

HOW TO ESTABLISH AN INVESTMENT POLICY STATEMENT FOR NONPROFIT ORGANIZATIONS

Perry T. Cabean, Managing Member
Grand Street Capital Management, L.L.C.
Presented to North Carolina Center *for* Nonprofits
Thursday June 12, 2025



WHAT IS AN INVESTMENT POLICY STATEMENT? (IPS)

An Investment Policy Statement is a written document that details the process for an organization's use of investment-related decisions. It shows how these decisions are related to the organization's mission, vision, and values as well as the objectives and goals of the individuals, organizations, and partners they serve. IPS's can be written for corporations, nonprofit organizations, retirement plans, and individuals (usually through a trust). They are typically a part of an organization's bylaws and a sub category of the Fiscal Policy Statement. The individuals who are responsible for making these investment related decisions are usually defined as Fiduciaries.

WHO ARE THE FIDUCIARIES?

A fiduciary is a person who holds a legal or ethical relationship of trust with one or more other parties. Typically, a fiduciary prudently takes care of money or other assets for another person.

Source: [Wikipedia](#)



PRIMARY RESPONSIBILITIES OF A FIDUCIARY IN THE IPS

- Duty of Loyalty
- Duty to Diversify
- Duty to Incur Reasonable Costs
- Duty to Monitor Investments
- Duty to Avoid Prohibited Transactions



FIDUCIARY'S PERSONAL LIABILITY

A fiduciary has a personal liability when it comes to the assets they are responsible for. Their home, personal assets, and business assets can be used to restore lost profits incurred as the result of a breach of any responsibility, obligation, or duty.



MANAGE THE PROCESS

A fiduciary's primary role is to manage the process of deploying assets. While the tasks may differ between an investment plan, an organization's treasury assets, or personal assets (i.e. a trust), it is the good management of the investment process that will reduce most concerns about fiduciary liability.

BEFORE WE BUILD THE IPS WE NEED TO BRING TOGETHER THE SUPPORTING DOCUMENTS



- Organization Bylaws
- Mission, Vision, Value Statements
- Finance Committee Minutes
- Financial Vendor Service Agreements
- Current Investment Performance
- IRS and Tax Related Documents
- Audit Reports (If applicable)

THE IPS FRAMEWORK

**Mission, Purpose, Goals,
Objective**

**Match Return Goals with
Spending Needs**

Calculate Risk Tolerance

**Risk Management
Strategy**

**Investment Asset
Classes**

Asset Allocation Policy

**Delegate Fiduciary
Authority**

**Monitoring and
Reporting**

MISSION, PURPOSE, GOALS, OBJECTIVES



Mission Statements are important to any organization. I believe, however, that they are more important to nonprofit organizations because not only do they impact the organization itself, they impact the individuals and communities they serve.

MISSION

This is the organization's brief declaration of its purpose. For example, a local food bank's mission is to "Solve Hunger" in its community. An IPS should reflect an investment strategy that will help the organization solve hunger.

PURPOSE

The organization's purpose is the fundamental reason for its existence. It looks at a broader, societal impact. An IPS should help an organization achieve this broader goal by considering longer term investments that seeks to support it well into the future.

GOALS

Goals are considered to be things that an organization would like to achieve. They can be specific and related to a project or event. An effective IPS will have clear language that includes the types of investments to meet the specific goals of the organization.

OBJECTIVES

Objectives are those specific, unique, and measurable tasks that an organization has. While they can fall under the Mission, Purpose, and Goals of an organization, they typically have a time requirement. An example would be to include language in the IPS that would permit bonds that mature in time to finance a specific project.

RETURN GOALS AND SPENDING NEEDS

Any organization that stands the test of time will consistently spend less money and resources than it brings in. That's budgeting 101. Your IPS should ensure that the investment returns exceed the spending needs of the organization.



SPENDING NEEDS

While exact values vary, most non-profits spend on average 4.5% of their total assets each year. These spending amounts can vary depending on unexpected events or shifts in community needs. An IPS should show how the organization can meet this target on an inflation adjusted basis.



REQUIRED RETURNS

The expected return listed in your IPS should plan to cover the average expenditure rate of 4.5%. Additionally, average inflation should be added to keep purchasing power. Today, expected inflation is 3%. We would add this rate along with a 1% management fee for the required return of around 8.5%.



