MCKNIGHT FOUNDATION

Investment Policy Statement

[July 2021]

I. MISSION

The McKnight Foundation ("McKnight" or "Foundation") was founded in 1953 and independently endowed by William and Maude McKnight. A Minnesota-based family foundation, it strives to advance a more just, creative, and abundant future where people and planet thrive. Programs contribute to building vibrant and equitable communities, advancing climate solutions, and supporting Minnesota arts and artists, international crop research, and neuroscience.

II. PURPOSE

This Investment Policy Statement ("IPS") is intended to:

A. Outline the objective for invested Foundation assets ("Endowment");

B. Outline the investment-related roles and responsibilities of the Board of Directors ("Board"), Investment Committee ("IC" or "Committee"), the Mission Investing Committee ("MIC") the Investment Office, and third-party providers who assist with the management of the Endowment;

C. Establish investment policies, which incorporate prudent risk parameters, appropriate asset guidelines and realistic return goals in order to be effective, yet remain adequately flexible as to be practical;

D. Provide a framework for regular constructive communication between the Board, Committee, MIC, Investment Office, and third-party providers;

E. Support the Foundation's spending policy; and

F. Define standards for monitoring assets and measuring success of investments.

The Committee will review the IPS annually, amending it as necessary to ensure continued relevance. Changes to the IPS require the approval of the Board.

III. INVESTMENT OBJECTIVE AND RISK TOLERANCE

The primary Investment Objective of the Foundation is to achieve a long-term rate of return in excess of the rate of inflation plus spending in order to preserve purchasing power of Foundation assets and support the perpetual nature of the Foundation's mission. Stated as a Financial Return Target, this is 5% plus expected long-term inflation. McKnight relies on asset class assumptions over a 20-year horizon to estimate the viability of this return goal. McKnight uses a total return strategy to achieve this objective.

Risk is an important consideration in the investment of assets. McKnight seeks to minimize the volatility and variability of grantee payments and generally avoid permanent loss of capital. Consistent with its total return strategy and moderate Risk Tolerance, the Foundation has a long-term investment horizon and can withstand some short- and intermediate-term volatility. Accordingly, the IC will monitor total portfolio liquidity and risk as measured by standard deviation. The Foundation may take advantage of less-liquid investments, such as private equity, hedge funds, and other alternative assets, which typically offer higher return potential.

IV. REGULATORY CONSIDERATIONS

The Foundation will be managed consistent with the standard of prudence under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and all other applicable legal and regulatory considerations. This includes meeting the IRS requirement that private foundations distribute 5% of their fair market value annually for charitable purposes.

V. ROLES AND RESPONSIBILITIES

[Note: Section V will be provided by the Roles & Responsibilities Working Group for inclusion in the IPS and may or may not take the form below.]

The table below summarizes the primary roles and responsibilities for investment decision-making and oversight:

Roles and Responsibilities					
	Stakeholder				
Activity	Board	Investment Committee	Transformational Investing Committee	Investment Office	Investment Advisor
Investment Objective					
Financial Return Target					
Risk Tolerance					
Investment Strategy					
Investment Policy					
Spending Policy					
Asset Allocation					
Portfolio Construction					
Rebalancing					
Performance					
Reporting					
Investment Advisor					
Investment Managers					
Third-Party Providers					

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A. Board of Directors

The Board is responsible for…

B. Investment Committee

The Investment Committee…

C. Mission Investing Committee

D. Investment Office

E. Advisor

VI. SPENDING

The Foundation's Spending Rate is affirmed, as part of the IPS, by the Board with the assistance of the Investment Committee and Investment Office. The spending level will be at a level sufficient to meet grant obligations appropriate to the Foundation's current financial situation, and comply with IRS rules so that the Foundation is achieving a minimum annualized distribution of 5% over a multi-year period. A projected annual spend of more than 5.3% of projected endowed assets requires approval by the Family Membership Group.

VII. INVESTMENT PHILOSOPHY

In order to achieve the Financial Return Target, McKnight recognizes that it must be willing to incur investment risk. McKnight takes a prudent approach to risk, relying on the long-term benefits of a widely diversified portfolio. McKnight has adopted strategic targets and acceptable ranges for each asset class to improve the probability of achieving the Financial Return Target. McKnight seeks to earn an overall attractive risk-adjusted rate of return. It also seeks to contribute to effective, resilient markets where capital markets are solving social and environmental problems rather than exacerbating them.

