

Adopted at 7/22/2020 Trustee Meeting

**McKnight Brain Research Foundation**  
**Amended and Restated Investment Policy**

The McKnight Brain Research Foundation (the “MBRF”)

The MBRF is a Florida trust that, for federal income tax purposes, is an exempt organization (IRC § 501(c)(3)), and classified as a private foundation (IRC § 509(a)). The only tax paid by the MBRF is the annual IRC § 4940 excise tax of 2% (or 1%) of investment income. All of the MBRF assets were contributed by Mrs. Evelyn F. McKnight and no additional contributions are expected. At the present time, it is anticipated that the MBRF will make grants to carry out its charitable purpose. The specific purpose for which the MBRF was established is “to provide support for medical research of the brain to accomplish alleviation of memory loss of the aging”. The MBRF expects to exist in perpetuity. The only required distribution is the 5% of fair market value IRC § 4942 annual distribution.

Governance

The MBRF is a Florida charitable trust. The MBRF is governed by eight Trustees. There are seven individual Trustees and one Corporate Trustee.

Introduction

This policy presents the investment process of the MBRF. The Trustees have prepared this policy in consultation with its investment consultants and legal counsel. For purposes of investing assets, the Trustees have looked to the Corporate Trustee as its investment consultant and any references herein to investment counsel are references to the Corporate Trustee.

Prudent Investor Rule

The Trustees have adopted this Investment Policy to evidence compliance with the Florida Prudent Investor rule. §§518.10-14 FLA.STATS. The Investment Policy will be interpreted and implemented consistent with the prudent investor rule. The Trustees have delegated certain investment function to the Corporate Trustee as allowed by and in accordance with the requirements of §518.112 FLA.STATS.

Investment Goals

The investment goal is to provide a long term real total rate of return that will increase the purchasing power of MBRF assets net of expenses and distributions. In order to achieve its investment goal, the MBRF will adopt a strategic asset allocation that will achieve its long term return goal with acceptable volatility.

### Long Term Investor

The MBRF will exist in perpetuity. As such, it is a long term investor who seeks a high rate of return consistent with reasonable volatility. The MBRF understands that volatility can be reduced by allocating assets among asset classes, among investment styles and strategies within asset classes. The MBRF will adopt strategic targets for each asset class and will, from time to time, rebalance between asset classes, investment styles and strategies to maintain its strategic targets.

### Target Rate of Return

The Trustees will adopt a target rate of return that incorporates the MBRF investment goals and spending policy. It is recognized that the target rate of return, investment goals and volatility are interrelated and must be viewed as such. It is also recognized the investment horizon of the MBRF is long term (perpetuity) and the target rate of return will reflect that long term view. The target rate of return will change from time to time and is set forth on Appendix A.

### Spending Policy

The MBRF will adopt a spending policy that balances a realistic achievable rate of return, expenses, and its investment goals. Appendix A is the current spending policy adopted by the MBRF. The spending policy will be reviewed annually at a minimum.

### Income, Appreciation and Gains

The Trustees recognize that the MBRF pays only a 2% excise tax on investment income and, therefore, the investments are not tax sensitive. Its distributions are not limited by income and, therefore, the Trustees will ignore income and principal analysis when implementing its investment goals and implementing its spending policy.

### Cash Flow

Because it will exist in perpetuity, its only cash flow needs will be to cover expenses (and tax) and the annual IRC § 4942 5% of fair market value distribution. It is recognized that additional spending can be controlled and that the MBRF from time to time may distribute more than the minimum required by tax laws.

### Performance/Style Measurement

The Trustees have adopted a market driven benchmark for each asset class and management style. For the portfolio as a whole, the Trustees will adopt a benchmark that consists of a suitable passive index for each asset class weighted in accordance with the strategic asset allocation. The Trustees will also adopt appropriate peer group data to measure the performance of each managed portfolio and passive investment. The Trustees expect performance of each managed portfolio to be in the top one-third of the peer group data base for that particular management style or strategy. The peer group data base is set out in Exhibit B. The Trustees will evaluate ongoing investment performance over a three to five year period, anticipating it will not make changes on the basis of short term (less than two years) results. However, the

Trustees recognize there are factors, including, but not limited to, changes in personnel, that would require immediate attention and action.

Performance should be measured in a manner consistent with the standards of the CFA Society.

The performance measurement will include an analysis of managers adherence to the investment styles set forth in Exhibit B.

The Foundation recognizes enhanced performance results from asset allocation, as well as selection of particular managers and passive investments. Therefore, the Foundation will compare portfolio returns and the benchmark portfolio, as well as compare individual manager returns and the designated index, as shown on Exhibit B.

#### Investment Preference

The Foundation prefers, but does not require, that managers avoid investment in companies whose primary or significant (greater than 30% of gross revenue) businesses are the growing, cultivation, manufacture, or distribution of tobacco or tobacco products. This shall not apply to investments in indexed or mutual funds.

