

The McKnight Foundation

Statement of Investment Policy

Mission

The McKnight Foundation (“the Foundation”), a Minnesota-based family foundation, seeks to improve the quality of life for present and future generations. We use all our resources to attend, unite, and empower those we serve.

General

The Board of Directors (“the Board”) of the McKnight Foundation is responsible for the development and periodic review of the Foundation's long-term financial objectives and spending policy. The Board has delegated to the Investment Committee (the “Committee”), whose members are elected by the Board, responsibility for formulation and implementation of an investment policy to achieve the Foundation’s financial objectives.

Based on recommendations made by Committee members and the Vice President of Finance & Compliance, and in consultation with outside advisors, the Committee establishes the Fund's investment objectives and policy guidelines and researches, retains and terminates the investment managers, consultants, and custodians. The Committee is responsible for monitoring the implementation and performance of the investment program and individual managers.

The Committee may vote to delegate certain duties and responsibilities to the Vice President of Finance & Compliance or other staff or Board established committees, including: implementing committee actions; acting as the primary liaison to the Foundation’s investment managers, custodians, investment consultants, and impact investing consultants; and managing the cash flows of the Foundation.

Investment managers are expected to provide a high degree of professional care, skill, prudence, and diligence in the management of assets under their direction. Each manager of a separately managed account will agree to specific guidelines, in an addendum to this Policy Statement, at the time of hire, that address such issues as diversification of securities, industry, geography, type, and maturity of investments, liquidity, currency, and the appropriate benchmark.

The custodian is responsible for those custody services outlined in the separate Custody Account Agreement with The McKnight Foundation. These duties may include: safekeeping the assets, settling trades, receiving and crediting dividends and income, reclaiming foreign taxes withheld by foreign governments, providing notification of corporate actions, and providing proxy materials. In addition, the custodian may be responsible for various reports concerning holdings, unrealized gains and losses and other accounting information as directed by the Committee and the Vice President of Finance and Compliance.

The investment consultants will work with the Vice President of Finance & Compliance to achieve the following: determine an appropriate asset allocation to meet the Foundation’s overall investment objectives; monitor investment managers including recommendations regarding the hiring, retention or termination of those managers; determine appropriate benchmarks for each investment strategy; and provide timely reports to the Committee.

The impact investing consultant will work primarily with the Mission Investing Committee and the Impact Investing Program Director, with the Investment Committee and the Vice President of Finance

& Compliance as requested, to determine the Impact Policy for the Foundation (see Appendix A – Impact Investment Policy). This consultant may also act as an investment consultant for those managers it sources as long as it is disclosed.

Investment Objectives

For purposes of this policy, the “Total Fund” or “Fund” is defined to represent the investable assets of the Foundation which are not allocated to mission-related, mission-driven nor program-related investments as defined under the Impact Investing Policy. The primary long-term investment objective of the Fund is to maintain the purchasing power of the assets, which historically has equated a compound annual rate of return, including current income and capital appreciation, of 8% net of fees over 5-year rolling periods. This objective is to be achieved in a manner consistent with prudent risk-taking and will be reviewed as the investment environment changes.

The McKnight Foundation also wishes to be a catalyst in the area of impact investing. To that end, the Investment Committee and Mission Investing Committee (MIC) will incorporate investment strategies relevant to the McKnight Foundation’s mission into the portfolio, and will, from time to time, seed innovative strategies in the impact investing space through the use of mission-driven and program-related investments. These investments may have enhanced investment objectives (See Appendix A — Impact Investing Policy).

For purposes of *this* policy, impact investing means to prudently leverage McKnight’s full resource base to further align the use of its resources with its mission, achieve specified financial goals, enhance its credible influence, drive programmatic learning, and have direct impact on key philanthropic priorities. The impact investing program includes the subsets of public market Mission-Related Investment (MRI), private market MRI, mission-driven investing (MDI), and program-related investments (PRI). MDI and PRI are not included in the asset allocation and governance policies described in this Statement of Investment Policy. All impact investing categories are further described in the Impact Investing Policy — Appendix A.

In order to ensure that the investment performance of the Fund is competitive, the Committee will also review performance relative to a Policy Benchmark and a peer group median.

Investment Management

The Investment Committee is responsible for setting the Fund’s long-term investment guidelines, including its asset allocation, after taking into consideration the spending needs, risk tolerance, long-term financial objectives, and impact initiatives of the Foundation, as well as expectations for asset class returns and volatility.