VIII. ASSET ALLOCATION

McKnight understands that strategic Asset Allocation across broadly defined asset classes with varying degrees of risk, return, and correlation will be a material factor in meeting long-term investment goals. The Investment Committee is charged with establishing a specific target for each asset class, with an allowable range. Investments originated by the Transformational Investment Committee will be classified in their respective asset class, counting toward the total portfolio exposure of that asset class. When setting the target Asset Allocation, the Investment Committee should consider the intended role of each asset class and the benefit it provides to the McKnight portfolio. McKnight may invest in any asset class unless prohibited in this document.

The Investment Committee will determine the Asset Allocation annually, with guidance from the Investment Office and Advisor. Revisions will occur as needed, in keeping with the Investment Objective and Risk Tolerance. The Asset Allocation for the McKnight Foundation is presented in Appendix A.

IX. RISK MANAGEMENT

The Committee may use several tools to manage different types of investment risk, including volatility, concentration, leverage and liquidity.

- Volatility is managed through diversification by asset class, strategy, ESG, and return drivers.
- Liquidity will be monitored across the Endowment for short, medium and long-term needs, with particular attention to private investments and the level of unfunded commitments.
- Concentration risk will be considered as: 1) concentration by investment manager, investment firm, and geographic and sector exposures; and 2) concentration as a percentage of an investment manager's assets under management. An individual allocation that is more than 10% of a strategy or fund will prompt additional diligence, and would require approval by a supermajority of voting Committee members. Exceptions should be rare or for strategic purposes. For example, McKnight may seed new strategies or support funds early in their growth as part of mission investing.
- Leverage will be monitored at the manager level and total portfolio level.

X. REBALANCING

From time to time, the portfolio will deviate from policy target weights. Deviations can be caused by market movements, cash flows, and variations in asset class performance. The Investment Office and Advisor will monitor the portfolio for compliance with asset allocation ranges as outlined in Appendix A and for manager concentration. The Investment Office may also have cause to rebalance to generate liquidity for distributions. The Advisor may recommend a rebalancing to the Investment Office. The Investment Office will notify the Committee of rebalancing actions. The Committee will discuss and determine material, strategic resizing of the portfolio.

XI. INVESTMENT MANAGER SELECTION

The Committee is responsible for hiring Investment Managers. The Committee defines the strategy for an asset class and may choose to define the scope for a manager search prior to its delegation to the Investment Office, with assistance from the Advisor. The Committee will make the final decision to hire.

The Committee is responsible for terminating managers. In general, it works in partnership with the Investment Office and Advisor in evaluating manager performance and strategy fit.

At each quarterly meeting, the Investment Committee will receive a manager Watch List, which includes managers who meet the criteria included in Appendix B. The Investment Committee may choose to initiate an Investment Manager review based on the Watch List. The Investment Office may also initiate an Investment Manager review. Based on a review, the Investment Office and Advisor will make a recommendation on continuation or termination to the Committee for Investment Committee decision-making

XII. BENCHMARKING AND PERFORMANCE MONITORING

Long-term portfolio performance will be benchmarked against the Financial Return Target of 5% plus long-term inflation. Returns for the total portfolio will be evaluated against an index comprised of policy-weighted asset class indices, as shown in Appendix A. Because impact investments are reported within their respective asset classes, their performance is embedded in aggregate asset class performance. Impact managers may also be evaluated against separate and independent criteria, including non-performance objectives, described in Appendix C. The performance of individual non-impact Investment Managers will be measured against a suitable market-driven benchmark. These Manager benchmarks will be included in the regular performance reporting presented at quarterly Investment Committee meetings.

XIII. PROXY VOTING

Proxy voting is an important responsibility for an institutional asset owner. McKnight expects ballots to be voted in a manner consistent with maximizing long-term shareholder value which requires companies to proactively manage social and environmental risks and opportunities.

XIV. CONFLICT OF INTEREST

All persons responsible for investment decisions or who are involved in the management of or providing advice on the management of Foundation assets shall disclose any potential conflicts via the Board of Directors Conflict of Interest policy. Any such conflicts will be managed by a conflict of interest protocol that identifies situations for recusal, the degree to which a conflicted individual may participate in a related discussion, and requirements for the Chair and Vice Chair to report to the full Committee on protocol implementation quarterly.

This provision does not preclude the payment of ordinary fees and expenses to McKnight's third-party providers in the course of their services on behalf of McKnight.

APPENDIX A

The performance of the McKnight endowment will be evaluated against a composite Policy Benchmark that reflects target asset allocation.

