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INSTITUTE

Sustainability in Capital Markets

Financing the transition to a sustainable
low-carbon economy

Foundations Case Study – McKnight Foundation



McKnight Foundation

Endowed in 1953 by William and Maude McKnight, the McKnight Foundation is a family foundation based in Minnesota with over \$2.6 billion in assets under management (AUM) as of 2024.ⁱ Its core mission is to “*advance a more just, creative, and abundant future where both the people and planet thrive.*” Toward this mission, McKnight uses both its grant-making and investing to support and advance innovative approaches to address social, economic, and environmental challenges in Minnesota and around the world. This includes granting more than \$100 million each year to non-profit organizations focused on building and supporting sustainable communities.ⁱⁱ It also includes investing over a long-term horizon (20 years) and seeking “investment opportunities that reflect new economic, environmental and social realities.”ⁱⁱⁱ

“McKnight and other institutional investors have power to create change when we invest. Businesses are the innovators, and investors are the economic engine, that will finance the shift to a clean energy economy. As money flows toward climate-friendly investments and away from heavy-emitters, we will accelerate the transition to a low-carbon economy.”^{iv}



**MCKNIGHT
FOUNDATION**

System-level investing strategy related to climate change

The McKnight Foundation is committed to ensuring that its investment portfolio aligns with its overall mission to “*advance a more just, creative, and abundant future where both the people and planet thrive.*” Its approach to climate change across its portfolio is aligned with its grantmaking focus area, Midwest Climate & Energy, which “*takes a system change lens, focusing on shifting the conditions that perpetuate the climate crisis, which include structural racism.*”^v For more than a decade, the Foundation has focused on addressing climate change as part of the mission-alignment of its portfolio through “four points of leverage” that focus not only on McKnight’s investment portfolio but also on influencing action across the financial industry and among regulatory and policy entities.^{vi}

These leverage points include:



- **Customer of Financial Services:** As a customer of financial products and services, McKnight promotes integrated thinking on overlooked, yet material, market considerations. This means broader thinking about environmental, social, and corporate governance (ESG) issues and a specific focus on the risks and opportunities of climate change.
- **Shareholder:** Its public equities portfolio makes the McKnight Foundation a shareholder of corporations with the ability to vote company proxies and raise questions about ESG practices, strategy, and risk management. If McKnight owns a company, McKnight can act to improve it through strategic stakeholder engagement.
- **Market Participant:** As an investor, McKnight has a proverbial “skin in the game” with policymakers and financial regulators and can join with other institutional investors to encourage more transparent, resilient markets.
- **Owner of Assets:** As a fiduciary, McKnight can direct dollars to prudent investments that are more closely aligned with its mission. In 2013, the McKnight Board established an impact investing program with 10% of the endowment, making climate mitigation and adaptation a priority investing area.

The Foundation’s efforts to decarbonize its endowment notably date back to 2013, when it established an impact investing program with 10% of the endowment. Elizabeth McGeveran was initially brought on in 2014 to lead the impact investing program, transitioned to director of investments in 2019, and today is Vice President of Investments, all while helping the foundation to become a leading impact investor—in addition to a philanthropist—and “*identify investment opportunities that are building the world we want to live in.*” With her leadership in implementing the Foundation’s vision to have a more impactful endowment, McKnight Foundation has committed to achieving net-zero greenhouse gas emissions across its entire portfolio by or before 2050. Elizabeth is also responsible for leading the creation of a market-rate solutions-oriented portfolio that advances climate solutions and equitable communities and economies, aligned with the foundation’s mission (detailed in Table 4).^{vii}

While the Foundation considers grantmaking the primary expression of its values as an organization, the endowment has been intentional about ensuring that its investments align to and reflect the values of the organization, in service of pursuing its system-level goals.^{viii} For example, while an area such as carbon sequestration is not an attractive focus for its grantmaking, the endowment can invest in diverse technological solutions that contribute to a low-carbon future.