The Fund will be invested in a broadly diversified portfolio. The Fund’s assets will be managed by professional investment managers or invested in professionally managed investment vehicles, and in the case of impact investments, may be direct investments in opportunities with an impact focus. Fund, manager, and direct investment performance will be reviewed periodically and evaluated over the long term. Performance refers to measuring returns, risk, and risk-adjusted returns. Impact will be monitored separately for the relevant funds or investments.

Written guidelines specific to each manager of a separate account will be determined and implemented at each manager’s hire. These guidelines will be reviewed periodically by the Vice President of Finance & Compliance to confirm adherence. The Impact Investing program director will coordinate review of

guidelines for separately managed MRI accounts. Exceptions to the written guidelines may be granted by approval of the Investment Committee. These guidelines are included as Appendix D.

In addition to separately managed accounts The McKnight Foundation is invested in one or more commingled funds. As a condition of investment, The McKnight Foundation agrees to accept the policy guidelines published by the managers of these funds and understands that it has limited ability to change or influence these guidelines. A list of these funds is included as Appendix E.

The Foundation's Current Investment Guidelines and Asset Allocation and its method of measuring the performance of the present approach are detailed in Appendices B and C of this document.

Standards for Prudent Investing

In investing and managing the portfolio, the Investment Committee will consider the purpose of the Foundation. Management and investment decisions about an individual asset will be made not in isolation but rather in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Foundation. In managing the portfolio, the Investment Committee will incur only those costs that are appropriate and reasonable in relation to the portfolio or any specific institutional fund, the purpose of the Foundation and the skills available to the Foundation. It will use reasonable efforts to verify facts relevant to the management and investment of the portfolio or any specific institutional fund. The following factors will be considered in the management and investment of the Foundation portfolio:

- General economic conditions;
- The possible effect of inflation or deflation;
- The expected tax consequences, if any, of investment decisions or strategies;
- The role that each investment or course of action plays within the Foundation's overall investment portfolio;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation;
- The needs of The McKnight Foundation to make distributions and to preserve capital; and
- An asset's special relationship or special value, if any, to the purpose of the Foundation.

Foreign Currency Exposure

The Investment Committee will authorize the Fund's global and international managers to use currency futures and forwards in order to reduce the volatility of the fund's U.S. dollar returns from investments in non-dollar securities. The asset allocation managers may use foreign currencies as a separate investment strategy, consistent with their guidelines. Without the explicit authorization of the Investment Committee, no manager will utilize currency futures or forwards if their effect is to leverage the Fund's assets, circumvent any investment guidelines, or introduce additional risk into the portfolio.

Use of Derivatives

The Investment Committee will authorize the Fund's managers to use options and futures in order to reduce risk in the portfolio, or to implement a market strategy more rapidly or at lower cost. The asset allocation managers may use derivatives, including swaps, to establish, hedge, or short market exposure

as an investment strategy consistent with their guidelines. Without the explicit authorization of the Investment Committee, no manager will use derivatives (including, without limitation, swaps, structured notes, and collateralized mortgage derivatives) if their effect is to leverage the Fund's assets, circumvent any investment guidelines, or introduce additional risk into the portfolio.

Use of Fund of Fund Managers

The Foundation may invest in Hedge Fund and/or Private Investments through Fund of Fund vehicles. Fund of Fund investments provide the Foundation with due diligence, diversification and thus, risk reduction. Fund of Fund investment managers disclose to investors the underlying private investment funds in which they invest, but they disclose little to no information about underlying investments. The Committee is responsible for completing rigorous due diligence before selecting Fund of Fund managers. The nature of Fund of Fund manager reporting, however, limits the ability of the Committee to closely track the policies, procedures, and investments of the underlying funds.

Securitization of Cash Balances

The McKnight Foundation has engaged an overlay account manager to securitize any short term investments and cash balances (“cash”). Cash from individual non-pooled manager portfolios will be securitized to the relevant manager benchmark, and cash held in the Fund’s cash account will be securitized to the Barclays Capital Intermediate Government/Credit Index.

Securities Lending

The Foundation, at the direction of the Investment Committee, may enter into securities lending agreements with custodian banks for separately managed accounts. The required cash collateral pool must meet the quality guidelines of a Tier 1 money market fund. The custodians will be required to provide a review, not less than quarterly, of the amount of securities on loan (in dollar and percentage of portfolio terms), income generated from such loans, and the net income accrued to the Foundation by account and as a whole.

Social Responsibility, Impact Investing, and Proxy Voting Policy

The Board has charged the Investment Committee with creating a portfolio that both achieves the investment objective and aligns, at least in part, with the Foundation’s mission. The majority of the portfolio will provide the return that will enable the Foundation to pursue its mission through a robust and consistent grant-making program. Investments made according to the Impact Policy (Appendix A) will establish the McKnight Foundation as a leader in the impact investing space while furthering its mission through its investments. Both the Investment Committee and the Mission Investing Committee will manage assigned segments of the portfolio.