INVESTMENTS REQUIRED TO MEET NEEDS

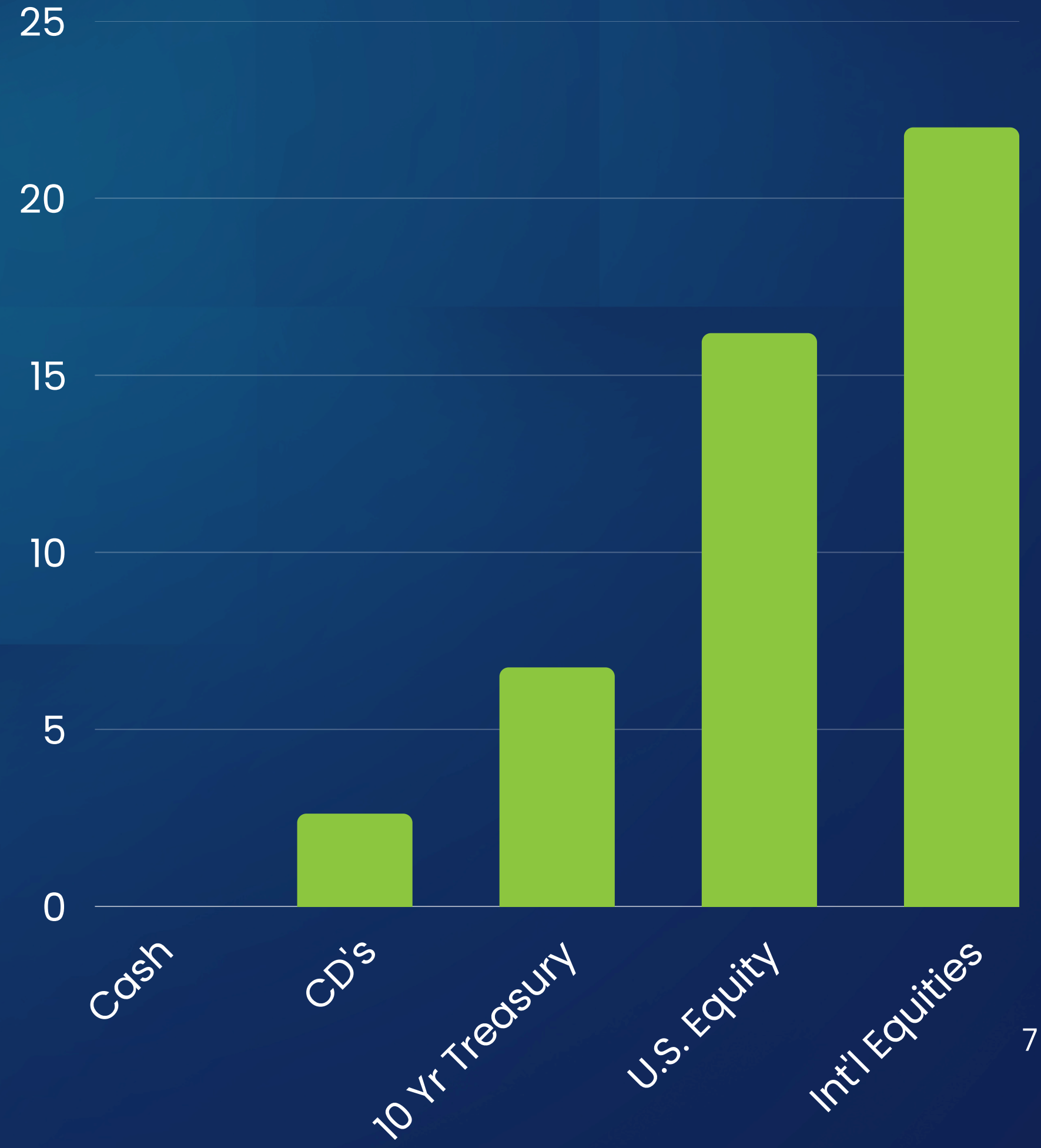
There are numerous investments that organizations can choose from to attempt to earn the 8.5%. Some of the investments are more risky than others. Typically, the higher the return potential, the higher the risk of the investment. How much risk should the organization incur to achieve the required return? This should be determined by your IPS.

RISK TOLERANCE

FIDUCIARIES ARE TASKED WITH DETERMINING THE APPROPRIATE LEVEL OF RISK FOR THE ORGANIZATION. THE FIDUCIARIES MUST AGREE ON THE SUITABLE LEVEL OF RISKY ASSETS TO BE INCLUDED IN THE INVESTMENT PORTFOLIO.

- The time horizon of the financial needs help determine the amount of risk that an organization can incur. As an example, a charitable organization is conducting a 5 year fundraiser to build a children's hospital. Having more risky assets in the portfolio will be deemed prudent because the investments have time to recover if the markets happen to decline over a short time period. If the funds were needed in 6 months, fewer equities and more stable investments like bonds might be more appropriate.
- Total risk at the portfolio level is the main risk to be concerned with but other types of risk should be considered when creating the IPS. Risk of capital loss and liquidity. The risk of loss of reputation is important as well, especially for large nonprofits in the public eye.

