

The Road Through Paris: Building a Low-Carbon Economy with Investing & Philanthropy

Introduction

The McKnight Foundation is a private family foundation that makes more than US\$85 million in charitable grants each year in our home state of Minnesota and around the world. We support hundreds of grantees working to build socially, economically, and environmentally sustainable communities. Helping the Midwestern region of the United States lead the transition to a low-carbon economy is a significant priority.

The Foundation is mobilizing more of its resources to address climate change. Since 1992, McKnight has made US\$140 million in grants to organizations advancing a low-carbon future and, more recently have activated our US\$2.2 billion endowment. This is consistent with our role as the 38th largest foundation in the United States¹ as well as our obligation as fiduciaries of the McKnight endowment.

Our Endowment & Climate Change

Our Climate Investing Beliefs²

- Climate change presents *material, systematic risks* to the environmental, social and economic stability of our 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.

Our Climate Investing Approach

Our approach is organized around four points of leverage that contribute to achieving our mission, while simultaneously seeking to protect the long-term performance of our portfolio.

1. *Customer of Financial Services:* As a customer of financial products and services, we promote 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.
2. *Shareholder:* Our 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 we own a company, we can act to improve it.
3. *Market Participant:* As an investor, we have proverbial “skin in the game” with policymakers and financial regulators, and we can join with other institutional investors to encourage more transparent, resilient markets.
4. *Owner of Assets:* As fiduciaries, we can direct our dollars to prudent investments that are more closely aligned with our mission. In 2013, the McKnight board established an impact investing program with 10% of the endowment, making climate mitigation and adaption a priority investing area.

Our Climate Investing Actions

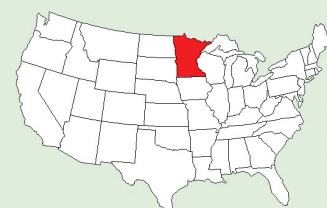
Over the last two years The McKnight Foundation has taken action to decarbonize, reinvest, and help markets evolve. Since 2013, the Foundation has:

- Committed 15% of the endowment to climate and community solutions as well as mitigation opportunities.
- Built and seeded the US\$100 million Carbon Efficiency Strategy with Mellon Capital Management. The fund reduces our exposure to inefficient producers of greenhouse gases within each sector and excludes coal producers. At its one-year anniversary, it has outperformed the Russell 3000 Index while reducing the fund’s carbon intensity (greenhouse gas

Mission

The McKnight 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.

Location



State of Minnesota on US map



McKnight’s offices are located in Minneapolis, Minnesota

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emissions per dollar of sales) by a material 53%.³

- Deployed US\$45 million into additional investments that are helping to advance a clean energy future and build resilient communities. Investments include public and private equity funds, direct investments into small companies, and low-interest loans.
- Removing coal producers and companies with coal reserves from a US\$200 million fixed-income portfolio.
- Completed a US\$1 million, 10-year low-interest loan to a community bank in the eastern coal mining region of the US. The bank will couple loans with technical assistance to help small business owners diversify the local economy as coal production shrinks.
- Assessed coal exposure across all public equities portfolios.
- Evaluated all 23 external fund managers across all asset classes on their capacity to include environmental, social and governance analysis in investments.
- Wrote to 170 US companies in energy intensive sectors asking them to report greenhouse gas emissions systematically.
- Joined the Investor Network on Climate Risk. We now unite with other investors to support regulations and market changes that facilitate fully informed investment decisions that include climate risk.
- Reported all climate relevant investments publicly via the Global Investor Coalition on Climate Change's Low Carbon Registry.
- Provided McKnight employees with socially responsive choices within their defined contribution retirement plans.

Using our investments to stimulate a low carbon economy requires strategy and resources. In select cases we

will accept a slightly concessionary return in order to gain higher impact. In all cases we expect our climate-relevant investments to provide financial returns consistent with the Foundation's long- and short-term needs, environmental benefits, and learning for our program officers who make grants.

Our Philanthropy & Climate Change

Our Grantmaking Goal

The McKnight Midwest Climate & Energy program aims to foster and support Midwest climate and energy leadership, making the region a national and international leader in addressing climate change.

Our Grantmaking Beliefs

- Our grantmaking should contribute to the *reduction of greenhouse gas production* in our region and across the United States.
- The Midwest can, and should, play a leadership role in the urgent *transition to a low-carbon economy*.
- *Philanthropy can play an essential role* in ensuring that the global average temperature increase remains below 2-degrees Celsius, in line with international government agreements.

Our Grantmaking Actions

In 2014, we made US\$15 million in grants that aim to build a clean and resilient energy sector. The program helps community leaders develop, cultivate, and advance replicable local solutions that deliver real economic, social, and environmental benefits. We support strategic policy reform and infrastructure that help replicate, adapt, and scale solutions, contributing to a virtuous cycle of transformation.

Local Clean Energy Solutions: Local communities are our primary resource for on-the-ground change. The Rural

Renewable Energy Alliance (RREAL) has pioneered the use of solar energy to address low-income fuel poverty in the Midwest. Today, Minnesota is on the vanguard of using community solar gardens, where electricity users purchase shares in large solar arrays. RREAL strives to ensure that low-income, rural communities are not left out of this new clean energy economy.

The Clean Energy Resource Teams (CERTs) help people identify and implement community-based clean energy projects throughout Minnesota. For almost 50 years, this public-private partnership has empowered communities to adopt energy conservation, energy efficiency, and renewable technologies for homes, businesses, and schools.

Tomorrow's Energy System: For local energy transformations to scale, electricity markets and regulation must evolve. The Great Plains Institute's e21 initiative brings together utility companies, business organizations, civil society representatives, and low-income consumer experts to envision a truly 21st century energy system for Minnesota. Through structured dialogue, the group identifies new utility rate and regulatory design that is needed to drive a cleaner, secure, and more resilient energy system that provides energy consumers with real-time information and greater control. Similarly, a grant to the Bipartisan Policy Center is supporting work with state utility regulators and environmental quality officials from across the Midwest to better understand the implications of the Clean Power Plan. This work includes: organizing peer learning sessions, extensive modeling of potential impacts, and public stakeholder engagement meetings at the regional level to complement the public engagement efforts of individual states.

1. The Foundation Center, as of September 2015.

2. The McKnight Foundation extends its thanks to the UK's Environment Agency Pension Fund. Its *Policy to Address the Impacts of Climate Change* influenced the climate investment belief statements in this document.

3. The McKnight Foundation does not endorse or recommend any commercial products, processes, or service providers.