

# Creating an Investment Policy Statement

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# Creating an Investment Policy Statement

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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.

You can have multiple Investment Policy Statements for a single client. For instance, you could have one for a client to achieve certain retirement goals, and a separate one for helping to buy a second home.

## **Overview**

### **What is the purpose of an IPS?**

### **How many Investment Policy Statements can I have for a client?**

# Creating Investment Policy Statements

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

## Overview

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

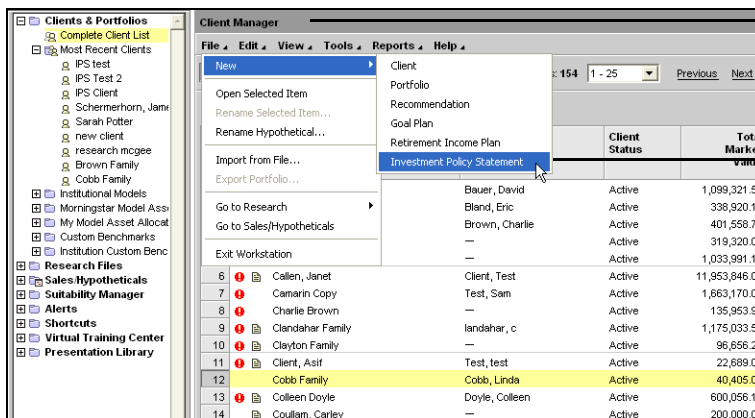
## Creating an Investment Policy Statement

Field Name	Description
Client Name	This is the client file name you selected in Workstation before opening the IPS wizard.
Proposal Name	Type a name for the proposal here. This will appear on the cover page of the report, and on the Plans tab on the Client Detail page in Workstation.
Proposal Purpose	Enter the main purpose of the plan. For example: To establish a source of education and college funding for the client's children.
Financial Goals	Enter the specific investment goals to meet the client's long term objectives of the plan.  For example: To establish college funding, expecting to total an average of \$50,000 per year for 11 years.

Note: If you would like to add more than five goals, click the **Add More Goals** button.

To create an Investment Policy Statement do the following:

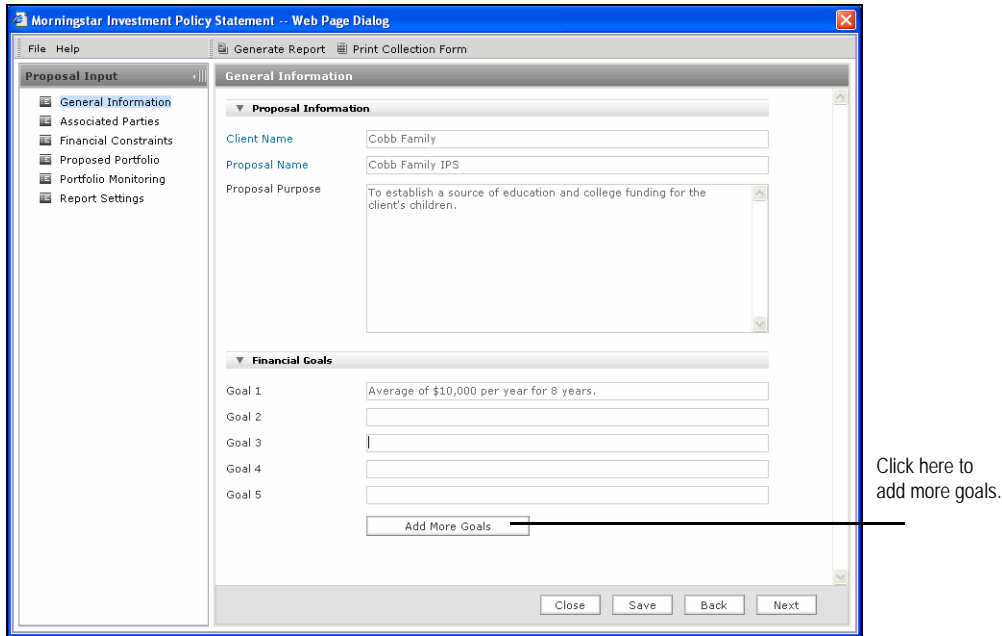
1. From the **Client Manager** screen in the Clients & Portfolios module of Advisor Workstation Enterprise Edition, click once on a client's name to select it. Note a portfolio must be created for the client prior to creating an IPS.
2. From the menu bar, click **File . . . New . . . Investment Policy Statement**. The Morningstar Investment Policy Statement window appears.