STANDARD DEVIATION OF INVESTMENT





RISK MANAGEMENT STRATEGY

1

DIVERSIFICATION

Combining investment assets with different qualities and risk profiles may lower the risk of the portfolio of assets when compared to the risk of each individual asset.

2

RISK TRANSFER

As a fiduciary, one of your options is to transfer your risk to a professional who is experienced in the areas that the fiduciary may not be. Hiring investment managers, financial planners, or financial consultants can transfer some of the risk but not the responsibility.

3

RISK REDUCTION

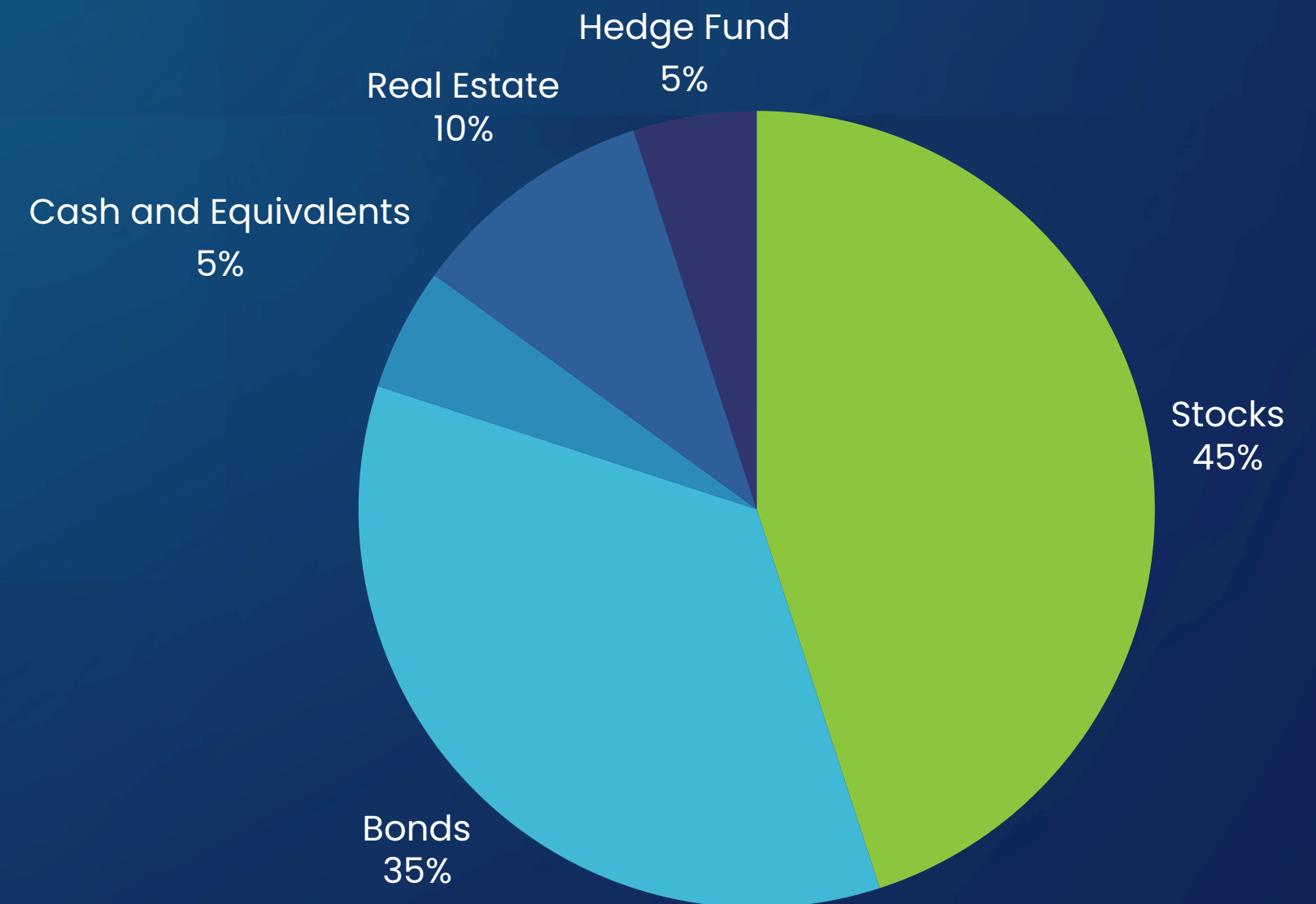
Another strategy for reducing risk is to invest in several assets that have already been diversified such as Mutual Funds and Exchange Traded Funds (ETF's). While these investment vehicles are diversified, they may still expose the investor to specific risks, especially if the focus is in a particular segment of the market.