On the Foundation’s approach to achieving net zero, McGeveran says: “*There’s a lot of attention being paid to getting raw emissions reduction [from divesting from oil and gas producers]. I am interested in a portfolio investment that’s not only reducing greenhouse gases from current emissions levels, but also has products, services, investments, and companies that are actually improving our greenhouse gas emissions.*”^{ix}

2013

Measured and began reducing the carbon intensity of its portfolio

2014

Launched the impact investing program; sold all coal exposure from bond portfolio; and built the Carbon Efficiency Strategy Fund to under index for high-emitting companies and over index for low-emitting companies

2015

Signed the Institutional Investor Statement on Climate Change

2017

Joined Climate Action 100+ and discontinued investments in companies with coal and oil sands reserves held by separately managed accounts

2018

Successfully committed all of its impact investment dollars and began expanding the program

2019

Determined all real asset investments must have a credible sustainability thesis; impact investment team grows

2021

Over 40% of endowment has mission alignment and \$500 million is invested in climate solutions; commits to net zero by 2050

2023

Converted back to one investment committee across the endowment with refreshed member base

Extending Conventional Tools

a. Statement of Investment Beliefs

McKnight’s investment policy statement, last updated in August 2023, summarizes the Foundation’s commitment to “embed both equity and climate sustainability in [its] investment strategy” and specifies that the foundation will achieve net-zero greenhouse gas emissions across its endowment by 2050 (see Box 1). The policy statement further notes that it “will assess the greenhouse gas emissions from each investment fund annually using actual and estimated data so as to measure changes in the endowment over time” and that its Investment Committee will recommend commensurate strategic decisions—including targets for the pace of reduction—to the Board.

BOX 1. The McKnight Foundation’s commitment to net-zero greenhouse gas emissions across its portfolio by 2050

The McKnight Foundation seeks to integrate its investment activity with the Foundation’s mission and values. McKnight has committed to achieving net-zero greenhouse gas emissions across the Endowment by 2050 at the latest. It seeks to embed both equity and climate sustainability in its investment strategy, always within the context of prudent investment decision-making. This commitment makes it the country’s largest private foundation to pursue a net-zero endowment.^x

McKnight’s codification of its commitment to net zero in a formal policy statement is notable in-and-of-itself, but it is the fact that it intends for the policy to “signal to both the market, and to its fund managers, the seriousness with which investors must approach the energy transition” that separates McKnight from its peers as a system-level investor.^{xi} The Foundation aims for its policy to alter not only its own behavior, but also that of other actors within the financial system.

The investment policy statement further notes that, where possible given the Foundation’s targeting of a 5%+ CPI long-term rate of return, the Foundation will prioritize three types of investments:^{xii}

- **Mission-Aligned:** Managers with deep ESG capacity or where the Foundation has established investment prohibitions aligned with its mission.
- **High Impact:** Managers and funds where social and environmental impacts are well-articulated and measured, or where McKnight’s mission priorities are fundamental to the investment strategy.
- **Program-Related:** Charitable investments which are tied to the Foundation’s mission.

Although not in its investment policy statement, McKnight has publicly communicated what it calls its “climate investing beliefs,” which include:^{xiii}

- Climate change presents material, systematic risks to the environmental, social, and economic stability of the state, region, country, and world.
- Climate change has the potential to undermine the value of the McKnight endowment. Incorporating a long-term understanding of climate change—its causes and its solutions—is part of protecting the returns of the endowment.
- Investors can play an essential role in ensuring that the global average temperature increase remains below 2 degrees Celsius, in line with international government agreements.

These beliefs are notable in McKnight’s description of climate change as a systemic risk, as well as acknowledgement of the corresponding threat to its investment returns, and declaration that investors can contribute to the achievement of the Paris Agreement goals.



b. Security selection and portfolio construction

In line with its commitment to net zero and otherwise aligning its endowment with its environmental (and social) objectives, over 48% of its \$2.6 billion endowment has some mission alignment (as of Q2 2024), whilst impact investments are uncapped, with \$500 million committed to public and private impact investments that provide the ideas, technology, software, and services to decarbonize the economy.^{xiv}

With about 1,000 holdings, the Carbon Efficiency Strategy reduces the carbon intensity of its portfolio by 50% compared with the benchmark, while also outperforming the benchmark financially since inception.^{xv} McKnight has made more than \$900 million in mission-aligned and high-impact investments focused on carbon capture and storage, energy efficiency, and/or renewable energy since 2014 (see Table 1).^{xvi}

McKnight also excludes investments from its portfolio that do not align with the Foundation’s mission. In 2015, McKnight removed from its portfolio “any dedicated coal companies and mining companies that owned underground coal reserves.” It then subsequently, and together with its asset manager Mellon Capital Management, developed a screening process to ensure that the Foundation does not purchase companies with underground coal reserves. As of 2016, its Bond Portfolio is entirely coal-free.