Begin creating an IPS from the Client Manager screen within the Clients & Portfolios module.

Select this option from the New menu to create an IPS

3. On the General Information tab of the Morningstar Investment Policy Statement window, type a **Proposal Name**.
4. Optionally, enter information in the following fields:
  - Proposal Purpose
  - Financial Goals



5. Click **Next**.

☞ Instead of going through the IPS online with your clients, you can produce a PDF to give your clients to take home. To do this, click the **Print Collection Form** button at the top of the Morningstar Investment Policy Statement window.

In this tab, you'll enter the information for all parties associated with this plan.

If data has already been entered for the Client and/or Partner in Workstation, it will automatically be included here. If you would like to edit the information for this Party, you can change it in the associated field.

### Entering information for Associated Parties

Note: If you open a saved IPS for a client whose profile you have since updated in Workstation, the updated profile information is not automatically updated in the IPS window. You will have to edit the information here as well.

To enter information for Associated Parties, do the following:

1. Make a selection from the **Classification** field.
2. Enter **client name** and **demographic** information.

The Classification defaults to Investor, but can be changed by using the drop-down field.

To add an additional party, click the **Add** button. To delete a party, select the box next to the party's name and click the **Delete** button.

3. Click **Next**.

In this tab, you will enter details relating to the client's risk tolerance and constraints.

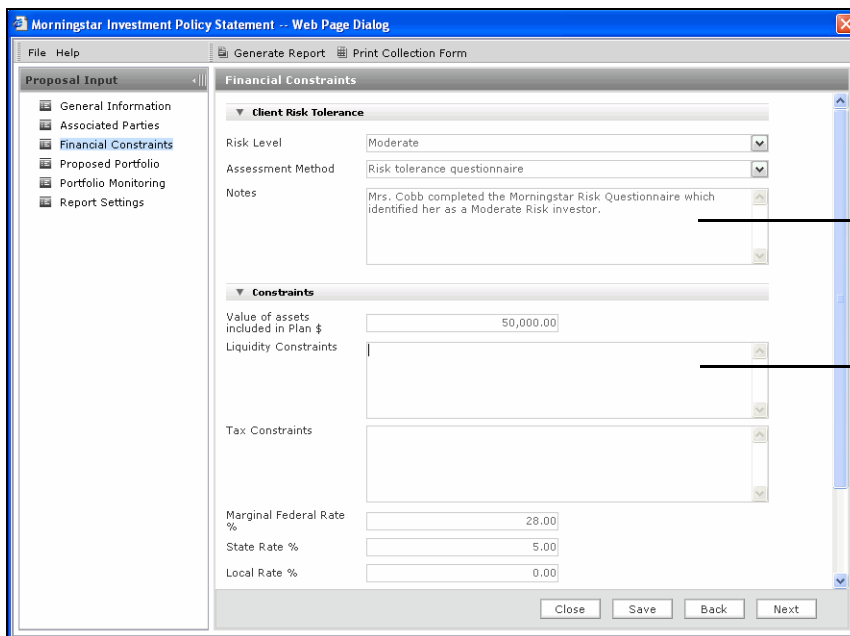
**Entering a client's Financial Constraints**

To enter the Client Risk Tolerance, do the following:

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.

To enter the Constraints, do the following:

1. Enter a dollar amount in the **Value of assets included in Plan** field.
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**.



You can add notes about the client's risk tolerance here.

Add any Liquidity Constraints here.

8. Click **Next**.

In this step you can enter constraints for the proposed portfolio’s asset allocation and elect to include or exclude certain security types from the proposed portfolio.

### Creating a Proposed Portfolio

To enter the Proposed Asset Allocation, do the following:

1. In the **Allowed Range Bottom %** field, type the minimum allowed percentage for each of the asset classes.
2. In the **Top%** field, type the maximum allowed percentage for each of the asset classes.

Asset Class	Target %	Allowed Range Bottom %	Top %
US Stocks	57	50	63
Non-US Stocks	10	5	13
Bonds	23	15	25
Cash	10	6	12
Other	0	0	0
Not Classified	0	0	0

The Target % defaults to the Target allocation identified on the client manager screen within the Clients & Portfolios module.

To include or exclude Portfolio Security types, do the following:

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**.