The Investment Committee has engaged a third-party vendor to vote proxies of the Fund’s common stocks using environmental, social, and governance (ESG) criteria as determined jointly by the Investment Committee, Mission Investing Committee, and Board of Directors. These proxies may be voted in a manner consistent with maximizing the returns from such investments while still remaining sensitive to the mission of the Foundation. The Fund is predominantly invested through commingled funds, and the Investment Committee recognizes the vendor has limited ability to apply McKnight-specific criteria to those votes. The Investment Committee may elect other means of voting proxies for separately managed accounts in the future, if it so chooses, and will engage in conversation with all managers to determine their ESG efforts.

Asset Allocation

The Investment Committee will review the statement of Current Investment Guidelines and Asset Allocation (Appendix B) on a regular basis, and revisions will be voted on by the Investment Committee. The Committee will notify the Board of changes. Any revisions must be consistent with the overarching investment principles outlined in this Statement of Investment Policy.

The Committee will periodically delegate authority and responsibility for the transition of monies to the Vice President of Finance & Compliance.

Performance Measurement

The Committee will evaluate the investment results of the investment options at least semi-annually to assure appropriate diversification of the portfolios, the investment options offered overall, and compliance with this investment policy. The performance of each investment option shall be compared with the performance of portfolios of other managers in the relevant peer group and a passive index. Such performance will be determined based upon evaluations furnished to the Investment Committee by a third-party independent consulting firm. In addition to investment return, the Committee will periodically review the ESG ratings of all managers in conjunction with the Mission Investing Committee.

The Investment Committee holds the following expectations of each investment manager:

- Outperform the relevant benchmark over the most recent three-year rolling period; and
- Rank above the median of the relevant peer group over the most recent three-year rolling period.

The Investment Committee will periodically review the qualitative developments of each investment manager. This evaluation should include, but is not limited to: changes in ownership, personnel turnover, adherence to investment style and philosophy, and any other qualities or attributes that the Committee deems appropriate.

Specific “Watch List” criteria and procedures are outlined in Appendix C. The Committee may amend Appendix C from time to time as long as any and all changes are consistent with this Statement of Investment Policy.

Amendments and Review

The Investment Committee will review this Statement of Investment Policy annually to ensure it continues to reflect the Foundation's needs and the Investment Committee's market expectations. It will submit any suggestions for revision to the Board for approval.

APPENDIX A

Impact Investing Program Policy

I. INTRODUCTION

As part of an ongoing effort to strengthen its capacity to advance its philanthropic goals, the Board, Investment Committee (IC), and senior staff of the McKnight Foundation (McKnight or the Foundation) have launched an Impact Investing program. This program has four elements whose objectives (mission and financial), parameters, and key processes are outlined in this document. Together, these four elements arm McKnight with an expanded set of tools with which to do its work.

At its highest level, the Impact Investing program is a means to prudently leverage McKnight’s full resource base in line with its mission, enhance its credible influence, drive programmatic learning, and directly impact key philanthropic priorities. As such, the Impact Investing program is not tied to one program or target objective. Rather, through the construction and execution of the program, McKnight seeks to use these tools productively. The Foundation’s ability to effectively employ the various tools to forward its charitable purpose will evolve and grow with experience, reflection, learning, and adaptation.

This document describes and guides the Impact Investing program that was established by the board in 2013. Like all investment policy statements, it will be updated periodically to reflect changes to the program, its processes, and the market environment. The responsibility for approving final versions and edits rests with the Mission Investing Committee (MIC). The Foundation’s Board will sign off on the initial final version and any subsequent changes to investment allocations, restrictions, or decision-making authority. Updates that are process refinements, elaborations, or other less substantive changes can be made with approval from the MIC.

This document does not supersede formal Foundation policies, governance documents, or bylaws, nor does it affect any existing investment policy statements put in place by the Board or Investment Committee. As needed, there will be ongoing reviews of this and other documents to ensure a consistent, integrated set of processes and programs.