INVESTMENT ASSET CLASSES



- Assets to be included in an organization's investment account should be clearly outlined. Traditionally, stocks, bonds, and cash equivalents have been included. Nowadays, real estate, asset back securities, foreign stocks and bonds, and hedge funds are common.
- Stocks can be categorized by market cap and investment styles such as Large Cap Stock, Mid Cap Stock or Small Cap Stock. Value Style, Growth Style, or Blended Style may be included in the IPS as well. Bonds can be Corporate Bonds, Municipal Bonds or Treasury Bonds with short, medium, or long durations.
- The IPS can restrict securities too. Common stock from companies that don't support Diversity Equity and Inclusion initiatives and are contrary to the mission and objectives of some nonprofits should be omitted from their investments. This is can be written in the IPS.

SAMPLE PORTFOLIO ALLOCATION



ASSET ALLOCATION POLICY

The Asset Allocation Policy in your IPS should reflect the risk tolerances and risk preferences of your organization. The required return is factored into the asset allocation policy. Capital needs as well as the sources and uses of funds are considered. This policy should remain in effect until a fundamental change in the organization’s needs dictate an adjustment. Below are simplified asset allocations that could be included in your IPS. The allocation policy should include an acceptable range of variation as well.



CONSERVATIVE ALLOCATION

The conservative allocation will benefit those nonprofit organizations that seek capital preservation as it’s main focus. This low-risk investment allocation contains some stocks which will help the portfolio mitigate the impact of inflation.

MODERATE ALLOCATION

The moderate allocation seeks a more balanced approach to your nonprofit’s investment program. This allocation is written into your IPS when the organization has some need for current funds but also has time to allow a portion of the portfolio to grow.

MODERATELY AGGRESSIVE ALLOCATION

Nonprofits that choose the moderately aggressive asset allocation typically have low liquidity needs and have the fortune of allowing the portfolio more time to grow. Bonds in the portfolio are intended to stabilize returns and provide some security to the value of the combined assets.

AGGRESSIVE ALLOCATION

The aggressive allocation primarily seeks growth and expansion of the organizations capital base. This wider capital base will allow the organization to provide more services to its community at a later date. Organizations with low needs and excellent funding sources can consider this allocation.

DELEGATE INVESTMENT MANAGEMENT RESPONSIBILITY

As a fiduciary, the ultimate responsibility for your organization's investments lies with you. However, you are allowed to delegate this responsibility to qualified professionals. If you seek these professionals while exercising the duty of care, skill, and caution when selecting them, your liability as a fiduciary may be greatly reduced or eliminated.



MONITORING, REPORTING AND REVIEW

Monitoring and reporting are key functions of any IPS. The IPS document is dynamic and requires adjustment over time. Financial circumstances change and we must adjust over time to meet the new requirements.



INVESTMENT MONITORING AND REPORTING INVESTMENT POLICY STATEMENT REVIEW

Individual investments and investment managers will be monitored, reviewed, and compared to their benchmarks. These benchmarks are established prior to investing in these assets or investing with managers. The review cycle (monthly, quarterly, or annually) should be established prior to investing.

The IPS should be reviewed at least annually and changed as needed. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS. Changes to the IPS should be made by the Finance Committee.



THIS SAMPLE OUTLINE IS INTENDED FOR ILLUSTRATIVE PURPOSES ONLY. YOUR UNIQUE ORGANIZATION MAY REQUIRE ADDITIONAL CATEGORIES AND PROFESSIONAL ASSISTANCE.

SAMPLE IPS OUTLINE

- **EXECUTIVE SUMMARY AND BACKGROUND**
- **PURPOSE OF THE INVESTMENT POLICY STATEMENT**
- **DUTIES AND RESPONSIBILITIES**
 - **FINANCE COMMITTEE**
 - **INVESTMET CONSULTANT (IF NEEDED)**
 - **INVESTMENT MANAGERS**
 - **CUSTODIAN**
- **INVESTMENT ASSET CLASSES**
 - **DIVERSIFICATION ACCORDING TO RISK**
 - **BENCHMARK COMPARISON**
- **INVESTMENT MANAGER SELECTION**
- **MONITORING INVESTMENT MANAGERS**

GET IN TOUCH!



At Grand Street, we aspire to assist you in the resolution of your investment needs. Feel free to contact us and receive a complimentary risk assessment.



Address

1008 Brookstown Avenue, Suite C-6
Winston-Salem, NC 27101



Phone

336-725-5299



Email Address

ptcabean@grandstreetcm.com



Social Media



THANK YOU!!!!



I would like to thank the North Carolina Center for Nonprofits for allowing me to present today and specifically Trudy Smith who helped me organize the forum. Last, but not least, I would like to thank each and every attendee for taking the time to learn about this subject.