Portfolio Security	Include	Exclude	Exclude at Client Request
U.S. Large Cap Growth Stocks	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
U.S. Large Cap Core Stocks	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
U.S. Large Cap Value Stocks	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
U.S. Mid Cap Stocks	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
U.S. Small Cap Stocks	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-U.S. Developing Stocks	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Non-U.S. Emerging Stocks	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
U.S. Investment Grade Bonds	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
U.S. High Yield Bonds	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

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

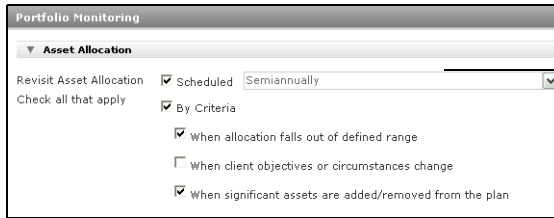
4. Click **Next**.

**Establishing Portfolio Monitoring for the IPS**

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:

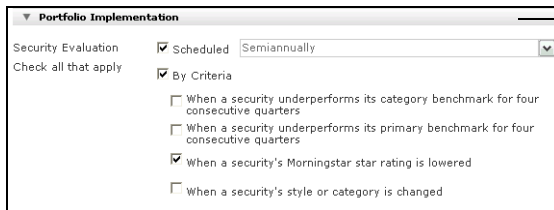
1. From the Asset Allocation section, check the **Scheduled** box next to Revisit Asset Allocation.
2. From the drop-down field, select the **frequency** for reevaluation.
3. To establish criteria for reevaluation instead of, or in addition to, the frequency, check the By **Criteria** box and one or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



Select the Scheduled box, and then use the drop-down to select the frequency to revisit the asset allocation.

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

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 for reevaluation instead of, or in addition to, the frequency, check the By **Criteria** box and one or more of the selections.



Use the Portfolio Implementation section to identify the criteria for Security Evaluation.

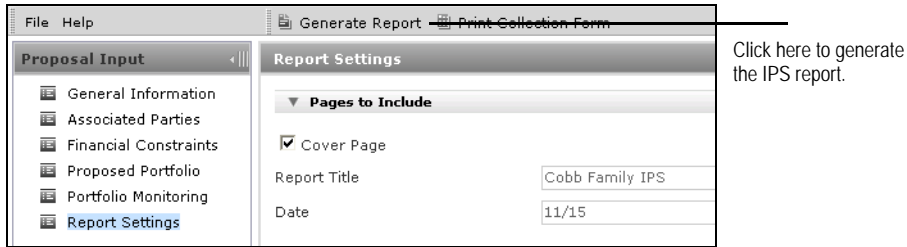
4. Click **Next**.

In this step, you can select which pages to include with your output report and customize the cover page.

### Selecting and entering your Report Settings

To use the Report Settings page, do the following:

1. From the Pages to Include section, select the **Cover Page** box.
2. Enter a **Report Title** and **Date**.
3. Complete the **Prepared For** and **Prepared By** fields.
4. Click **Generate Report**. The report appears in a new window as a PDF document.



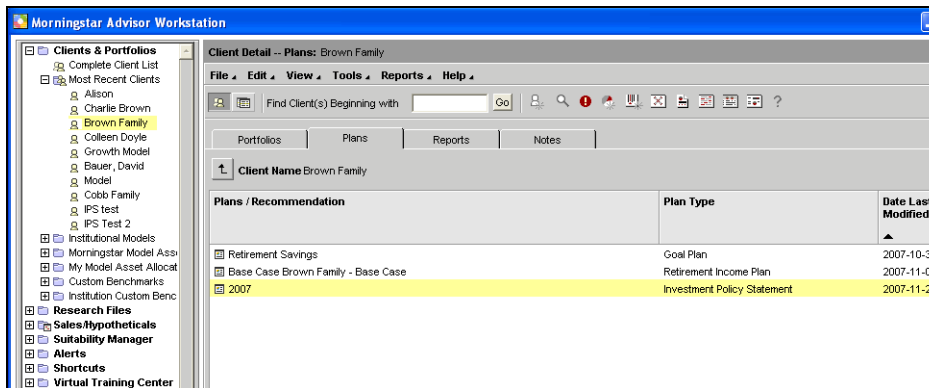
## Saving and Editing an Investment Policy Statement

In this section, you will learn how to save an IPS, as well as 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 the **Save** button at the bottom of the page. Each IPS appears on the Plans tab of the Client Detail screen in Workstation.

To open or edit an IPS, do the following:

1. In Workstation, go to the **Client Detail** screen for the client you are working with.
2. Click the **Plans** tab. The Investment Policy Statements you saved for this client appear here.
3. Double-click the **name** of an Investment Policy Statement to open it. The IPS window appears, and the information for the plan you selected is displayed.



Double-click a saved IPS to open it.

