# MINNESOTA STATE BOARD OF INVESTMENT

ENVIRONMENTAL, SOCIAL, GOVERNANCE REPORT

### INTRODUCTION

The Minnesota State Board of Investment (SBI) continues to enhance its approach to addressing Environmental, Social, and Governance (ESG) risks in the SBI investment portfolio. The SBI has adopted a core investment belief that emphasizes the importance of addressing ESG risk. Over the past five years, the SBI has supplemented its long history of engagement through proxy voting by increasing its participation in ESG coalitions and engagement efforts. These initiatives continue to gain momentum and lead to positive changes in the investment industry.

In addition to the SBI's efforts, several of the SBI's largest investment managers have aligned with the same coalitions as the SBI:

- BlackRock CEO, Larry Fink, recently announced that BlackRock, SBI's largest investment manager, joined the Climate Action 100+ to enhance BlackRock's commitment to addressing long-term environmental risks.
- State Street Global Advisors, SBI's largest international developed and emerging markets manager, is a member of the United Nations Principles for Responsible Investment (UNPRI), and maintains a robust engagement program based on the Principles.
- TPG, a manager for the SBI's private markets portfolio, partnered with the Thirty
   Percent Coalition to appoint 64 female directors to 53 company boards within TPG
   affiliated portfolios.

Investment manager alignment directly benefits the SBI by enhancing the evaluation of ESG risk across the SBI's portfolio. In addition, alignment through ESG coalitions has contributed to a number of positive outcomes, including a commitment from Duke Energy to be carbon neutral by 2050.

The following sections summarize the SBI's proxy voting program, ESG related coalitions, and current ESG related engagement efforts.



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## Investment Belief: ESG is a Core Part of SBI Risk Analysis

Utilizing engagement initiatives to address environmental, social, and governance related issues can lead to positive portfolio and governance outcomes

In addition to specific engagement strategies the SBI might apply, proxy rights attached to shareholder interests in public companies are also "plan assets" of the SBI and represent a key mechanism for expressing SBI's positions relating to specific ESG issues. By taking a leadership role in promoting responsible corporate governance through the proxy voting process, SBI can contribute significantly to implementing ESG best practices which should, in turn, add long-term value to SBI's investments.



## SBI Proxy Voting - Exercising Shareholder Rights

#### **Proxy Voting**

- The SBI currently votes all proxy rights for domestic equities internally. Non-U.S. rights are voted by external investment managers.
- The SBI establishes a Proxy Committee to review and vote proxies as necessary. The Board sets proxy voting guidelines.
- Most proxies are voted according to established precedents.

#### **Proxy Highlights: 2019**

- During the 2019 proxy season, the SBI voted proxies in over 1,900 annual meetings and cast votes on over 26,000 ballot items.
- The SBI voted <u>for</u> all shareholder proposals requiring a report on reducing the company's greenhouse gas emissions.
- The SBI voted for 78% of shareholder proposals on **environmental issues**.

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## Coalition and Membership Highlights: Aligning for Progress

## United Nations Principles for Responsible Investment (UNPRI)

- ❖ SBI became a signatory in 2019.
- UNPRI works to achieve a global sustainable financial system that benefits the environment and society as a whole.
- SBI participates in UNPRI sponsored engagements and educational opportunities.
- Beginning in 2021, the SBI will report on climate related risks to the SBI's portfolio based on the reporting framework developed by the Taskforce on Climate-Related Financial Disclosures.

#### **Ceres Investor Network**

- ❖ SBI became a member in 2016.
- Ceres is a coalition of various institutional investors that provides resources and advocacy in addressing environmental investment risk.
- The SBI leverages Ceres organized engagements, educational opportunities, and research.
- Ceres provides its members with opportunities to engage through the Climate Action 100+, of which SBI is also a member.

#### Climate Action 100+

- ❖ SBI joined Climate Action 100+ in 2019.
- The coalition is investor-led and seeks to engage with companies to further the Paris Agreement, with support from Ceres and UNPRI.
- The SBI participates in company engagements with other members of the coalition.
- The coalition seeks commitments from companies to implement practices to address risks related to climate change.

# Council of Institutional Investors (CII)

- SBI was a founding member.
- In recent years, the SBI has signed on to several letters regarding shareholder rights and governance issues addressed to the Security Exchange Commission (SEC) and United States Congress.
- SBI participates in CII organized events, conferences, and engagement opportunities.



#### **Midwest Investors Diversity Initiative**

- SBI joined the coalition in 2019.
- The coalition is a network of institutional investors located in the Midwest that seek broader diversity on corporate boards.
- The coalition engages with companies in the Midwest to promote diverse gender, racial, and ethnic participation on corporate boards.
- The SBI participates in coalition engagements and meetings.

#### **Thirty Percent Coalition**

- ❖ SBI joined the coalition in 2019.
- The coalition is a network of investors seeking to increase diversity on corporate boards, primarily by increasing the number of woman directors.
- The SBI participates in coalition engagements and meetings.

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### **Recent Sign-on Efforts**

- 2018 Global Investor Statement to Governments on Climate Change
- Investor Expectations on Deforestation (Ceres)
- Institutional Limited Partners Association (ILPA) Letter to SEC on Fiduciary Duty
- Climate Action 100+ Letter to General Motors
- Letter to Target Corporation Regarding Greenhouse Reduction Goals
- Investor Statement Regarding the Need for Corporate Gender Equity Transparency
- CII Letters Opposing Proposed Regulation of Proxy Advisory Firms
- Investor Statement on Pay Ratio Disclosure



## **Engagement Efforts**

The SBI has currently undertaken two engagement initiatives for the 2020 proxy season:

**Utilities**: The SBI is actively participating in engagements with electrical utilities to promote transition to carbon neutral energy in order to mitigate climate risk along with financial and transition risks.

**Board Diversity**: The SBI is currently participating in engagements with specific companies to emphasize the material financial advantage of a diverse board. The SBI encourages companies to adopt a rule requiring at least one woman and one racial minority interviewed as part of the board candidate pool.



#### MINNESOTA STATE BOARD OF INVESTMENT

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