#### Security Voting

The Corporate Trustee will vote on securities when a vote is requested. The Trustees will receive an annual report of voting decisions.

#### Specific Functions of the Board of Trustees

1. Establish investment objectives for the portfolio.
2. Establish and review its spending policy.
3. Set strategic asset allocation for the Trust.
4. Establish and continue to update the investment policy.
5. Establish, monitor and update the investment process.
6. Review investment performance in accordance with its performance measurement policy.
7. Review at least quarterly investment activity to insure compliance with the investment policy and adherence to investment style.

8. Terminate managers and passive investments in accordance with this investment policy.

#### Specific Functions of the Corporate Trustee

1. The Corporate Trustee shall review regularly all investments of the MBRF.
2. The Corporate Trustee shall recommend to the Board of Trustees such investment and investment related policies, including strategic asset allocations, as it deems appropriate, and as may be requested.
3. The Corporate Trustee shall make periodic investment performance reports (no less than quarterly) to the Board of Trustees.
4. The Corporate Trustee shall implement the investment policy, including selecting and terminating managers and passive investments in accordance with this investment policy.
5. The Corporate Trustee may, in its discretion, "tilt" the strategic asset allocation within the applicable range, as set forth in Exhibit B.

#### Asset Allocation

1. To achieve its investment objective, the Foundation's assets shall be allocated among various asset classes, including, but not limited to, equity, cash/cash equivalents, fixed income and alternative investments/hedge funds. The current strategic asset allocation adopted by the Board is contained in Appendix B. The strategic asset allocation and asset classes will change periodically based upon monitoring and objective analysis of changes in the economy.
2. The Foundation investments will be allocated among asset classes and diversified within asset classes. Within each asset class, securities, for example, will be allocated further by economic sector, industry, quality and size. The purpose of allocation and diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on performance of the total fund. As a result, the unsystematic risk (volatility associated with diversification risk) level associated with the portfolio should be significantly reduced.

3. In any asset class, no more than 5% at investment cost or 10% at market may be held in the securities of a single issuer.
4. Allocation by investment style is also an important step in reducing the risk (volatility) of the Foundation's portfolio. Investment styles within equity asset classes are defined in Appendix C.

#### Custodian

The Corporate Trustee will be the custodian for the MBRF. The Corporate Trustee shall recommend to the Board appropriate policies and procedures for custodianship and access to securities held by the Foundation as it may deem appropriate.

#### Soft Dollars

The Corporate Trustee will annually review the "soft dollar" policy and activity of each actively managed portfolio and report the findings to the Trustees. Each active manager is expected to enter into equity transactions on a best execution basis. The Trustees may designate certain brokers by which commissions may be recaptured or provide for the payment of services rendered to the MBRF.

#### Guidelines for Corrective Action

Corrective action will be taken during the review of active management. The following are instances where immediate corrective action, or termination of active management, may be in order:

- Organizational and/or personnel changes in the active manager. Failure to notify the MBRF of such changes is grounds for immediate termination.
- Violation of terms of any investment management agreement between the Trustees and an active manager.
- Change by an active manager in the management style for which the manager was selected. The MBRF, through the Corporate Trustee, will closely track the investments of each active manager to insure adherence to management style for which the active manager was retained.

Corrective action ordinarily will be taken by all of the Trustees. If, in an emergency, it is not feasible to contact one or more of the Individual Trustees, action may be taken by the Corporate Trustee acting alone.

#### Rebalancing Procedure

Should the range for a particular management style be violated by reason of gains, losses, changes in an active management, or any other reason, the Trustees will meet or conference to

decide whether to rebalance the assets to the target class and style allocation policies. In addition, the Trustees shall review the actual allocations at each quarterly meeting in order to insure conformity with the adopted strategic allocation. The assets will not be automatically rebalanced on any set schedule.

**APPENDIX A**

**Spending Policy of McKnight Brain Research Foundation**

Expenses as Permitted	1.0%
Allowance For Inflation**	2.1%
Distribution From Foundation	<u>5.0%</u>
Target Total Return	8.1%

\*\* Real inflation is Biomedical Research and Development Price Index ("BRDPI") published by the U.S. Bureau of Economic Analysis for FY 2020 (the 12 months ended 12/31/2020).

