



## Foundation for Appalachian Kentucky, Inc. Investment and Spending Policy

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### **I. INTRODUCTION**

The Foundation for Appalachian Kentucky (Foundation) is a public charity established to serve a broad range of charitable purposes in the community. Because the Foundation will operate in perpetuity for benevolent purposes, wise stewardship of the permanent endowment funds entrusted to it is essential to the Foundation's mission. To assure its accountability to donors, beneficiaries and the community, the Board of Directors has adopted this Statement of Investment Policy for those types of funds.

### **II. PURPOSE**

The purpose of this Investment and Spending Policy for the endowment funds is to assist the Board of Directors of the Foundation for Appalachian Kentucky in effectively supervising and monitoring its investment activities and to provide guidance to investment managers employed to manage its assets on behalf of the Board. This document is set forth by the Board in order to advise all concerned of their legal and fiduciary responsibilities and to establish a clear understanding by all involved parties as to the investment goals and objectives of the Foundation. This Statement defines the powers delegated to the Investment Committee by the Foundation Board of Directors.

This Statement represents the current consensus of the Foundation's philosophy and shall be reviewed from time to time to ensure that it continues to reflect the appropriate expectations, goals and objectives for the Foundation.

### **III. AUTHORITY OF THE FINANCE COMMITTEE FOR INVESTMENTS**

The entire Board of Directors is charged with legal responsibility for the Foundation's funds. As a practical matter, the Board finds it appropriate to delegate considerable authority to the Finance Committee. The Board of Directors empowers the Finance Committee to invest funds for the benefit of the current and future generations who are the ultimate beneficiaries of the Foundation. The Finance Committee members have a fiduciary responsibility and must develop and adhere to this Investment Policy, which will carry out their obligation in a framework of statutory and regulatory provisions applicable to them.

A. The Finance Committee shall invest and manage Foundation assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the

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Foundation. In satisfying this standard, the Committee shall exercise reasonable care, skill and caution. The Committee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the Foundation portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation.

B. The Committee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.

The Finance Committee is charged with the responsibility of monitoring the Foundation's investments and working closely with the staff to ensure that the investment objectives are being met. The Finance Committee will:

- A. Review the investment performance of individual managers and overall fund performance at least quarterly and make recommendations of changes when appropriate.
- B. Review asset allocation at least annually.
- C. Review investment manager asset allocation targets at least quarterly.
- D. Meet with individual investment managers periodically to review investments, ensure compliance with, and a clear understanding of investment policies, guidelines and objectives.
- E. Recommend to the Board of Directors changes of investment policies and guidelines as appropriate to ensure the preservation and enhancement of assets.
- F. Review possible new managers and advisors when appropriate and make recommendations to the Board of Directors.

All assets shall be managed consistent with sound and prudent fiduciary practices. In seeking to attain the investment objectives set forth in this policy, the Finance Committee shall manage and invest the assets in good faith and with prudence in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted in the Commonwealth of Kentucky. All investment actions and decisions must be based solely in the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Committee of all material facts regarding and potential conflicts of interests.

The Investment Policy will be reviewed and/or updated, and approved by the Finance Committee and reported to the Board of Directors on an annual basis.

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### **IV. INVESTMENT OBJECTIVES**

The primary objective of the investments of the Foundation will be to provide for consistent long-term growth of principal and income without undue exposure to risk. The investment objective is to achieve a total return including appreciation which will satisfy the current financial needs of the various funds, protect and increase their long term inflation adjusted value, and minimize short run volatility.

### **V. SPENDING POLICY ON ENDOWMENTS**

The Foundation's spending policy determines the amount of funds the Foundation will make available for distribution from the permanent endowments in a given year. The amount available for spending is determined by a total return system, with intent to minimize the likelihood of the original contribution(s) of a fund being invaded. The amount available to be spent in the coming fiscal year is calculated using a September 30 quarter end. The amount available may be removed from the invested funds in January of each year and placed into a liquid interest bearing account to be available for disbursements. The Foundation retains any income earned in this liquid account. The Spending Policy will be reviewed and/or updated, and approved by the Finance Committee and reported to the Board of Directors on an annual basis. The calculation is as follows:

- A. A 12-quarter rolling average of the principal balance is determined on September 30. If the fund does not go back 12 quarters, it is averaged on the number of quarters it has been with the Foundation.
- B. The amount available to be spent will be 4% – 6% of the figure calculated in "A" above.

