proposed Portfolio/Portfolio Securities.

To create additional items for the Classification drop-down field in the Associated Parties tab, do the following:

1. From the menu bar, select **Resources...Edit**. The Manage Selections dialog box appears.
2. From the Tab/Item drop-down field, be sure **Associated Parties/Classification** is selected.
3. Type a **Name** for the selection.
4. Click **Add**.
5. Click **Save**.



Make sure **Associated Parties/Classification** is selected here

6. Click **Close**.

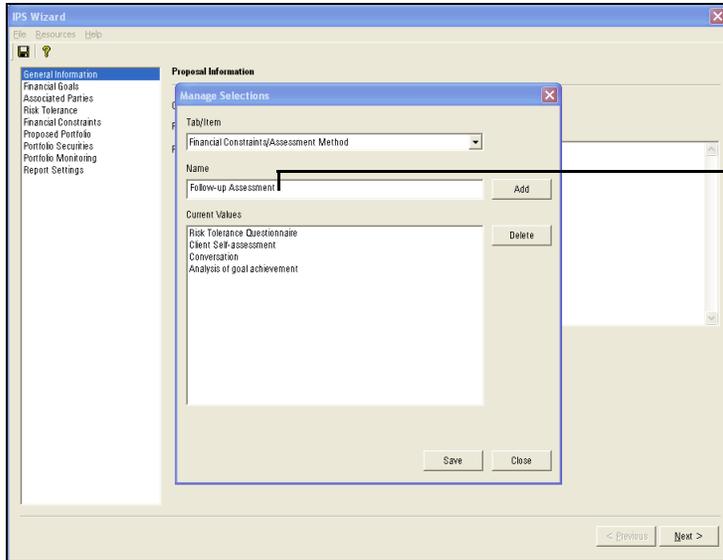
Overview

Adding selections for Classification

To create additional items for the Assessment Method and Risk Level drop-downs in the Financial Constraints tab, do the following:

Adding selections for Assessment Method

1. From the menu bar, select **Resources...Edit**. The Manage Selections dialog box appears.
2. From the Tab/Item drop-down field, select one of the following:
 - **Financial Constraints/Assessment Method**
 - **Financial Constraints/Risk Level**
3. Enter a **Name** for the selection.
4. Click **Add**.
5. Click **Save**.



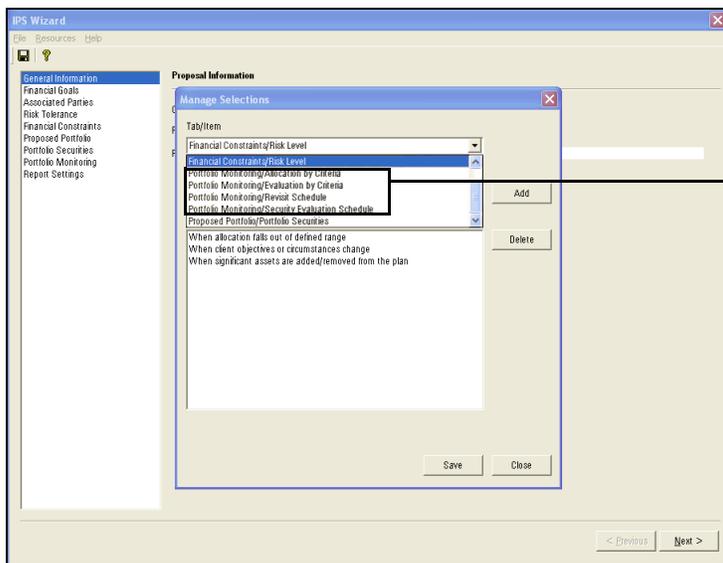
Enter a name for the Financial Constraints/ Assessment Method drop-down

6. Click **Close**.

To create additional options for the Portfolio Monitoring tab, do the following:

1. From the menu bar, select **Resources...Edit**. The Manage Selections dialog box appears.
2. From the Tab/Item drop-down field, select one of the following:
 - **Portfolio Monitoring/Allocation by Criteria**
 - **Portfolio Monitoring/Evaluation by Criteria**
 - **Portfolio Monitoring/Revisit Schedule**
 - **Portfolio Monitoring/Security Evaluation Schedule**
3. Enter a **Name** for the selection.
4. Click **Add**.
5. Click **Save**.

Adding Securities for Portfolio Monitoring



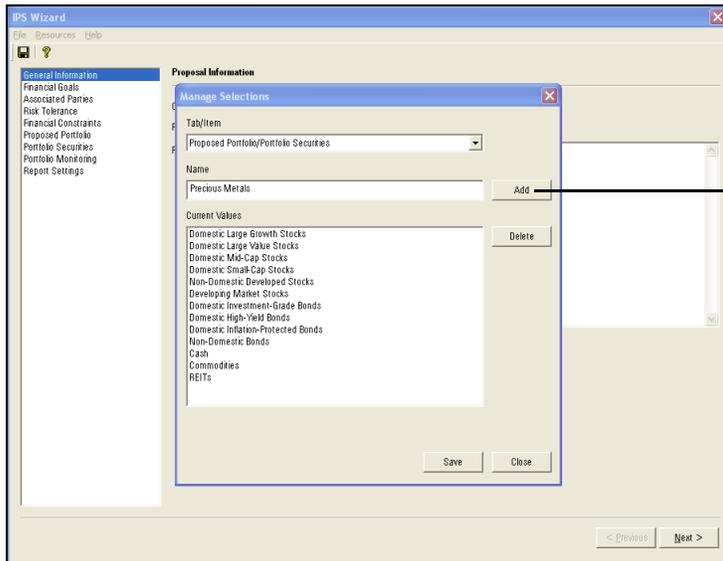
Select one of these four options from the drop-down list

6. Click **Close**.

To create additional portfolio securities for the Proposed Portfolio tab, do the following:

Adding selections for Portfolio Securities

1. From the menu bar, select **Resources...Edit**. The Manage Selections dialog box appears.
2. In the Tab/Item drop-down field, select **Portfolio Monitoring/Portfolio Securities**.
3. Enter a **Name** for the selection.
4. Click **Add**.
5. Click **Save**.



Click **Add** after typing a name for the new Portfolio Security

6. Click **Close**.