FIGURE 1 IIP Core Tools

Tool	What	Why	How	Allocation	Financial Objective
Public Markets Mission-Related Investing (MRI)	Investing in stock and bond managers with program alignment	Scalable way to align a greater percentage of the endowment with the McKnight mission areas; enhance credible influence and achieve selected learning opportunities.	McKnight’s impact director will oversee public fund scanning, sourcing and diligence by Imprint. Mercer may be asked to provide its perspective and supporting analytics. MIC will vote and Board will ratify. Imprint will monitor for impact and financial performance; Mercer will integrate into overall portfolio reporting.	Up to \$50 million of invested capital	Same benchmarks and peer groups utilized by Investment Committee for public market investments

Tool	What	Why	How	Allocation	Financial Objective
Private Markets Mission-Related Investing (MRI)	Investing in custom private market funds aligned with McKnight program areas	Drive alignment and more direct impact and program learning.	McKnight's impact investing director will oversee private fund scanning, sourcing and diligence by Imprint. MIC will vote and Board will ratify. Over time, at its discretion, the MIC may treat Imprint as a customized fund-of-funds of private managers.	Up to \$50 million invested capital	Same benchmarks and peer universe utilized by Investment Committee for private market investments
Mission-Driven Investing (MDI)	Investing in market-oriented opportunities with higher programmatic fit/impact	Direct impact and learning; scaling market innovation, working with new partners, and growing higher impact commercial models.	McKnight's impact investing director will oversee investment area scanning, sourcing, diligence, structuring and managing of MDI investments with support from Imprint. The MIC will make decisions on investments and provide ultimate oversight for financial and mission performance.	Up to \$50 million in committed capital	Absolute return targeting 6% over trailing 3 years
Program-Related Investing (PRI)	Non-market oriented investments targeting direct and catalytic impact closely aligned with McKnight's program priorities	Partner with for-profit or nonprofit organizations to: fill gaps in the marketplace; address market failures; and/or demonstrate new models.	Staff will review and adapt current PRI processes. McKnight's impact investing director will oversee any necessary sourcing and diligence with support from Imprint and expert staff. The MIC will set risk parameters and make decisions on final loans or investments. The impact director will lead this work with programmatic staff and external support as needed.	Up to \$50 million in committed capital	Non-commercial expectation for return

II. INVESTMENT TOOLS

1. Public Markets Mission-Related Investing (MRI)

Substantial portions of financial assets are invested in public equity and fixed income securities. The actions of large corporations have deep impact, both positive and negative, on issues and communities within the Foundation’s grantmaking scope. The Foundation seeks to make selected impact investments in high-quality managers to drive greater alignment between its assets and charitable purpose, change corporate practices, enhance its credible influence, and generate relationships and insights material to its program work.

FIGURE 2: Public Markets Overview

Portfolio Content	Benefit Objectives	Implementation
High performing stock and bond managers with investment parameters, process and capacity to address sustainability	<ul style="list-style-type: none"> ▪ Broader alignment with program objectives ▪ Market-based returns ▪ Increase credible influence ▪ One-way programmatic learning from managers to impact and program staff ▪ Some potential for broader catalytic impact via product creation, social metrics, or other mechanisms 	<ul style="list-style-type: none"> ▪ MIC will determine strategy and staff will implement. ▪ Imprint will source and recommend new managers, providing full diligence. ▪ Mercer will provide its opinion if it is currently covering the manager. MIC will make manager decision, and the Board will ratify. ▪ Mercer will track portfolio-wide asset allocations and recommend modifications to other exposures if needed. ▪ Imprint will monitor financial and mission-related performance. ▪ Mercer will incorporate financial performance into overall endowment reporting.

FIGURE 3 Public Markets Parameters

Parameters	Description
Size	\$50 million allocation
Positions	3-5 funds
Asset Allocations	No target allocation
Program Allocations	No set allocation within McKnight grantmaking programs; seeking best ideas
Geography	None
Restrictions / Limitations	None
Financial Objectives	Asset/sub-asset benchmarks used within the broader portfolio; peer analysis within the portfolio and relative to broader managers
Mission Objectives	Broad alignment

Monitoring & Reporting

Financial: Reporting and performance monitoring of public markets managers will occur according to McKnight procedures including evaluation per designated benchmarks. Basic performance updates will come in standard format in Mercer's monthly and quarterly reports on the entire portfolio and may include organizational/other material updates in addition to financial performance.

Managers can be terminated, reduced, added to, or placed on the Watch List. The MIC, Investment Committee, Mercer, or Imprint may make such recommendations with final decisions made, according to current practice, by the MIC, Investment Committee and/or Board. Additionally, Imprint's dedicated reporting on the overall impact program will contain financial performance updates, material organizational changes, and other financial factors.

Impact: Staff will collect and catalog program learning periodically. The MIC will receive annual reporting on social and environmental impact and program learning. All managers (both impact investing and conventional) will be evaluated annually using an impact capability dashboard created by Imprint in collaboration with staff. This will provide staff, the Investment Committee and the MIC with a holistic view of Environmental, Social and Governance (ESG) capabilities, opportunities and concerns at both the holding and investment manager levels. It will prove a platform for communicating about ESG with fund managers.

