



An investment policy describes the parameters for investing government funds and identifies the investment objectives, an entity's risk tolerance, constraints on the investment portfolio, and how the investment program will be managed and monitored. The document also serves as a communication tool for the staff, elected officials, the public, rating agencies, bondholders, and any other stakeholders on investment guidelines and priorities.

An investment policy allows for quality decision making and demonstrates a commitment to the fiduciary care of public funds, making it the most important element in a public funds investment program. GFOA recommends that all governments establish a comprehensive written investment policy, which should be adopted by the governing body.

Here, we outline ten steps you can take to develop a comprehensive investment policy, as outlined in GFOA's investment policy best practice.

- 1 Identify a team to draft the policy and research policy options and their implications.**
- 2 Define the scope and investment objectives.** These should focus on the key tenets of public investing—safety, liquidity, and then yield. Tailor the scope and investment objectives to the type of investment to which the policy applies (for example, general fund, excess operating funds, bond proceeds, pension fund assets).
- 3 Outline roles, responsibilities, and standards of care.** Identify the roles of all persons involved in the investment program by title and responsibility. Standards of care should include language on prudence (such as, the prudent person rule), due diligence, ethics and conflicts of interest, delegation and authority, and knowledge and qualifications.
- 4 Determine suitable and authorized investments.** First, understand investments allowable within your state laws. Include guidelines on selecting investment types, interest rate risk, maturities, and credit quality, along with any collateralization requirements.
- 5 State the government's approach to investment diversification, identifying the method that will be used to create a mix of assets that will achieve and maintain the government's investment objectives.**
- 6 Address safekeeping, custody, and internal controls.** Develop guidelines to enhance the separation of duties and reduce the risk of fraud.
- 7 Establish a process for creating a list of investment advisors (if applicable), financial institutions, broker/dealers, and custodial/safekeeping services that will provide the primary services necessary for executing the investment program.**
- 8 Outline risk and performance standards.** Establish one or more appropriate benchmarks against which the portfolio should be measured and compared.
- 9 Define the frequency of reporting to the governing body and the government's management team.**
- 10 Review annually to determine if any updates are necessary.**