**APPENDIX B**

**McKnight Brain Research Foundation  
Portfolio Guidelines**

<b><u>Asset Class</u></b>	<b><u>2020 Efficient Frontier</u></b>	<b><u>Range</u></b>	<b><u>Benchmark</u></b>	<b><u>Peer Group*</u></b>
Large Cap Equity	56.0%	30% - 60%	S & P 500	Pure Large Cap Core
Mid Cap Equity	5.0%	5% - 14%	Russell Mid Cap	Mid Cap
Small Cap Equity	7.0%	0% - 15%	Russell 2000	Broad Small Cap
International Developed	5.0%	5%-15%	MSCI - EAFE	Broad Int'l Equity
International Developed – Small Cap	0.0%		MSCI – EAFE (small cap)	Int'l Small Cap
International Emerging	2.0%	2%-10%	MSCI – Emerging Mkts	
Hedge Funds	12.0%	10%-30%	HFR Fund of Funds Index	
Commodities	0%	0-5 %	Dow Jones UBS Commodity Index	
Real Estate – U.S.	0%	0% - 10%	NAREIT Equity	
Real Estate – Non U.S.	0%	0% - 10%	DJW Global ex-U.S. Real Estate	
Private Equity	8.0%	0% - 10%	Cambridge Associates U.S. Private Equity	
Fixed Income	5.0%	0% - 20%	Barclays Agg Index	
Cash	0%			
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	100%			

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**Static Benchmark #1**

Russell 3000 Index	65%
Barclays U.S. Aggregate Index	<u>35%</u> 100%

**Spending Policy Benchmark**

Distribution	5.0%
Expenses	1.0%
Inflation**	<u>2.1%</u> 8.1%

\*Universes for peer group comparison – recommended by SunTrust and adopted by Trustees on 7/12/00. SunTrust advises there are no Alt/Hedge Fund, Real Estate or International Fixed Income Peer Groups.



\*\*Real inflation is Biomedical Research and Development Price Index ("BRDPI") published by the U.S. Bureau of Economic Analysis for FY 2020 (the 12 months ended 12/31/2020).

## APPENDIX C

Market Capitalization – Market value of a corporation calculated by multiplying the number of shares outstanding by the current market price. The classification\* of the capitalization ranges is as follows:

- \* Large Capitalization Classification – Market cap of \$10 billion and greater
- \* Mid Capitalization Classification – Market cap of \$2 billion to \$10 billion
- \* Small Capitalization Classification – Market cap of \$50 million to \$2 billion

International Equity – International equity investments are permitted in listed equity securities traded on developed non U.S. markets. Developed markets are defined as those included in the Morgan Stanley Capital International, Inc. Europe Asia Far East (MSCI EAFE) Index plus Canada. American depository receipts (ADRs) traded on major U.S. markets are considered to be domestic securities.

Growth Equity Style – Investment in companies that are expected to have above average prospects for long term growth and earnings and profitability.

Value Equity Style – Investment in companies believed to be undervalued or possessing lower than average price/earnings ratios, based on their potential for capital appreciation.

Core Equity Style – Investment in companies whose characteristics are similar to that of the broader market as represented by the Standard's & Poor's 500 Index, with the objective of adding value over and above the Index, typically from sector or issue selection. The core portfolio exhibits similar risk characteristics to the broader market as measured by low residual risk with Beta and R-squared values close to 1.00.

*Alternative Investments/Hedge Funds* – Hedge funds are strategies utilized by professional money managers or group of managers that permit the management of a private, unregistered investment pool of capital and/or securities, and investments in a variety of investment techniques normally prohibited in other types of funds. Hedge funds are typically skill-based investment strategies attempting to provide “absolute” return based on the specialized strategy of the trader or manager and offer diversification and reduce systematic risk due to a low correlation to traditional asset classes. The following are some of the hedge fund strategies utilized by managers:

*Direct Hedge* - Hedging one asset, such as common stock, with another asset that has similar price movements and trades similarly. Example: using call options to hedge a common stock position.

*Cross Hedge* - Hedging an investment with an unlike instrument. Example: Buying stocks and hedging the position with Treasury futures.

*Static Hedge* - Hedging out every dollar of a portfolio in an effort to eliminate risk.

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\* From Morningstar Analytical Services, Inc.

*Dynamic Hedge* - Changing the amount of puts in a position over time as the market changes.

*Market Neutral* - As a long/short strategy, equal amounts of capital are invested long and short in an attempt to neutralize market risk. The goal is to purchase undervalued securities and short overvalued securities.

*Market Timing* - Anticipates market movements and allocates assets by switching between stocks, bonds and cash as the market and economic outlook change.

*Short Selling* - Identifying overvalued securities and "shorting" or selling these stocks. This involves borrowing the stocks to sell them, in the hope of buying them back later at a lower price.

*Growth Fund* - Investing in growth stocks with the basic goal of capital appreciation. This may include hedging by short selling or using options.

*Distressed Securities* - Investing in securities of a company in bankruptcy or facing it. These securities are purchased inexpensively and with the hope that they will appreciate as the company emerges from bankruptcy.

*Sector Funds* - Concentrated investments in various sectors. May involve long and short investments and options.

*Emerging Markets* - Investing in securities of companies in emerging or developing countries. This could involve purchasing government or corporate debt and/or equity.

*Global Fund* - Investing in shifts in global economies. Derivatives may be used to speculate on interest rate and currency movements. These funds search for and exploit opportunistic investment possibilities wherever they may arise.

*Opportunistic* - Using a variety of strategies as opportunities arise. Several strategies could be used simultaneously.