To start, the dashboard will focus on:

- Climate exposures
- Corporate practices
- Shareholder engagement
- Manager impact engagement

Over time, and to the degree practicable, the Foundation anticipates reviewing all endowment holdings as part of the impact dashboard. The dashboard will be rolled out in phases, starting with public equity and debt managers and expanding to liquid alternatives (mostly hedge funds) and finally to illiquid alternatives.

2. Private Markets Mission-Related Investing

Private funds — particularly venture capital, private equity, and real asset funds — provide an opportunity to invest in specialist managers who also have measurable impact and collaborative potential in the foundation's program areas. Relative to the public markets, private market investing may offer opportunity for greater mission alignment given the possibility of niche strategies and the influence of the private managers with the underlying businesses. The foundation may identify opportunities for co-investment alongside private managers or opportunities for partnerships or learning.

FIGURE 4 Private Markets Overview

Portfolio Content	Benefit Objectives	Implementation
<ul style="list-style-type: none"> ▪ Private equity managers with fund offerings in priority impact areas ▪ A custom “fund-of-funds” of private fund managers working in the Foundation’s priority impact areas 	<ul style="list-style-type: none"> ▪ More direct impact and greater alignment than public markets ▪ Approved managers may originate co-investment opportunities for the Mission-Driven Investment portion of the impact portfolio ▪ Learning and partnership opportunities 	<ul style="list-style-type: none"> ▪ MIC will determine strategy and staff will implement. ▪ Imprint will source and recommend new managers, providing full diligence. ▪ MIC will approve all manager selection. ▪ Potential for the MIC, at its discretion, to transition Imprint relationship from advisory to discretionary/serving as a custom “fund-of-funds.” ▪ Imprint will monitor financial and mission-related performance of private MRI investment. ▪ Mercer will incorporate financial performance into overall endowment reporting. ▪ MIC to monitor performance as part of overall impact portfolio.

FIGURE 5 Summary of Private Markets Parameters

Parameters	Description
Size	Up to \$50 MM of invested capital
Commitment Period	Up to 4 years to commit capital
Term	No fixed term; expectations for terms similar to the overall asset class (8-10 years with 1-2 year extension options)
Positions	4-7 funds; no single fund commitment may exceed 20% of the impact private MRI commitment
Asset Allocations	No target allocation; best ideas across private equity, venture capital, and real estate opportunity
Program Allocations	No target allocation within current McKnight programs; likely concentration within Midwest Climate & Energy and Region & Communities, but open to best ideas in other areas
Geography	None other than a limit on international exposure at 15% (committed capital) and will track MN and upper Midwest exposure
Restrictions / Limitations (Only binding were Imprint given a more discretionary mandate).	<p>In the event Imprint serves as a custom fund-of-fund managers:</p> <ul style="list-style-type: none"> • No first-time fund managers or fund without MIC sign-off • Funds must have non-impact co-investor without MIC sign-off • No direct investments/co-investments without MIC sign-off • Up to 20% available for secondary LP interests

Parameters	Description
Financial Objective	Traditional financial objectives; 70/30 blend of PE and real asset benchmarks
Mission Objective	Aligned measurable impact; selected learning and partnership opportunities
Access to Managers	MIC and staff will have full access where possible to underlying managers for monitoring, relationship and learning purposes

Implementation, Operations & Governance

The director of Impact Investing, with the Vice President of Finance & Compliance, as needed, will be responsible for managing/overseeing private MRI. Under an advisory relationship, implementation, operations, and governance will mirror the public MRI work. In the event that Imprint’s role transitions, the operational and governance details of the Imprint managed fund-of-funds would be specified in separate, formal documents and agreements.

Monitoring & Reporting

Financial: Staff will provide Imprint and Mercer with information on calls and distributions. Imprint will track the overall net asset value and performance of the private equity managers it recommends. Imprint will provide Mercer with data for the latter’s annual report on private equity to the Foundation.

Impact: Measurement will include relevant data:

- Quantitative measures of key program-related impact (e.g. affordable housing units; energy savings; clean energy generated)
- Qualitative measures of program-related impact (e.g. policy influence; creation of new models)
- Engagement and learning highlights including reports on key learning, market insights, program engagement and other benefits for McKnight’s core work

Imprint will report impact metrics, both quantitative and qualitative, on an annual basis and include brief qualitative summaries or selections in the quarterly reports, as appropriate. Staff will collect and catalog program learning periodically. The MIC will receive annual reporting on social and environmental impact and program learning.

