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.	Overview
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. 	What is the purpose of an IPS?

• Establish prudent procedures for monitoring and evaluating the performance of investments within the proposal and for addressing changes in the policy.

Creating Investment Policy Statements

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

To create an Investment Policy Statement do the following:

- 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.



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.

Overview

Creating an Investment Policy Statement

Version 1.0

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

IPS Wizard Ele Resources Help	Proposal Information		×	
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- 4. Optionally, enter information in the Proposal Purpose field.
- 5. 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

- IP Wind
 Image: Control to the second tot
- 1. In the Description field, enter a **description** of financial goals for the client.

2. 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.

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	 ✓ Name: Classification First Name: Middle Initia Last Name: 	Party 1 : Peneficiaries John t: M Green		Address City: State: Zip:	100 Chi IL 605	Acom St Jago O4	×	Associated Parties
	Add Pa	rty Delete Pa	rty				Reset	
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- 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.



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.

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General Information	Constraints		
Financial Goals Associated Parties Risk Tolerance Epancial Constraints	Value of assets included in Plan \$	\$1350000.00	
Tantal United and Proposed Provide Protosio Monitaring Report Settings	Liquidity Constraints Tax Constraints	No immediate Liquidity Coastraints for Jil Grien's Retirement Pontolo. Liquidity for this account will be revisited in 3.5 years as client approaches retirement.	Liquidity, Tax, and Other Constraints can be added to the
	Marginal Federal Rate %	350	of this window
	Local Rate %	0.00	
	Other Constraints		
		< Previous Next >	

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.

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.

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General Information Francist Goals Associate Granies Risk Tokanos Francist Goals Association Francist Construction Portfols Socialities Portfols Moniforing Report Settings	Proposed Asset Allecatio	 US Stecks Nen-US Stecks Bonds Cash Other Total 	Target % 30 10 50 0 10 0 10	Alowed Pange Bottom % 20 0 10 10 0 0	Top % 60 10 20 0	The pie chart displays the Proposed Asset Allocation
					< Previous Next >	

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

Creating a Proposed Portfolio

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**.

General Information Financial Goals Associated Parties	Portfolio Securities				
Associated Parties					
Hink (nordanice Francisal Constants Fourchard Constants Fourchard Securities Portcloik Montoning Report Settings	Domestic Large Growth Stocks Domestic Large Value Stocks Domestic Mid-Cap Stocks Domestic Stocks Non-Domestic Developed Stocks Developing Market Stocks Domestic Investment-Grade Bonds Domestic Midnich-Protected Bonds Non-Domestic Bonds Canh Commodifies REITS	Include c c c c c c c c c c c c c	Exclude C C C C C C C C C C	Exclude at Client Request C C C C C C C C C C C C C C C C C C C	Use the Portfolio Securities section to identify which asset classes are included or exclude 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.

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	Pertfolio Implementation Security Evoluation Check al that apply	Scheduled Scheduled	
		< Brevious Next >	-

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.

IPS Wizard		×
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General Information Financial Goals Associated Parties Risk Tolerance Financial Constraints Proposed Portfolio Portfolio Securities	Asset Allocation Revisit Asset Allocation Check all that apply F By Citeria V When allocation falls out of defined tange	
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	< Diamons New >	1

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.

IPS Wizard	Cover Page - IPS Wizard	×		
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	Pepard By: Name: Joe Advisor Company. Lakaside Investmens Address 1: 22W Washington St Address 2: Chicago Dhy. Chicago Phone Number: 326666000 E-mail: pipe@lakaside.com Ip Indude Lago C[]Documents and Settings/meckstel/WD Documents/WP Petures/WIL			Click the Browse button and navigate to your saved company logo.
	QK Cancel Help		<u> </u>	

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

IPS Wizard	Cover Page - IPS Wizard	X	
IPS Wizard Ere Besources Help Image: Second Sec	Cover Page - IPS Witzard Pepade For: Name: Jill Green Company: Address 1: 111 Class St Address 2 Cky: Chicago State: IL 20: 00050 Report D Cover, IP Mane - State: IL 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 00050 Report D Cover, IP Mane - State: III 20: 000 Report D Cover, IP Mane - State: III 20: 000 Report D Cover, IP Mane - State: III 20: 000 Report D Report D Cover, IP Mane - State: III 20: 000 Report D Cover, IP Mane - State: III 20: 000 Report D Cover, IP Mane - State: III 20: 000 Report D Report D Cover, IP Mane - State: III 20: 000 Report D Cover, IP Mane - State: III 20: 000 Report D Cover, IP Mane - State: III 20: 000 Report D Report D Cover, IP Mane - State: III 20: 000 Report D Cover, IP Mane - State: III 20: 000 Report D Report D Cover, IP Mane - State: III 20: 000 Report D Cover, IP Mane - State: III 20: 000 Report D Repo		Click the Look in drop-down to navigate to your saved company logo
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- 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.

Saving an IPS report in

Microsoft Word

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

- 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.



4. Click Save.

Saving and Editing an Investment Policy Statement

In thi IPS.	s section, you will learn how to save an IPS, as well as how to open or edit a saved	Overview
You c File	an save an IPS at any point while you are using the tool. To save an IPS, click . Save at the top of the page.	Saving an Investment Policy Statement
To open or edit an IPS, do the following:		Opening and editing an
1.	From the Advisor Palette in the Portfolio Mode of Principia, right-click once a client's name to select it.	Investment Policy Statement
2.	From the menu, click Edit Investment Policy Statement . The IPS Wizard window appears.	
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- 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

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.

Adding selections for Classification

- sal Inf General Information Financial Goals Associated Parties Risk Tolerance Financial Constraint Tab/Item trainte posed Portfoli Associated Parties/Classification Name nort Setting Grandparen Make sure Associated Add Parties/Classification is Current Values Investors Advisors Attorneys Custodians Plan Administr Plan Actuaries Grantors Trustees Beneficiaries Delete selected here Owners Save Close us <u>N</u>ext >
- 6. Click Close.

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.



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.



6. Click Close.

Adding Securities for Portfolio Monitoring

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

1. From the menu bar, select **Resources**...**Edit**. The Manage Selections dialog box appears.

Adding selections for Portfolio Securities

- 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.

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General Information	Proposal Information	
Financial Goals Associated Parties	Manage Selections	
Financial Constraints	r Tab/Item	
Portfolio Securities	Proposed Portfolio/Portfolio Securities	
Portfolio Monitoring Report Settings	Name	
	Precious Metals Add	
	Current Values	Click Add after
	Domesic Lunge Forwich Stocks Domesic MeCap Stocks Domesic MeCap Stocks Domesic MeCap Stocks Domesic MeCap Stocks Non-Domesic Developed Stocks Domesics meetimeer Folger Bonds Domesics Interviewer Folger Bonds Domesics Interviewer Bonds Cash Cammodities RelTs	typing a name for the new Portfolio Security
	Save Close	

6. Click Close.