4. Make any modifications you want, then click **Save**.
5. Click **Close** 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 different steps in the Investment Policy Statement window. 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 fields:

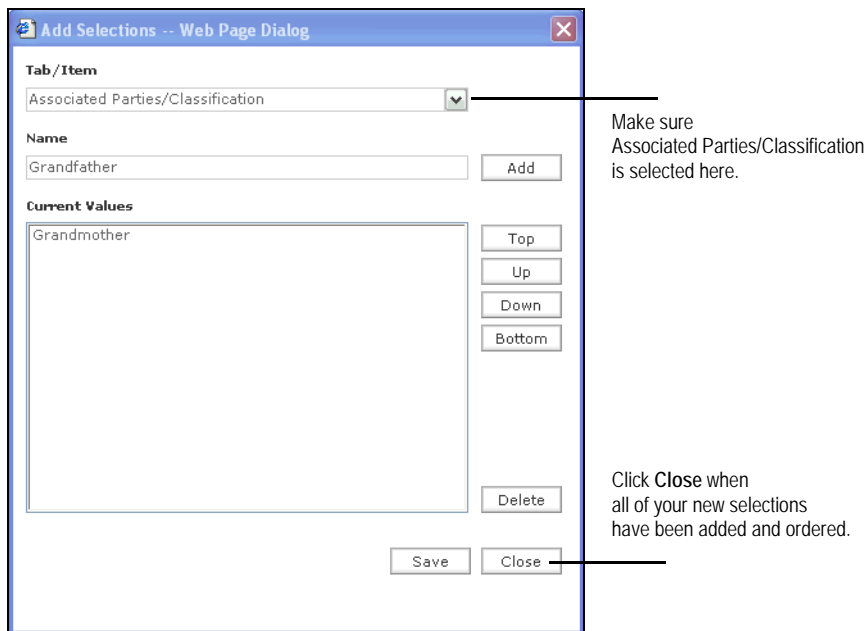
- Classifications (on the Associated Parties step)
- Risk Levels (on the Financial Constraints step)
- Assessment Methods (on the Financial Constraints step)
- Portfolio Securities (on the Portfolio Securities step)
- Revisit Schedule (on the Portfolio Monitoring step)
- Allocation by Criteria (on the Portfolio Monitoring step)
- Security Evaluation Schedule (on the Portfolio Monitoring step), and
- Evaluation by Criteria (on the Portfolio Monitoring step).

To create additional options from the Classifications drop-down field, do the following:

1. From the menu bar, select **File...Add Selections**. The Add Selection dialog box appears.
2. In the Tab/Item field, confirm that **Associated Parties/Classifications** is selected.

### Overview

### Adding selections for Classifications

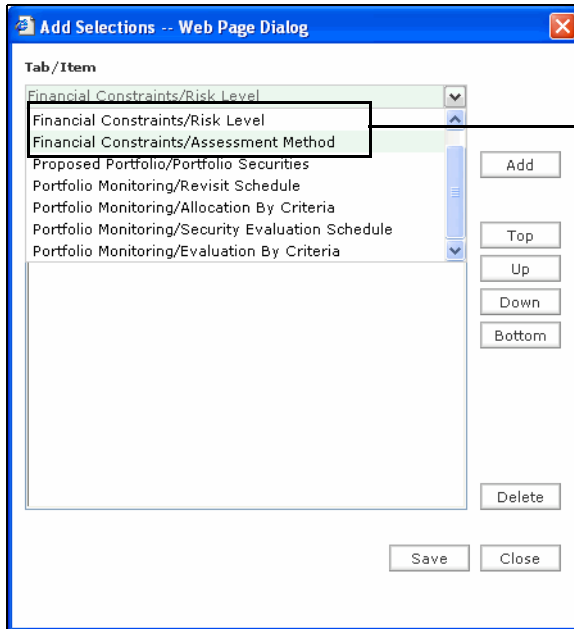


3. Type a **Name** for the selection.
4. Click **Add**.
5. Click **Save**.
6. Click **Close**. To access the new Classification, you will need to close the Morningstar Investment Policy Statement window and relaunch it.

To create additional options from the Risk Level and Assessment Method drop-down fields, do the following:

**Adding selections for Risk Levels or Assessment Methods**

1. From the menu bar, select **File... Add Selections**. The Add Selection dialog box appears.
2. From the Tab/Item field, select **Financial Constraints/Risk Level** (or select **Financial Constraints/Assessment Method**).



