FRY FOUNDATION CASE STUDY

THE LLOYD A. FRY FOUNDATION'S MISSION-FOCUSED INVESTMENT PROGRAM

The Lloyd A. Fry Foundation is dedicated to improving the lives of the people of Chicago facing challenges rooted in the systems of inequity. In 2014, the Board of the Chicago-based $200 million Foundation began formally discussing ways to align the Foundation's investment program with its mission. The Board engaged its investment consultant, CAPTRUST, to assist in this effort. In 2015, the Board made a decision to increase the diversity of investment managers across its investment portfolio in order to better reflect the racial diversity of the communities served by the Foundation. There was no change to the qualifications required of managers, and the Foundation's assets continue to be assessed against industry benchmarks. Today, 60% of the Foundation's assets are managed by diverse managers. In addition, 40% of commissions or trades are targeted to be made with diverse broker-dealers.

Initial Steps

The Board's initial discussions included education on mission-aligned investing, understanding the representation of diverse-owned firms among U.S.-based asset managers, and researching mission-focused actions taken among peers. This assisted the Board in forming consensus around the specific goals it wanted to target and the steps to take to best align the investment program with the Foundation's mission. Based on these discussions, the Board confirmed a commitment to seek business partners and vendors, including investment managers, that have 50% or greater minority and/or women representation in their ownership and senior management. These manager selection criteria were then included in the Foundation's Investment Policy Statement.

The Board was clear, however, that while current managers would be evaluated using this new metric, managers falling short of these criteria would not be replaced unless there was some other business reason to replace them. In the event a manager was replaced, all replacement candidates would meet the minority and / or women diversity criteria. The Foundation's criteria were initially applied to publicly traded asset classes. This provided greater exposure to a larger group of diverse-owned U.S.-based asset managers. The diversity among asset managers within the Foundation's portfolio has increased gradually. This result has been driven by a few key catalysts, including: manager replacement due to performance issues, asset class restructuring, and manager/strategy diversification.

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Directed Brokerage

Not long after the initial implementation of the Foundation's diversity goals for its investment managers, its investment consultant assisted the Board in the implementation of a directed brokerage program with its separate account managers within the U.S. equity and fixed income asset classes. Under this program, the Board instructed these investment managers to direct 35% or more of commissions or trades with firms that have 50% or greater minority and/or women representation in their ownership and senior management. The Foundation's investment consultant conducted a significant amount of research up front to ensure the target of 35% or more was achievable while still placing a high priority on best execution. Most of the Foundation's separate account managers have met this target annually since the inception of the program in 2016. Periodically, the target percentage is reassessed, and other targets are evaluated to determine if an increase is appropriate. In early 2024, the Foundation's Board voted to increase the directed brokerage target from 35% to 40%.

Alternative Asset Classes

Given the Foundation's diversity goals were initially applied to publicly traded asset classes, the next phase was to focus on the investment program's allocation to private asset classes. The Foundation's investment consultant provided insights on how the private asset classes are well-behind their public asset class counterparts in terms of progress made toward diverse ownership. Based on the 2021 Knight Foundation study, there are only 0.37% private equity diverse-owned firms and 0.04% real estate diverse-owned firms within the U.S.-based asset management industry.[1] That said, the Board and its investment consultant, through years of research and due diligence, identified multiple private equity and private real estate managers that meet the Foundation's diversity criteria. Worth noting, diverse ownership among private investments is often evaluated based on diversity among fund management and/or carried interest—and this is consistent with the Foundation's evaluation metrics. Today, the Foundation invests with managers meeting its diversity criteria across all its asset classes including U.S. equity, non-U.S. equity, private equity, private real estate, and fixed income.

