

ESG REPORT

# A focus on diversity, equity and inclusion





# Our commitment to progress

SEPTEMBER 2021

Investment firms recently have put an increasing focus on Environmental, Social & Governance factors, or ESG, both in traditional asset classes and alternatives. While it is a trend that many firms are just awakening to, 50 South Capital has long endorsed integrating ESG into our hiring practices, investment philosophy and overall culture as a firm. We are pleased to present a report on our ESG initiatives, with a specific focus on diversity, equity and inclusion, in this first report.

This report emphasizes our key priorities related to hiring, investment practices, industry partnerships and community engagement. 50 South Capital values diversity, equity and inclusion as essential elements of our mission and culture. These values are reflected in our commitment to create a more diverse and inclusive alternatives industry. We take that responsibility seriously, as demonstrated through our commitment to build a more diverse team and take a hands-on approach to partnerships, as well as how we invest. We believe that the alternatives industry needs to be open and inclusive of all people, and that better decision-making and returns will result from a more diverse team.

Our impact is driven by our strategic focus on diversity and inclusion within the communities in which we live, work and invest. We continue to progress toward our diversity goals. These steps include further integration of diversity as a factor in our due diligence process. Additionally, we made meaningful progress in our diverse recruiting efforts with 67% of candidates coming from a

diverse background, and a majority of new hires being diverse. We also continue to make strides with our industry and community partners.

50 South Capital was excited to announce a partnership with the nonprofit venture capital organization, HBCUvc. HBCUvc trains students attending Historically Black Colleges and Universities (HBCUs) and Hispanic-Serving Institutions (HSIs) in venture capital and technology entrepreneurship. 50 South Capital engaged the organization to provide internship opportunities for several fund managers in our portfolio. The goal will be to increase diversity within the ranks of our fund managers and to provide students with a unique learning experience that jumpstarts their careers in private equity.

50 South Capital continues to work hard to build its legacy as a partner to our communities. We strive to promote diversity, equity and inclusion for all. These principles guide how we do business and serve investors, communities and each other, laying a foundation for a better future.

We look forward to engaging with you as you read our report, and in the years to come.

Warm regards,

A handwritten signature in black ink, appearing to read 'Robert P. Morgan'.

**ROBERT P. MORGAN**

Managing Director, 50 South Capital Advisors

# Diversity in our hiring practices

We're committed to fostering a diverse and inclusive culture because we believe a diverse team can create greater value for our employees, clients — and for the investors and communities we serve.

That's why we strive to build diverse teams — in both the talent we hire and the investment managers we select.

## Fostering Diverse Teams

Over the years we've learned there's strength in our differences and in organizations that foster diversity of thought. That's why we take an intentional approach to the recruitment, development and nurturing of diverse talent. We actively seek out, contact and evaluate diverse pools of talent because a passive approach can result in a more limited candidate pool — and that is one of the key dynamics that leads to non-diverse teams at many firms in the private equity industry.

### FOR DIVERSE HIRES

While many firms in the industry discuss the lengths they will go to in order to secure proprietary deal flow, focusing on unconventional sources of deals outside of processes led by investment banks, their approaches to sourcing candidates for their teams are often decidedly conventional: they revert to these very investment banks as sole sources of their candidate pools. We think the proactive, unconventional approach, coupled with

considering industries and sectors beyond investment banking, will result in a more diverse candidate pool when we recruit, and will hopefully allow the industry to show progress when it comes to building diversity among their teams.

### OUR DIVERSITY STANDARDS

50 South Capital adheres to a standard in which at least half of all candidates interviewed for a position are diverse. Inbound candidates are considered, but other means are utilized in order to ensure a diverse candidate pool. This includes partnering with diverse industry organizations, reviewing resume books from diverse groups, proactive outreach to diverse campus organizations, partnering with historically black colleges, seeking referrals of diverse candidates particularly from diverse individuals within our team, firm and networks, participation and sponsorship of diverse industry conferences, participation in internship programs focusing on diverse candidates and working with internal recruiters to proactively identify and reach out to particular diverse candidates to ensure a diverse candidate pool.

To ensure adherence to the 50 South Capital hiring practices, every manager leading a search is responsible for tracking and reporting various metrics throughout the process. A report is created for each search process and submitted to the 50 South Capital Diversity Council for review and approval.