Investments	Type		Topic			Commitment Amount/ Market Value (as of Q2 2024)
	Mission-aligned	High impact	Carbon capture & storage	Energy efficiency	Renewable Energy	
Acadian: Sustainable Global Equity Fund	✓					\$100 million
Actis Energy Fund V					✓	\$10 million
Arcadia		✓			✓	\$2 million
Baillie Gifford: EAFE Fund	✓			✓		\$90 million
Blue Bear II & III		✓				\$9 million
DCVC Climate Select I		✓				\$6 million
Double Bottom Line (DBL) Partners IV					✓	n/a
G2VP: Funds I & II		✓		✓	✓	\$17.5 million
Generate Capital ^a		✓		✓	✓	Successfully exited
Generation: Global Equity Fund	✓			✓	✓	\$125 million
HitecVision New Energy Funds I & II		✓	✓	✓	✓	\$17.5 million
Mellon: Carbon Efficiency Strategy	✓			✓	✓	\$100 million
Mellon: Fixed Income Portfolio	✓				✓	\$200 million
New Energy Capital: Credit Funds I & II	✓			✓	✓	\$22.5 million
Ninety One: Global Environment Fund	✓		✓	✓	✓	\$20 million
North Sky Capital: Clean Growth Fund IV	✓				✓	\$7.5 million
Ownership Capital: Global Equity Strategy	✓					\$70 million
Parametric Calvert ESD Defensive Equity Fund	✓			✓	✓	\$100 million
Parnassus: Core Equity Fund	✓			✓		\$90 million
PosiGen ^a		✓		✓	✓	Successfully exited
Renewable Resources Group Fund I		✓				\$10 million
Sandbrook Fund I		✓			✓	\$10 million
Stonepeak: Global Renewables Fund I		✓			✓	\$10 million
TPG: Alternative & Renewable Technologies Fund	✓				✓	\$10 million
True Green Capital: Funds III & IV		✓			✓	\$17.5 million
Vision Ridge Partners: Sustainable Asset Funds II & III		✓		✓	✓	\$17.5 million

Table 1. A selection of McKnight's climate investments

^a Exited

c. Manager selection & due diligence

McKnight uses its position as a shareholder of corporations to influence change within companies and across industries, acting in alignment with its motto: “If McKnight owns a company, McKnight can act to improve it.” Among the ways that McKnight seeks to influence the broader financial markets with regard to climate change (and other ESG issues) is through its fund managers and as a “customer of financial services.” In other words, McKnight uses its due diligence of managers not only to identify those that operate in alignment with the Foundation’s mission, but also to encourage them to change existing strategies and build new ones. The Foundation reports, for example, that its ESG- and climate-focused due diligence led one of its fund managers, Mellon Capital Management, to develop the Carbon Efficiency Strategy, a fund that excludes coal mining companies, overweights energy efficient companies, and underweights inefficient producers. McKnight provided \$100 million in seed funding for the fund, which it describes as a “win-win” because it “created new ESG capacity within Mellon and launched a new product for institutional investors.”^{xvii}

McKnight identifies that private portfolios are more difficult to assess regarding carbon intensity. Therefore, its approach has been to hold fund managers accountable by asking more targeted questions: “...instead of saying to a private manager, ‘Do you own a fossil fuel company?’ we’ll say to a private manager, ‘What is the emissions profile of this entire portfolio that you invest on our behalf?’”^{xviii} In reflecting on its net-zero commitment, the foundation notes that one of the most valuable aspects of its public commitment to net zero across the portfolio by 2050 is the clear signal it has delivered to fund managers that it is an area of prioritization and expectation. As a result, it has conducted many conversations with managers over the past several years that truly delve into what it means to take tangible action in the transition to a sustainable low-carbon economy. In 2022, McKnight Foundation engaged its more than 75 fund managers regarding their net-zero ambitions and fit for the Foundation’s net-zero portfolio.^{xix} That year, 54% of its public equity managers had net-zero commitments in place, and in 2023, more than 60% did.^{xx}