[1] Knight Foundation and Bella Private Markets, "Knight Diversity of Asset Managers Research Series: Industry," *https://knightfoundation.org/reports/knight-diversity-of-asset-managers-research-series-industry*, 2021

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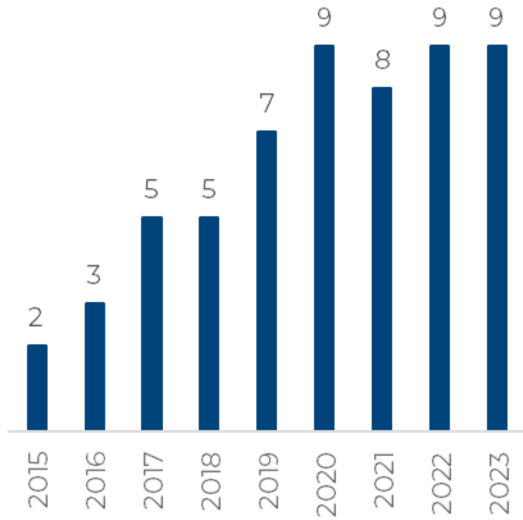
Significant Progress

Since 2015, the number of diverse managers used in the Foundation's investment portfolio had increased from two to nine. As of December 31, 2023, 60% of the Foundation's assets are managed by diverse managers.

Number of Diverse Managers

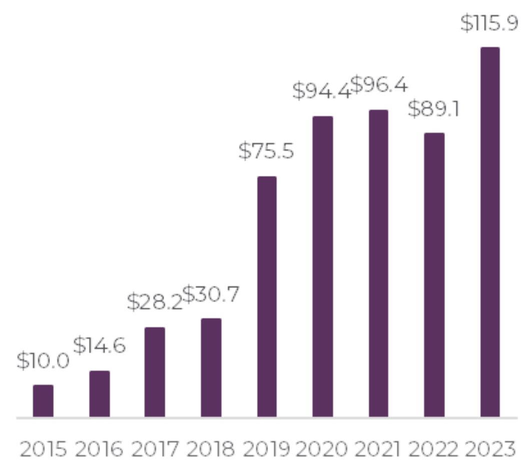
9 of 18 Total Managers



- Over the past 9 years, the number of diverse managers managing the Foundation's assets has increased by 4.5x.
- The reduction in 2021 was due to an investment manager's ownership change.
- In 2022, the Foundation added a diverse-owned private real estate manager.

Assets Managed ($, millions)

60% of Total Assets



- As a result of the Foundation's efforts to increase diversity within the Investment Program, today, $116 million of total assets (or 60% of total assets) are managed by diverse managers and/or diverse investment teams.