All of our recent candidate searches were successful in adhering to the diversity guidelines. 48 candidates participated in initial interviews, 32 of which were diverse, meeting the goal of at least 50%. 67% of offers made were to diverse candidates, and 60% of the candidates who accepted offers were diverse.

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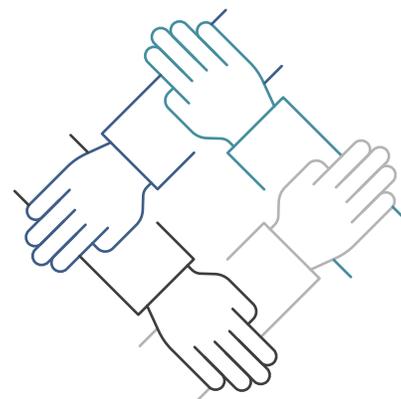
**There's strength in our differences — and in organizations that foster diversity of thought.”**

# Diversity in our investment practice

In addition to delivering strong investment performance across our alternatives platform, we advocate for diversity with our underlying investment managers.

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**Leveling the playing field by taking into account diversity as a factor in our investment decisions is not only the right thing to do, but it can also benefit our long-term financial outcomes.”**



## Forging Strong Partnerships

We seek partnerships with managers who have measurable commitments to diversity and inclusion. We view these goals of strong performance and a commitment to diversity as colinear and self-reinforcing. Indeed, research suggests that team diversity can lead to higher levels of objectivity, creativity and innovation (*Harvard Business Review*, 2016). It also indicates that diverse companies are historically more likely to achieve financial performance above industry means (McKinsey, 2015).

### THE DIVERSITY ADVANTAGE

Examining private equity more specifically, the National Association of Investment Companies (NAIC) has shown that diverse-owned managers have outperformed Cambridge private equity benchmarks (NAIC, 2017). Yet 98.5% of the AUM in private equity is controlled by male-owned firms and 96.6% is controlled by non-minority-owned firms (Knight Foundation/Bella Research Group, 2017). We see the same results in the hedge fund industry. The HFRI Diversity Index has outperformed the HFRI Fund Weighted Composite in 12 of the last 14 years.

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## SOURCING DIVERSE MANAGERS

Our approach to diversity in our investment process begins with sourcing. 50 South Capital makes an intentional effort to seek out managers that are diverse-owned and managers that showcase a measurable commitment to diversity within their firms. We do this through our networks, associations, industry bodies, events and direct outreach. While we specifically seek out and consider diverse firms, much of the deal flow we review in the normal course is a result of “cold,” inbound inquiries. In order to most efficiently sort through the high volume of this type of inquiry, a typical approach within the industry is to adopt a policy of only reviewing opportunities that were referred by individuals who are in the team’s professional networks. We think this approach can serve as a hurdle to diverse managers who may not have had the opportunity to participate in these professional networks historically. Therefore, we adhere to a policy of reviewing materials and engaging in an initial meeting or call with any diverse manager that contacts us through a “cold” outreach.

## INITIATING A DIALOGUE

Once we’ve moved past initial meetings, we engage in conversations with all managers around their approach to diversity and inclusion. These conversations can be wide ranging and can cover aspects such as hiring, portfolio company engagement and firm development. We have found that simply “asking the question” can signal the importance that diversity plays in our assessment, and can lead to an honest, reflective and productive conversation with fund managers around the ways we all can make our industry more diverse.



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## TAKING A HOLISTIC APPROACH

We take a holistic approach to understanding a firm’s commitment to diversity and inclusion. This means going beyond the traditional definition of “diverse manager,” historically judged solely on ownership, using metrics like investment team composition and hiring practices to determine a firm’s commitment to diversity, equity and inclusion. We track diversity metrics for managers in our Investment Committee Memorandums, using best practices developed by the Institutional Limited Partners Association (ILPA). This data serves as one factor in our overall diligence on a fund manager. We fundamentally believe that this more holistic approach to diversity will capture firms that are truly moving the needle on diversity and inclusion. It also helps us identify areas where we can engage with a manager and be supportive in expanding their efforts.

In the end, our efforts today not only help us deliver results, they help us deliver on the promise of our legacy: to be a partner to the investors and communities we proudly serve.