McKnight Asset Allocation and Policy Benchmark			
	Target (%)	Range (%)	Benchmark
Growth			
Domestic Equity	17.0	12 to 25	17% Russell 3000
International Equity	13.0	10 to 16	
Developed	*8.0*	*5 to 11*	*8% MSCI EAFE*
Emerging Markets	*5.0*	*3 to 8*	*5% MSCI EM*
Global Equity	14.0	10 to 18	14% MSCI World
Private Equity	20.0	15 to 25	20% McKnight PE return (self)
Private Debt	5.0	3 to 8	2.5% North America Senior Debt / 2.5% Burgiss Mezzanine
Total Growth	**69.0**	**65 to 80**	
Risk Reduction			
Fixed Income / Cash	12.0	9 to 15	5% Barclays Intermediate Credit / 2.5% Barclay Intermediate US Government / 2.5% Barclays Mortgage-Backed Securities / 2% Parametric Overlay Benchmark
Absolute Return	15.0	12 to 18	10% Wilshire Liquid Alts Index / 5% HFRI FoF Composite Index
Total Risk Reduction	**27.0**	**22 to 32**	
Inflation Protection			
Private Real Assets	4.0	2 to 6	2% FTSE EPRA/NAREIT Developed Index (net) / 2% S&P Global Infrastructure (net)
Total Inflation Protection	**4.0**	**2 to 6**	
Total	100.0		

The legacy direct exposure to 3M stock is held with Domestic Equity and counts toward the total exposure to Domestic Equity.

Impact investments are classified within their respective asset class and count toward the total exposure of that asset class, with the exception of PRIs. Appendix C has additional non-performance criteria used to evaluate Impact investments.

APPENDIX B
Watchlist

Philosophy

McKnight has a concentrated portfolio of high conviction managers who tend to have high tracking error.

Purpose

The Watchlist is intended to highlight potential material issues and allow McKnight to take pre-emptive action. The Investment Committee does not need to take action when an Investment Manager deviates from its benchmark or peer universe, but should be mindful of performance drivers and affirm that its conviction holds.

Criteria

A marketable Manager will appear on the watch list when it has:

1. Ranked in the bottom quartile of the relevant peer universe over the most recent 12 months;
2. Underperformed the relevant benchmark and ranked below the median of the relevant peer universe over the most recent 36 months;
3. Qualitative developments requiring ongoing monitoring; or
4. Having been designated by the Committee or Investment Office as requiring additional monitoring

Process

The Watchlist will be reviewed at quarterly Committee meetings. The Investment Office and Advisor will make a recommendation for continued monitoring, termination, or removal from the Watchlist when the originating issue is resolved. Managers should not remain on the Watchlist for longer than a year without explicit Committee affirmation.

APPENDIX C

Impact Investing Criteria

Philosophy

The McKnight Foundation aims to proactively invest a portion of its endowment in businesses and services that are actively solving social and environmental challenges, aligned with its mission and grantmaking priorities.

Allocation

There is no set upper or lower limits on the amount in impact investments, as of 2018.

Return Expectations

The Foundation expects robust returns in its impact investing portfolio. In evaluating impact investments the MIC, Investment Office and Advisor will seek and balance three types of returns:

Financial

Social & Environmental Impacts

Learning to the foundation, its program teams or the field

Risk

McKnight takes a rigorous, conventional approach to identifying and underwriting risk in impact investments. The Foundation's efforts to capitalize on emerging sectors in the economy, and find new solutions to intractable challenges may result, at times, in the Foundation incurring additional risk. Such risk is adequately compensated by our comprehensive return expectations.

Program Related Investments

The Board has set a $50 million allocation to program-related investments (PRIs), "charitable" investments that are defined by, and subject to, IRS guidance. With either for-profit or non-profit counter-parties, McKnight's PRIs do not achieve the appropriate balance of risk and return for standard investment. PRIs may be used to address market failures, bridge market gaps, and test new business models. They should have strong social and environmental impacts aligned with the Foundation's mission.

PRIs do not roll up into the Endowment's Asset Allocation and performance is reported on annually.

Appendix D

VMB & Minnow Branch Funds

The endowment includes two branch funds that were endowed with the purpose of supporting direct charitable grantmaking by the Family Membership Group. While these funds are a part of McKnight's endowed assets, they may be invested according to the overall Endowment strategy or, as they are now, invested differently. The Investment Committee will review performance of the branch funds annually.