3. Mission Driven Investing (MDI)

Mission-driven investments will be direct investments into businesses, structured loans, government or commercial paper, or smaller, specialty private equity funds that are likely to meet the 6% performance criteria of this portfolio and that are well aligned with program goals. This approach is best suited for growing existing businesses, highlighting proven or strong models, and partnering with experienced organizations rather than funding higher-risk, earlier-stage pilots or providing gap funding.

FIGURE 6 Mission-Driven Investing Overview

Portfolio Content	Benefit Objectives	Implementation
<ul style="list-style-type: none"> ▪ Up to \$50 million in high impact investments ▪ Portfolio of direct and/or fund investments 	<ul style="list-style-type: none"> ▪ Moderate financial return. ▪ Direct, measurable impact in priority programs. ▪ Active engagement with market innovators and experts. ▪ Two-way programmatic learning. ▪ Increased market discipline informs grant-making, and policy work. ▪ Enhanced credible influence in policy and advocacy efforts. 	<ul style="list-style-type: none"> ▪ MIC will determine strategy and staff will implement. ▪ 6% absolute return target over trailing three years. ▪ Led by Impact Director. ▪ Imprint will scan relevant markets, source, diligence and recommend investment opportunities. ▪ Investment decisions made by MIC. ▪ Imprint will monitor financial and social/environmental performance.

FIGURE 7 Mission-Driven Investment Parameters

Parameters	Description
Size	Up to \$50 million;
Positions	12-18 positions; \$2.5 - \$5 million per transactions (minimum of \$500,000)
Asset Allocations	<ul style="list-style-type: none"> ▪ All private transactions ▪ Prefer a final mix of asset classes and transaction types to increase learning and spread risk (may include senior debt, subordinated debt, private equity, and real assets)
Program Allocations	Significant exposure to Midwest Climate & Energy and Region & Communities programs, other grant-making programs lower in priority
Geography	Prefer a final mix primarily in the United States. Exposure to the Twin Cities & greater Minnesota regions is generally preferred, but not required
Restrictions / Limitations	Maximum position size is 10% of the MDI allocation (committed capital); No start-ups/series A
Financial Objective	6% over trailing 3-year period once invested

Implementation, Operations & Governance

The director of Impact Investing will be responsible for managing and overseeing mission-driven investments according to an articulated investment process. The MIC is responsible for investment decision-making. The impact director will work closely with foundation staff and investment consultants.

Monitoring & Reporting

Financial: Imprint will provide quarterly reporting at the MDI portfolio and underlying investment level. This reporting will track investment returns, and/or operating and financial performance of underlying investments. The overall portfolio will be tracked relative to its 6% absolute return target. Individual investments will be tracked relative to target returns and asset class benchmarks. Full reporting will be shared with the MIC. Mercer will receive data to integrate MDI as a single line item in its endowment reporting and to use in allocation and overall portfolio modeling.

Impact: Measurement will include relevant data:

- Quantitative measures of key program-related impact (e.g. affordable housing units; energy savings; clean energy generated)
- Qualitative measures of program-related impact (e.g. policy influence; creation of new models)
- Engagement and learning highlights including reports on key learning, market insights, programmatic engagement and other benefits for McKnight’s core work

Imprint will report impact metrics, both quantitative and qualitative, on an annual basis. Staff will collect and catalog program learning periodically. The MIC will receive annual reporting on social and environmental impact and program learning.

4. Program-Related Investing (PRI)

The McKnight Foundation’s program-related investing (PRI) program predates the formation of the Impact Investing program and is a long-standing foundation tool. In general, PRIs are best focused on addressing market failures, bridging market gaps, and testing new business models. As such, PRIs have different risk/return characteristics suited to these goals and the context of the markets in which they occur.

FIGURE 8 *Program-Related Investments Overview*

Portfolio Content	Benefit Objectives	Implementation
<ul style="list-style-type: none"> ▪ Up to \$50 million in committed capital ▪ Portfolio of non-market oriented investments deeply aligned with program priorities 	<ul style="list-style-type: none"> ▪ Direct, measurable impact in priority grant-making programs ▪ Active outreach to existing and new, nonprofit and for-profit, organizations. ▪ Two-way program learning. ▪ Fill market gaps or address market failures; test or demonstrate new models. 	<ul style="list-style-type: none"> ▪ MIC will determine strategy and staff will implement. ▪ Overseen by impact director with support from program staff and Imprint. ▪ Investment or lending decisions made by MIC. ▪ Staff will track loans with Imprint support where appropriate.