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# Industry partnerships

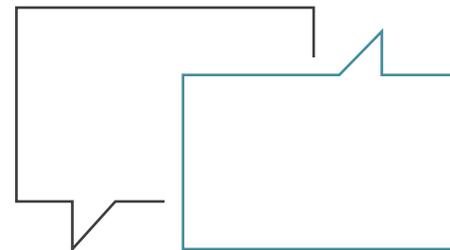
50 South Capital is committed to creating a more diverse and inclusive alternatives industry.

## BLCK VC

BLCK VC was formed to connect, engage, empower and advance black venture investors by providing a focused community built for and by black venture investors. 50 South Capital is a monetary sponsor of BLCK VC and actively engaged in the formation of the Midwest chapter based in Chicago.

## HBCUVC

HBCUvc is a nonprofit organization that trains students attending Historically Black Colleges and Universities (and Hispanic Serving Institutions) in venture capital and technology entrepreneurship. The HBCUvc Fellowship provides students with venture capital skills training, mentorship and the opportunity to build professional relationships with seasoned investors and entrepreneurs. 50 South Capital was the founding sponsor of the Chicago chapter, which provides internship opportunities for several fund managers in our portfolio. The goal will be to increase diversity within the ranks of our fund managers and to provide students with a unique learning experience that jumpstarts their careers in private equity.



## CHICAGO:BLEND

Chicago:Blend is a collaborative effort of venture capitalists in Chicago who know that diverse teams and inclusive environments are critical foundations for both the startups we invest in and our own venture firms. The Chicago Blend team promotes tools for VCs to track, support and increase diversity, equity and inclusion in the Chicago venture community and startups. 50 South Capital is a monetary sponsor of Chicago Blend and team members are active at its events and programs.

## ALL RAISE

All Raise is a nonprofit organization on a mission to accelerate the success of female founders and funders to build a more prosperous, equitable future. The organization aims to develop and promote programs to arm women with access, guidance and support to advance their professional growth. 50 South Capital is a monetary sponsor and several team members have volunteered for events and programs.



# Community involvement

50 South Capital is committed to supporting the communities in which we live, work, and invest.

Our support is shown through financial commitments, board membership, organizational engagement and employee volunteer hours. Though we do not limit our support to any specific geographic region, our support is generally focused on organizations that reflect our values and mission, or those organizations in which our employees are engaged, while primarily focusing on the areas of diversity and inclusion, and environmental sustainability. In 2020 we were fortunate to support several community organizations that fit this profile.

## GIRLS ON THE RUN CHICAGO

Girls on the Run Chicago is an after-school program that, through dynamic, coach-led discussions and physical activity, teaches young girls to develop social and emotional skills, compassion and confidence while developing healthy habits for life. 50 South Capital is engaged with the organization through corporate sponsorship, volunteering and board participation.

## GRAY MATTER

Gray Matter is focused on underrepresented neighborhoods in Chicago and across the country. This organization aims to educate, empower and assist students in creating their own businesses while providing them access to resources and support to understand that their ideas are valid and vital to the entrepreneurial ecosystem.

## BE NIMBLE

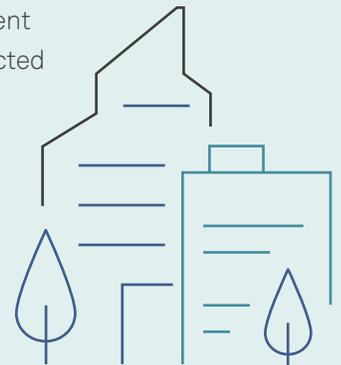
Be Nimble is a social enterprise taking a qualitative and quantitative approach to creating black tech ecosystems in Indiana. It focuses its efforts specifically on workforce development and start-up and entrepreneurship support.

## HELP FOR CHILDREN

Help for Children is committed to the prevention and treatment of child abuse, and since its inception has invested in the most effective advocacy, research, education and counseling programs that protect and heal innocent children.

## INVEST FOR KIDS

Invest for Kids is dedicated to supporting highly effective not-for-profit organizations that serve Chicago area youth from disadvantaged communities. Invest for Kids hosts an annual investment conference where industry professionals share their best ideas, and all proceeds from the event are donated to carefully selected nonprofit organizations.



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Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Comparisons to indices are for illustrative purposes only as they are widely used performance benchmarks. It is not possible to invest directly in an index.

The metrics and considerations for evaluation of managers discussed herein are not exhaustive. In its manager selection process, the Firm will consider other various factors related to diversity, equity, and inclusion.

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