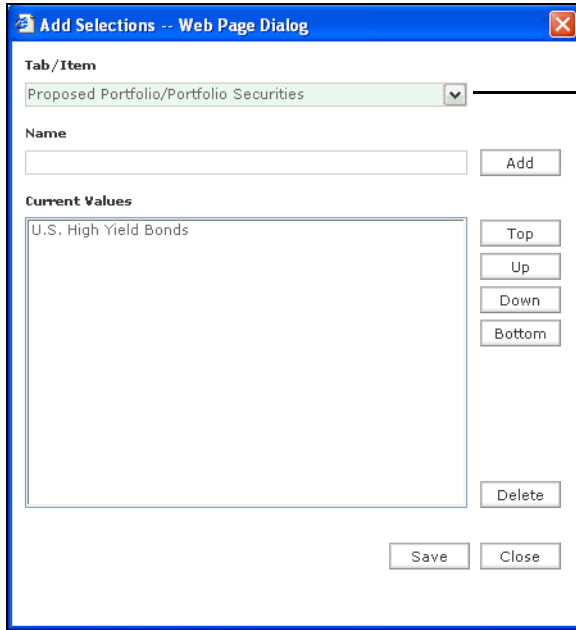
Select one of these two options from the drop-down list.

3. Enter a **Name** for the selection.
4. Click **Add**.
5. Click **Save**.
6. Click **Close**. To access the new Risk Level or Assessment Method, you will need to close the Morningstar Investment Policy Statement window and relaunch it.

To create additional options in the Portfolio Securities area, do the following:

1. From the menu bar, select **File...Add Selections**. The Add Selection dialog box appears.
2. From the Tab/Item field, select **Proposed Portfolio/Portfolio Securities**.

**Adding selections for Portfolio Securities**



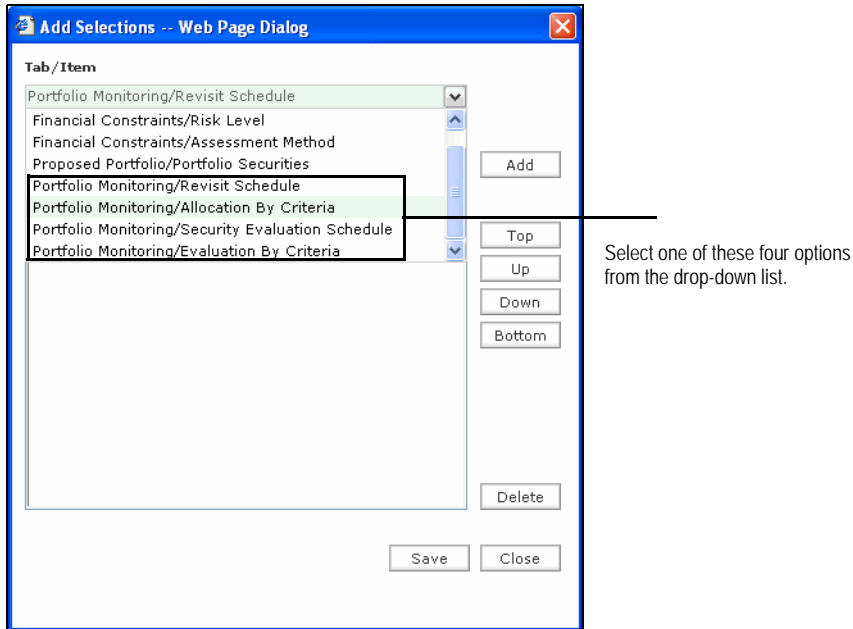
Make sure Proposed Portfolio/Portfolio Securities is selected here.

3. Enter a **Name** for the selection.
4. Click **Add**.
5. Click **Save**.
6. Click **Close**. To access the new Portfolio Securities, you will need to close the Morningstar Investment Policy Statement window and relaunch it.

To create additional options from the Portfolio Monitoring drop-down fields, do the following:

### Adding selections for Portfolio Monitoring

1. From the menu bar, select **File... Add Selections**. The Add Selection dialog box appears.
2. From the Tab/Item field, select one of the following:
  - **Portfolio Monitoring/Revisit Schedule**
  - **Portfolio Monitoring/Allocation by Criteria**
  - **Portfolio Monitoring/Security Evaluation Schedule**, or
  - **Portfolio Monitoring/Evaluation by Criteria**.



3. Enter a **Name** for the selection.
4. Click **Add**.
5. Click **Save**.
6. Click **Close**. To access the new frequency or criteria, you will need to close the Morningstar Investment Policy Statement window and relaunch it.