FIGURE 9 Summary of PRI Parameters

Parameters	Description
Size	Up to \$50 million
Positions	Minimum size \$1 million
Asset Allocations	Loan or loan guarantee with possibility for equity or other structuring
Program Allocations	No restrictions on program area
Geography	Domestic
Financial Objective	Return on invested capital with below-market rate of return; the possibility of an allocation for higher risk PRIs (e.g. where there is additional risk to the return of invested capital) may be explored

Implementation, Operations & Governance

The director of Impact Investing will be responsible for managing and overseeing program-related investments according to an articulated process. The MIC is responsible for PRI decision-making. The impact director will work closely with foundation staff and investment consultants.

To be considered for a PRI, a project should:

- Fill a need that is not met or not fully met by other funding sources;
- Have the potential to make a substantial impact through either focus or magnitude or innovative use of financial tools;
- Be transformational beyond the need;
- Have the potential to leverage other funding or bring new funding to a project or program;
- Fit within the goals and strategies of a specific program and should benefit the program in a way that a grant could not;
- Advance the field, expand organizational capacity, or be otherwise transformative;
- Fall within the same US geographic territory as our current grantmaking;
- Be proposed for a current grantee or programmatic partner; and,
- Provide a risk-adjusted rate of return on investment (ROI) that meets IRS guidelines.

Monitoring & Reporting

Financial: McKnight staff will provide annual reporting at a portfolio and underlying PRI level, showing payments received and balances outstanding for each PRI. The analysis will indicate receipt of reports and indicate any deficiencies in payment or reporting. Follow up on any deficiencies will be made by the Impact Investing director or program officer to assure compliance with covenants as listed in the PRI origination agreements and will include a disclosure of any program or financial delinquencies in the MIC's annual report. Mercer will not integrate PRIs in their reporting or allocation models.

Impact: Measurement will include relevant data:

- Quantitative measures of key program-related impact (e.g. affordable housing units; energy savings; clean energy generated)
- Qualitative measures of program-related impact (e.g. policy influence; creation of new models)
- Engagement and learning highlights including reports on key learning, market insights, programmatic engagement and other benefits for McKnight's core work

McKnight staff will report impact metrics, both quantitative and qualitative, on an annual basis and include brief qualitative summaries or selections in the annual report. Staff will collect and catalog program learning periodically. Imprint's responsibility in reporting on PRIs will be determined as the MDI process and governance develops.

III. IMPACT INVESTING PROGRAM MANAGEMENT

Mission Investing Committee (MIC)

The Mission Investing Committee (MIC) has cross-functional representation from the Investment Committee and wider Board. Changes to the composition of the MIC will be reviewed and approved by the Board. The MIC is the core body overseeing the impact investing work and will serve as the decision-making body for the public market MRI, private market MRI, MDI and PRI program elements. The MIC will receive and review relevant quarterly reports on the impact program as well as key annual reports. The MIC can also make recommendations on changes to the program, as described in this Appendix, to the Board for its review with notification to the Investment Committee.

Current MIC Members *May 2015*

- Ted Saryk, Chair
- David Crosby
- Deb Landesman
- Bob Struyk

The McKnight Foundation Board

The Board has overall responsibility for the Impact Investing program, will review progress, and is responsible for approving changes in allocations, restrictions, or decision-making authority. Accountability will be via regular reports on the program and approval of changes to this policy as per above.

Investment Committee (IC)

The IC will continue to provide broad guidance to the overall effort and recommendations to the MIC and the Board regarding the program.

Reporting and Communications

Overall program reporting and communications will be led by the Impact Investing director in coordination with the relevant program leads, the director of Communications, various bodies named above and selected external advisors. The Impact Investing director will report regularly to the Board on the progress and status of each core element including the financial and mission performance metrics key to the overall success of the program.

The Foundation will aspire to conducting an overall program review by a selected independent third-party every three to five years. Additionally, McKnight will design a formal external communications policy and plan covering the overall program and its activities, investments and results.

