

THE CHICAGO COMMUNITY TRUST THE CHICAGO COMMUNITY FOUNDATION SPENDING POLICY

1. Purpose and Guiding Principles

The purpose of this Spending Policy (“Policy”) is to establish a prudent, consistent, and sustainable framework for distributions from all donor-created permanent endowment funds of The Chicago Community Trust and The Chicago Community Foundation (collectively, “the Trust”).

This Policy aligns with the Illinois Uniform Prudent Management of Institutional Funds Act (IUPMIFA), which governs investment and spending for charitable endowments and requires institutions to act with the care an ordinarily prudent person would exercise, subject to donor intent. IUPMIFA outlines seven prudence factors that must be considered when distributing endowment funds.

2. Governance

The Executive Committee of The Chicago Community Trust and the Board of Directors of The Chicago Community Foundation (the “Executive Committee”) have delegated the authority to jointly establish the Annual Spend Rate (as defined below) to the Investment and Budget & Compensation Committees (the “Committees”). The Investment and Budget & Compensation Committees shall convene an annual meeting prior to the end of the fiscal year, at which a quorum for each Committee shall be present, and by a joint vote of the majority of members present shall approve the spend rate to be applied when calculating distributions from all permanently endowed funds in the next fiscal year (the “Annual Spend Rate”). The Annual Spend Rate is final upon joint Committee approval and shall be reported to the Executive Committee. Upon the request of either Committee Chair, the Committees may jointly undertake a mid-year review and adjust the Annual Spend Rate, using the same joint meeting procedures described above, if extraordinary or unanticipated circumstances warrant reassessment, consistent with their fiduciary obligations under IUPMIFA.

At the annual joint meeting, the Committees also shall review this Policy to ensure ongoing compliance and alignment with best practices.

Management shall implement the Annual Spend Rate and is authorized to make any technical or administrative corrections necessary to carry out the purpose of this Policy.

3. IUPMIFA Prudence Requirements

When determining the Annual Spend Rate, the Investment and Budget & Compensation Committees shall evaluate the factors outlined in the Illinois Uniform Prudent Management of Institutional Funds Act (IUPMIFA), including but not limited to:

- 1) The duration and preservation of the permanent endowments (i.e., whether the proposed spending rate preserves the long-term purchasing power of the endowed assets while also supporting current beneficiaries);
- 2) The charitable purposes of the Trust and the endowment funds (i.e., whether the proposed spending rate advances the Trust's charitable mission and adequately supports current community needs while preserving future impact);
- 3) General economic conditions (i.e., the current and anticipated economic environment, including recession risks, market volatility, interest-rate environment and outlook for charitable needs);
- 4) The effects of inflation or deflation (i.e., whether the endowment's real purchasing power is likely to erode and how much investment return must be retained to offset inflation);
- 5) The expected total return from income and the appreciation of investments (i.e., whether the spending rate is supported by realistic capital market assumptions, including expected long-term investment returns of both income and capital appreciation);
- 6) Other resources of the Trust (i.e., availability of unrestricted assets, operating reserves, current gifts, fee income, or other funding sources); and
- 7) The Trust's investment policy (i.e., the spending rate should take into account the Trust's asset allocation, risk tolerance, liquidity needs and expected return objectives).

These factors shall be reviewed as part of the Trust's Annual Spend Rate determination and documented in the minutes of the joint meeting of the Committees.

4. Spending Methodology

The Trust invests on a total return basis, and, unless otherwise determined by the Executive Committee upon recommendation of the Committees, annual distributions from permanently endowed funds shall be calculated by applying the Annual Spend Rate to the rolling market value of the Fund, as detailed below. In support of long-term sustainability and to maintain intergenerational equity, unless otherwise approved by the Executive Committee, the Committees shall set an Annual Spend Rate between 4% and 6%, allowing for modest year-to-year adjustments in response to market conditions, inflationary pressures, and charitable needs while preventing large or destabilizing fluctuations in annual distributions. The Annual Spend Rate is a gross distribution rate before fees. Administrative, investment management and other applicable fees assessed by the Trust under then-current policies shall be deducted from distributions calculated through application of the Annual Spend Rate.

