

## **Honorable Order of Kentucky Colonels**

### **Charitable Fund Investment and Spending Policy Statement (ISPS)**

The purpose of this policy statement is twofold: (1) to establish an understanding of the investment objectives, goals and guidelines of our Charitable Fund as well as a method for evaluating portfolio returns; and (2) to set out a basis for the use of these funds in support of the ongoing operations and charitable good works of the Honorable Order.

It is intended to provide an overall framework within which the Investment Manager will make investment decisions and within which the Board and HOKC Management will make operating and charitable decisions. It is intended to be specific enough for our managers to make decisions, yet sufficiently flexible to allow for changing economic circumstances.

This ISPS is consistent with Article VIII of our Amended and Restated Bylaws, and at all times remains subject to modification by the Board of Trustees.

#### **Statement of Responsibility**

Hilliard Lyons Trust Company (HLTC) is currently the sole trustee for the Charitable Fund.

The Investment Committee shall be responsible for monitoring the investment and distribution of the fund by the Trustee. The Investment Committee shall report

regularly to the Board. The members of the committee may change from time to time and are appointed as set out in Article VIII of the Bylaws.

**Investment Goals and Objectives:**

The Charitable Fund will be invested with a Growth & Income perspective of 70% equities and 30% fixed income. Asset classes may range as set out in the following chart:

**Investment Ranges and Objectives:**

Honorable Order of Kentucky Colonels			
Investment Ranges and Objectives			
<i>Asset Class</i>	Low	Mid	High
<i>Equities</i>	60%	70%	80%
<i>Fixed Income</i>	20%	30%	40%
<i>Alternative Investment</i>	0%	0%	0%

HLTC shall have sole investment authority and will ensure diversification across a wide range of asset classes. The time horizon will be long term (10+ years) and, combined with the spending policy described herein, the principal of the Fund is expected to grow in excess of inflation over time. The portfolio is tax exempt due to the HOKC's charitable status.

The investment allocation may be comprised of common stocks, mutual funds, exchange traded funds, separately managed accounts, investment grade corporate bonds, US Government and Agency securities, and cash and cash equivalents.

Concentrations in the securities of any one issuer should be limited to 5% of market value at purchase or 7% of current market value, with the exception of U.S.

Government or U.S. Government Agency securities, which shall be limited to 15% of current market value per issuer.

The portfolio should not include any alternate investments, options, derivatives, short selling, securities lending or financial futures without the prior consent of the Investment Committee.

HLTC may utilize externally managed mutual funds, exchange traded accounts, and separately managed accounts in order to achieve diversification of the portfolio, subject to the concentration limits described above. These funds shall not constitute more than 25% of the respective equity or fixed income portion of the portfolio.

### **Reporting By and Evaluation of the Investment Manager**

HLTC will meet with the Investment Committee no less than annually. Monthly statements will be sent electronically to the Treasurer of the HOKC and to each Investment Committee member.

Equity and Fixed Income returns are expected to meet or exceed their respective benchmarks. These indices will be well known and prominent in the investment

industry and may be similar to the investment style utilized by HLTC. Examples of this would be the S&P 500, Russell Mid-Cap, Russell 2000 (small cap equities), and MSCI/EAFE (international equities).

This Investment Policy and the Fund's performance will be reviewed annually by the Investment Committee and reported to the Board of Trustees of HOKC.

### **Spending Policy**

In order to provide funding for a portion of the operating expenses of the HOKC, for the purpose of maximizing our grants distributed, and to also provide for the long-term stability and growth of the Charitable Fund, the Board of Trustees of the HOKC has established the following Spending Policy:

1. Annually, the Investment Manager shall calculate the fair market value of the Charitable Fund at the end of the fiscal year to include all investment assets and any additions made from unrestricted remaining expenditure fund balances and shall provide such value to the Investment Committee of the Board.

2. The Board has the ability to provide a current expenditure distribution from the Charitable Fund of an amount not more than five percent (5%) of the then total Investment Fund based upon the calculation below mentioned.

3. The Board of the Trustees believes that prudence would require that the Manager of the CF as of September 30 of each year shall calculate the average of that fund taking into account the previous (12) quarters and shall report to the

Investment Committee that average. Unless circumstances would otherwise dictate, the percent of the Charitable Fund as previously adopted by the Board would be applied to that average and the Treasurer or Executive Director would announce prior to the beginning of the new fiscal year the amount of funds that will be committed for distribution by the Fund for the upcoming fiscal year.

4. If the Charitable Fund should fall below a value deemed “prudent” by the Board, the Board may suspend the application of the Spending Policy calculation for that fiscal year and can limit expenditures from the Fund, even including the ordinary dividends and interest earned on the investment fund.

There shall be an Investment Committee composed of members of the Board of Trustees of the HOKC with this Committee being appointed by the President of the Board of Trustees and consisting of three (3) members. This Investment Committee's responsibilities will be to review the performance of investment managers, recommend changes to investment policies, insure that the calculations made by the Manager regarding the "Spending Policy" are satisfactory and communicate to the full Board the appropriate amount that can be expended in the upcoming fiscal year budget from the Charitable Fund. This Committee will meet periodically based upon the need for such meetings. The Committee's reports shall be submitted to the Board of Trustees at its next regularly scheduled meeting after the Investment Committee has met.

In the event that the annual payout amount determined by this Spending Policy is not fully utilized within the current fiscal year, the Board of Trustees may

establish a “temporarily board restricted fund” within the Charitable Fund. This temporarily restricted fund shall be subject to subsequent Board action related to the expenditure of funds. All Temporarily Board Restricted Funds shall terminate on the third anniversary of their original creation and any unexpended funds shall be returned to the general Charitable Fund.

5. It is the intention and goal of the Board that 90-100% of donations received by the HOKC will be available for grant distribution in the succeeding year.

**(Current Board revision adopted 6/5/2020.)**

It is the goal of the Board to award 90%-100% of all annual **unrestricted** contributions HOKC receives for the Good Works Program grants.

**(Potential Board revision – vote on 12/2/2022)**

6. It is the intention of the Board that we commit to spending the portion of any Good Works Program grant expenditures unspent on emergency grants. If the Board deems the unclaimed amount to be insufficient, they can vote to increase the fund at any of the quarterly board meetings or through a called special board meeting.

**(New Board proposed policy – vote on 12/2/2022)**