The objective of the spending policy is to provide for sufficient growth after spending requirements in order to preserve the inflation-adjusted value of the Portfolio. The investment manager should assume that withdrawals will be made from the Portfolio from time to time to meet these spending needs.

### **VI. INVESTMENT OF NEW GIFTS**

When new donations are added to the invested funds, they will be handled as follows:

The Finance Committee will have discretion in allocating the funds. The Committee will use the current asset allocation policy to assist them on allocation decisions. However, if there are no asset allocation concerns, the committee will select the investment manager who best enhances the overall funds performance.

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### **VII. POLICY ASSET MIX AND REBALANCING**

The Foundation's philosophy is that we are not market timers and will strive to maintain a diverse asset allocation while acknowledging that fund holders have differing investment needs and goals. We will offer two options to fund holders, allowing them to change their option once a year and/or upon a major change in circumstance or change in goal or mission.

Option 1: Conservative- 40% equity / 60% fixed asset mix, allowing for a 10% range +/- in each category.

Option 2: Long Term- 60% equity / 40% fixed asset mix, allowing for a 10% range +/- in each category.

The acceptable asset classes for investment are:

- Large Cap Equities (Both Growth & Value)
- Mid Cap Equities
- Small Cap Equities
- Real Estate Investment Trusts
- International Equities
- Emerging Market Equities
- Core Fixed Income
- Cash Equivalents

The Finance Committee may approve material changes in management of endowment funds such as a change of target asset allocation, the addition or deletion of asset classes, or the addition or removal of separate account managers or mutual funds.

### **VIII. INVESTMENT MANAGERS**

#### **A. Establishment of Investment Managers**

Suitable investment managers will be employed based upon evaluation by and recommendation of the Finance Committee and approval of the Board. The term "investment manager" is any financial institution or firm which is properly licensed in accordance with all laws, rules, regulations with all state, federal, quasi-governmental and regulatory bodies governing Investment Managers including the Investment Advisers Act of 1940, unless specifically exempt by law. Investment managers will be

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retained in revocable agreements. They are to operate in accordance with policies established by the Investment Committee and approved by the Board.

In order to minimize risk, and maximize returns, the managers and the number of managers to be utilized, and the funds assigned to each, will be reviewed and determined by the Investment Committee.

### B. Performance and Evaluation

In general, with all managers, performance will be reviewed in detail on a regular basis. It is recognized that the investment performance objectives may not be attained in every period, but view the five-year period as most important (intended to capture a full market cycle). Among the items monitored will be consistency in implementation of the managers stated investment philosophy; return relative to investment objectives; and, investment risk as measured by asset concentration, exposure to extreme economic conditions and market volatility. Performance will be compared to major market averages: S&P 500, Russell 2000, Dow Jones Industrial, and NASDAQ 100 as appropriate.

The overall performance of the investments shall be evaluated on the basis of meeting or exceeding the stated Investment Objectives outlined in this Policy. Performance will be monitored quarterly, but evaluated over a three-to-five year time horizon. Changes in investment managers may occur at any time if sufficient progress is not being made towards long-term goals. The investment manager will be expected to maintain at least median performance versus their peer universe on the 3-year performance period net of the fee.

The Foundation may withdraw assets from a manager at any time with or without cause.

### C. Reporting

Monthly, the Investment Managers will be required to submit to the Foundation office an investment report, the results and summary of which will be reported to the Board quarterly. Semi-Annually, the Investment Managers will complete an Investment Manager Review. The Investment Managers will also make formal review presentations as requested by the Investment Committee.

## X. INVESTMENT CONSULTANT

Upon the recommendation of the Investment Committee or Board of Directors, an investment consultant or consultants may be hired upon approval of the Board of Directors, either for a specific project or on an annual basis.

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