Adopting Advanced Techniques

a. Self-organization

McKnight believes that **“working with other like-minded foundations will help drive more product offerings, efficiencies and better outcomes in aligning program goals with investment portfolios.”**^{xxi} To this end, McKnight is a member of the Investor Network on Climate Risk (also known as the Ceres Investor Network), a coalition of more than 220 institutional investors working “to advance sustainable investment practices, engage with corporate leaders, and advocate for key policy and regulatory solutions to accelerate the transition to a just, sustainable, net-zero emissions economy.”^{xxii} McKnight is also a signatory of the Global Investor Statement to Governments on the Climate Crisis and a member of Climate Action 100+, an investor-led initiative focused on encouraging the world’s largest corporate greenhouse gas emitters to take necessary action on climate change.^{xxiii}



b. Polity

In 2015, McKnight stood alongside hundreds of investors in advocating for an ambitious agreement ahead of COP21 in Paris. Since then, the Foundation has expanded its impact investments and doubled its commitment to climate-related grantmaking.^{xxiv} McKnight also believes that, as a market participant, it has “standing with policymakers and financial regulators... [and can] educate and encourage action”^{xxv} on its own and through investor collaborations like the Investor Network on Climate Risk, as described above. For example, in 2017 and in response to the United States’ withdrawal from the Paris Agreement, McKnight signed a letter, alongside 217 investors, urging G7 and G20 governments to develop plans to reduce greenhouse gas emissions. McKnight also urged its asset managers to sign the letter. Further, in 2016, the Foundation’s then-president Kate Wolford wrote a letter to the SEC, backing regulations that would require publicly traded companies to disclose robust, standardized data on material environmental and social risks.^{xxvi} Continuing this support, in 2022 the Foundation’s Vice President of Investments Elizabeth McGeeveran wrote to the SEC in support of the proposed regulatory enhancements to mandate climate-related financial disclosures.^{xxvii}

Evaluating results

McKnight Foundation notes that while it has good insight into the emissions of its public market investments, it is more challenging to gather clear information on private market investments. In response to this, it is working with Mercer to create a baseline assessment. Notably, while McKnight Foundation has committed to net zero, it does not set targets associated with its net-zero commitment and instead focuses on maintaining alignment toward climate goals within

the organization and tracking progress of its activities accordingly. At the end of 2023, McKnight's public equity portfolio was 44% less carbon intensive than global equities based on an analysis of that portion of the portfolio. Findings include that the main drivers of its emissions are due to utilities, airlines, and materials, and *“that our public equity's most intense emissions assets weight 3% in market value but account for 24% of carbon intensity.”*^{xxviii}

Challenges and Looking Ahead

In testing and implementing its impact investment program, McKnight Foundation was intentional with its design and goals. With a clear four-part framework for how an institutional investor can create change, and a headspace of experimentation, the foundation created the impact investment program as a stand-alone portfolio. In the beginning, it established a mission investing committee—though with a majority of members shared with the investment committee—and new orientations to what it meant for McKnight to be an institutional investor in addition to a philanthropist. Through its various iterations and, importantly, the establishment of strong financial performance in the impact investment portfolio, the foundation continues to reaffirm its belief that it can have more impact with its dollars. Recently, the foundation converted back to one investment committee—the mission investment

committee having graduated from its experimentation phase—with a refreshed member base and expanded decision-making capacity.^{xxix}

As core to creating a mission-aligned portfolio, McKnight urges the importance of having a clear sense of who you are as an investor as well as a clear design and vision about the investments you want to make in alignment with that. Applying a system lens, McKnight focuses on influencing the strategy of its fund managers to send broader signals about client demand for investments that support a low-carbon future. With a solid commitment to enabling the transition to a sustainable low-carbon economy, as well as a sense of flexibility about what that means in practice, McKnight is indeed leading the way for Foundations to adopt a system-level approach.

Endnotes

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About the Authors

High Meadows Institute is focused on the role of business leadership in society. Our mission is to contribute to sustainable economic and social progress in a global economy and society. High Meadows Institute was founded in 2013 by a small group of senior business and finance leaders with deep experience in the private and non-profit sectors. The Institute works in close partnership with other leading think tanks and academic and business organizations to advance its mission.

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