Rolling Market Value Methodology and Rationale

The annual distribution from each permanently endowed fund shall be calculated by applying the Annual Spend Rate to a rolling average market value over a multi-period measurement horizon of 12 quarters, measured as of June 30 each year. This rolling average incorporates the fund's ending market values across each period in the look-back window, smoothing short-term volatility and generating a stable and predictable spending base.

The Trust employs a rolling market value approach to reinforce prudent stewardship and ensure spending is consistent with the long-term goals articulated in IUPMIFA. Specifically, this methodology:

- Mitigates market volatility by dampening the impact to annual appropriations due to sharp market declines or unusually strong investment returns;
- Promotes intergenerational equity by aligning spending with permanent endowments' long-term expected total returns, thereby helping preserve the funds' real (inflation-adjusted) value over time;
- Supports predictable budgeting by stabilizing distributions, providing more consistent financial resources for charitable needs;
- Reduces pro-cyclical behavior, avoiding over-spending following market highs and steep contraction after market declines; and
- Reflects IUPMIFA's prudence standard as part of a structured, repeatable spending framework.

5. Underwater Endowment Funds

An underwater fund is defined as a permanent endowed fund for which the market value has declined below the historic dollar value (i.e., the aggregate original value of all gift amounts). The Investment and Budget & Compensation Committees shall review a report of all underwater funds at their annual joint meeting. Unless the Committees jointly vote to establish a different Annual Spend Rate for any underwater funds, considering donor intent, the severity and duration of underperformance and the IUPMIFA prudence factors on an individual fund level, annual distributions from underwater funds will be adjusted in the following manner:

If a fund's market value falls below the historic dollar value: 0–10% below value: apply Annual Spend Rate; 10–20% below: 50% of Annual Spend Rate calculation; more than 20% below: no distribution.

6. New Funds and Minimum Investment History

Newly established permanent endowed funds become eligible for distributions after four consecutive quarters of investment unless donor agreements specify otherwise. For funds that do not yet have 12 quarters of market value history, the spend rate calculation will be based on an average of the number of quarters the fund has been at the Trust, with a minimum of four quarters.

7. Donor Intent and Governing Instruments

If donor intent conflicts with the Policy as to the calculation or methodology for distribution from the fund, the gift instrument controls. Nothing in this Policy is intended to limit or supersede the Executive Committee's inherent authority to modify donor restrictions as provided in its governing documents.

8. One-Time Spend Rate Adjustments

The Investment Committee is authorized by the Executive Committee to approve a one-time adjustment (increase, decrease or suspension) to the Annual Spend Rate for an individual fund in the event of extraordinary circumstances that may uniquely impact application of the IUPMIFA factors to the calculation of distributions from that fund. In all cases, the Investment Committee may only approve a one-time adjustment if the adjustment would be prudent under IUPMIFA, applying the same standards set forth to the specific fund at issue.

In evaluating a request for a one-time adjustment at an individual fund level, the Investment Committee shall consider:

- 1) Donor intent,
- 2) The amount of the proposed adjustment in spending, either on a dollar or percentage basis,
- 3) The impact of proposed higher spending on the fund's inflation-adjusted principal value,
- 4) An application of the IUPMIFA prudence factors, relative to the specific fund in question, including the nature of the extraordinary circumstances or acute charitable need that an adjustment to spending would address,
- 5) Whether the requested spending increase is likely to substantially mitigate the extraordinary circumstances, and
- 6) Where applicable, a plan to remediate the financial pressure in the future.

Adjustment to the Annual Spend Rate for individual funds typically will be considered on a one-time basis only. If multiple years' spending adjustment is contemplated, a plan to replenish the fund's inflation-adjusted principal value via lower spending in future years must also be presented.

One-time increases that exceed more than 10% of a fund's nominal balance generally will not be permitted, nor will increases be considered for funds that are already underwater on a nominal basis. Management shall establish procedures defining whether and when to escalate requests from donors, fund beneficiaries or staff for Annual Spend Rate adjustments to the Investment Committee consistent with this Policy. Proposals for adjustments to Annual Spend Rate shall be presented in a memorandum to the Investment Committee, and all decisions of the Investment Committee shall be memorialized in its meeting minutes.