Figure 10: Roles & Responsibilities

Group	Program Design	Implementation	Review and Oversight
Board	Set direction and guide overall efforts	No day-to-day responsibilities; review impact investing program and approve material changes to allocation, decision-making or restrictions	Regular review of key program developments
Mission Investing Committee (MIC)	Refine and finalize recommendations	Overall strategy; detailed operational design for MDI and review of PRI design, decision-making for and oversight of MRI, MDI and PRI investments. IPS Impact Appendix.	Formal quarterly review of overall program returns (i.e. financial, mission, and learning)
Investment Committee (IC)	Approving process, policy, targets and parameters	Provide overall view of portfolio balance and performance.	Review portfolio performance as per current practice
Vice President, Finance & Compliance	Guide overall project design	Broader support for impact investing program, in general, and in context of endowment overall.	Report on portfolio performance as part of broader IC work
Impact Investing Program Director	Day-to-day oversight and implementation of impact program	Day-to-day support of the overall program including: MIC liaison; Imprint oversight; reporting and monitoring; pipeline management; due diligence support; liaison with grantmaking programs; and coordination of McKnight resources and decision-making bodies.	Day-to-day program management covering deal pipeline, decision-making, execution and reporting
Grant-Making Program Staff	Contribute to Imprint sector and issue scans and impact evaluation.	Thought and learning partner for scans; leverage learning; potential more active involvement in sourcing, mission diligence, or post-investment collaboration.	N/A
Impact Investment Advisor: Imprint Capital	Generate recommendations, integrate feedback, execute	Source and recommend for public and private MRI provide independent perspective on impact program and investments; conduct market scanning, sourcing; diligence and monitoring for MDI and PRI; create and monitor ESG dashboard for all endowment managers.	Provides integrated reporting, both for IC and for MIC and Board (quarterly and annual reports as needed)
Core Investment Advisor: Mercer	Sets overall financial parameters; provides portfolio context and supports diagnostic efforts	Monitors asset allocation, reviews and opinions on Imprint manager recommendations where appropriate, monitors Imprint public markets investments and private fund investments, supports integrated reporting	Reviews performance; maintains Watch List; and can recommend managers for termination

APPENDIX B

Current Investment Guidelines and Asset Allocation

Any revisions to Appendix B must be approved by the Investment Committee.

The Fund will be invested in a broadly diversified portfolio, consisting of the following categories:

- Asset allocation managers whose role it is to allocate assets on a regular basis among strategies managed within their firms to provide returns above a global benchmark or real return benchmark
- Equity managers of publicly traded securities who have demonstrated a unique ability to invest in either a specific market sector or a wide range of geographic markets, or passive funds to provide low cost market exposure
- 3M stock as a distinct, and direct investment within the domestic equity allocation
- Private investments offering diversification and high returns over a long, illiquid holding period, such as management buyouts, venture capital, distressed securities, and natural resource partnerships
- Timber investments providing returns in excess of inflation over time
- Fixed income and cash investments limiting the Fund's volatility and providing liquidity for the Foundation's spending needs
- Overlay manager to keep cash invested in higher returning instruments

The Committee may, from time to time, identify investments providing exposure to compellingly undervalued asset classes that may not fall within one of the above categories.

The long-term, "normal" policy allocations to the various segments of the portfolio and their permissible allocation ranges are shown below:

Asset Allocation

<u>Segment</u>	<u>Normal</u>	<u>Minimum</u>	<u>Maximum</u>
Asset Allocation - GTAA	15	10	20
Equities - Domestic	23	15	30
Equities – International	18	13	23
Global Equity	4	0	8
Hedge Funds	15	10	20
Private Equity	12	0	20
Other Alternative Assets	3	0	10
Fixed Income	10	7	15
Cash	0	0	3
Total	100%		

In addition, the Fund's exposure to various asset classes will be calculated by reviewing the portfolios of all managers in order to understand exposures and to enable comparison to other foundations or groups. It is understood that the public and private market MRI investments are spread across these asset class segments.

APPENDIX C

Performance Measurement

The Total Fund will be compared to the following: (a) an “actual” benchmark that reflects the current asset allocations (b) A “balanced” benchmark of 60% S&P 500 and 40% BC Int. Gov/Credit Index, and (c) a peer group of similar institutions.

In addition to monitoring the evaluation criteria listed in the Statement of Investment Policy, the Committee will maintain a “Watch List” for investment options that have:

1. Underperformed the relevant benchmark over the most recent rolling twelve months and ranked below the median of the relevant peer group over the most recent twelve months;
2. Have qualitative developments requiring ongoing monitoring; or
3. Have been designated by the Committee as requiring additional monitoring.

Any Manager that is on watch list will be reviewed at each subsequent Committee meeting to determine why it is not meeting the stated benchmarks and if further action is warranted. A Manager can be removed from watch list for one of four reasons:

1. The investment performance changes so that it meets its investment benchmarks.
2. The Committee understands why the Manager is not meeting a stated benchmark and is comfortable that the Manager is still meeting the objectives for which it was chosen.
3. The Committee decides to replace the Manager.
4. In cases of personnel changes, the Committee, decides that the characteristics of the portfolio have changed, the manager may be replaced.

“Watch List” managers will be specifically monitored each quarter and one of the following actions taken:

1. Termination
2. Removal from “Watch List” status, or
3. Extension of “Watch List” status.