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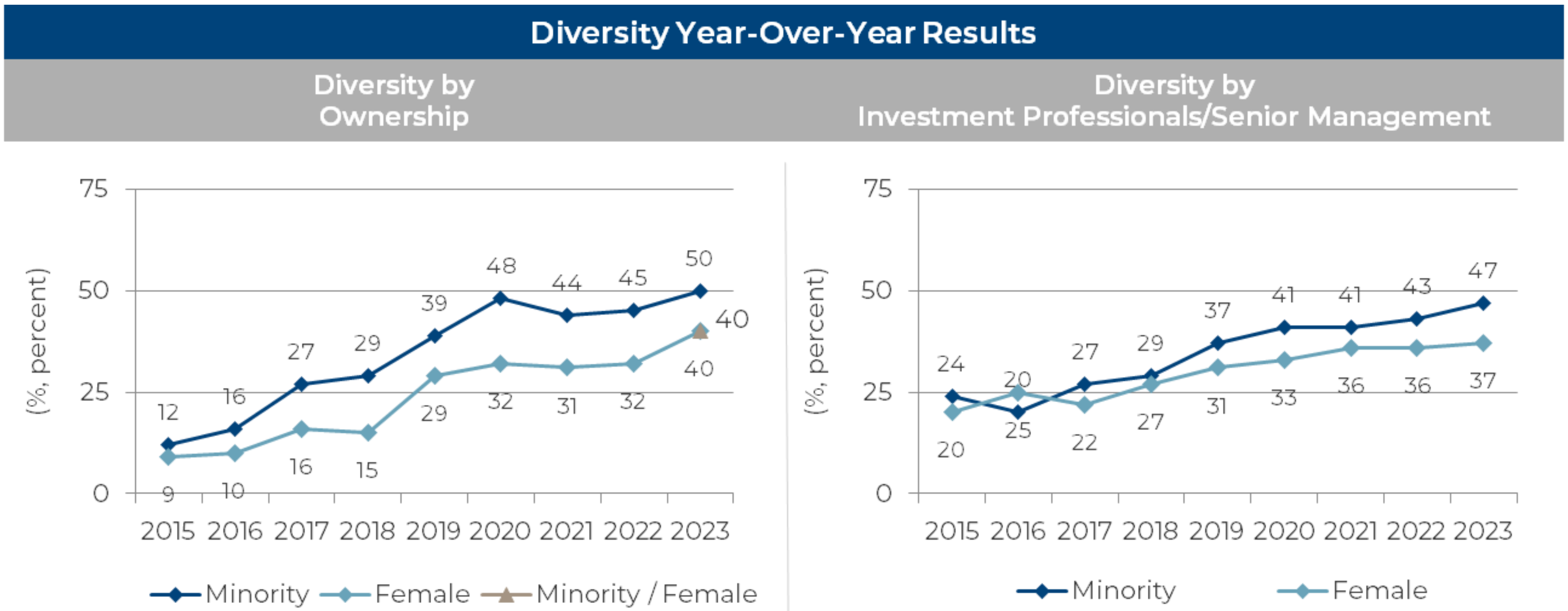
Further, as of December 31, 2023, 50% of the Foundation's assets are managed by minority-owned managers and 40% of assets are managed by women-owned managers (includes overlap). Diversity of the investment professionals/senior management at the Foundation's investment managers has also increased since 2015 and is now 47% minority and 37% women (includes overlap).



The Board has been able to achieve its goals set in 2015, but acknowledges it takes time to make progress. Importantly, while the Foundation has significantly increased the diversity across its investment program, the Board continues to collaborate on ways to invest that are consistent with its mission by allocating to and supporting diverse managers and vendors.

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Adding Environmental and Civilian Firearms Investment Restrictions

Within the past few years, and after an extensive amount of education and analysis, the Foundation's Board has added restrictions on its separate account managers on investments in companies that fail environmental (fossil fuels) screens as well as companies engaged in producing, servicing, or distributing civilian firearms. These screens are driven by restricted lists that are implemented and monitored by the Foundation's investment consultant via separate account manager guidelines and quarterly performance reporting. To date 162 stocks are included on the environmental restricted list and 41 stocks are included on the civilian firearms restricted list. These screens have also been added to the Foundation's Investment Policy Statement and separate account manager investment guidelines.

Monitoring

On an annual basis, the Foundation's investment consultant provides a report on the diversity of the investment program, the commissions and trades in the directed brokerage program, and the environmental and civilian firearms screens, to ensure compliance.

Doing Well While Doing Good

The Foundation's Board is pleased their portfolio is invested in a way that is consistent with its mission while also performing well over time. The Foundation's long-term returns are better than its investment policy benchmark, net of investment manager fees, over all longer time periods (3-, 5-, 7-, 10-year, and since-inception January 1995) as of December 31, 2023.

Next Steps

The Foundation is pleased with the success of the program described above. However, the Foundation is not standing still and will continue to endeavor to use all of its assets, including its investment portfolio, for the good of the community and the people of Chicago.

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The Lloyd A. Fry Foundation is dedicated to improving the lives of the people of Chicago faced with challenges rooted in the systems of inequity. The Foundation partners with effective nonprofit organizations that share its commitment to building a community in which all individuals and families have the opportunity to thrive.