

Process flow for establishing investment philosophy, strategy and policy



Understanding the investment environment

The process starts broadly with a wide survey of the external and internal context and trends in which the strategy will be developed (e.g. social, technological, economic, environmental, political and regulatory trends), legal requirements, industry standards and beneficiary expectations.

Establish investment philosophy

The overall investment philosophy; the vision, mission and goals are generally established using financial measures, such as liquidity requirements and risk-adjusted return targets and should be informed by the organisation's approach to risk management, overall trends and material issues including those that may occur as a result of ESG factors.

Define investment beliefs

Based on the investment philosophy and goals, develop a formal statement of investment beliefs, focusing on the critical investment decision drivers. These beliefs serve as a lens for an institution on how to add value to, and how to navigate the financial markets. These beliefs are lenses that differ from institution to institution.

Formulate investment strategy

The investment strategy outlines how the pension fund will implement their investment beliefs and goals in their asset allocation, risk management processes, internal operations and reporting.

Codify the Investment Policy Statement

The investment strategy is codified into an Investment Policy Statement to ensure that the pension fund has the necessary resources and processes in place to implement the strategy. The IPS should describe the pension funds investment decision-making process, asset allocation, ESG incorporation, active ownership and manager selection.