

Proxy Voting Guidelines

The Minnesota State Board of Investment (SBI) has formulated proxy voting guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues. As a shareholder, the Board is entitled to participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings. The SBI has standing rights as a shareholder and has the ability, as a shareholder, to influence corporate and governmental entities to act responsibly through constructive engagement. This includes (but is not limited to) shareholder proposals, shareholder sign-on letters, and supporting policy initiatives for transparency.

One of the SBI's Investment Beliefs states: "Utilizing engagement initiatives to address environmental, social and governance-related ('ESG') issues can lead to positive portfolio and governance outcomes. In addition to specific engagement strategies the SBI might apply, proxy rights that are attached to shareholder interests in public companies are '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, the SBI can contribute significantly to implementing ESG best practices which should, in turn, add long-term value to SBI's investments."

The SBI supports and prefers the use of constructive engagement to further ESG goals where possible, and has adopted Proxy Voting Guidelines for this purpose. The following guidelines constitute an effort by the SBI to manage and control its proxy voting and engagement.

Overview of the SBI

By the Minnesota Constitution, the Board is composed of the Governor, the State Auditor, the Secretary of State, and the Attorney General. The Board employs a professional staff to carry out its policies. The Board and staff are assisted by a seventeen member Investment Advisory Council.

The SBI invests the pension assets of the three statewide public employee retirement systems:

- Minnesota State Retirement System (MSRS)
- Public Employees Retirement Association (PERA)
- Teachers Retirement Association (TRA)

The SBI also invests state government funds and assets of several trust funds.

Statutory Purpose

Minnesota Statutes, Section 11A.01 states that the SBI's purpose is to ensure that state and pension assets are responsibly invested to maximize the total rate of return without incurring undue risk. Only a small portion of the SBI's equity holdings are in non-pension accounts. The focus, therefore, of the SBI's proxy voting activities is the extensive domestic and international equity holdings within the pension asset portfolios.

**Fiduciary
Responsibility**

As fiduciaries of pension assets, members of the Board and the executive director owe a fiduciary duty to the members of the plans, to the taxpayers of the state and political subdivisions who help to finance the plans, and to the State of Minnesota.¹

In addition to the general standard of fiduciary conduct, members of the Board, the executive director, the members of the Investment Advisory Council, staff, and members of Board committees must carry out their duties in accordance with the prudent person standard as articulated in statute.²

**Voting
Process**

The Board recognizes its fiduciary responsibility to cast votes on proxy issues. The Board delegates proxy voting responsibilities to its Proxy Committee. Each Board member appoints one member to the Proxy Committee. The four member Committee meets only if it has a quorum and casts votes on proxy issues based on a majority vote of those present. In the unusual event that it reaches a tie vote or a quorum is not present, the Committee will cast a vote to abstain.

The Committee has formulated guidelines by which it casts votes and may engage with public corporations on a wide range of corporate governance, environmental, and social responsibility issues. These guidelines encompass both domestic and international proxy issues. Each year the Committee reviews existing guidelines and determines which issues it will review on a case-by-case basis. The Proxy Committee also may review certain corporate governance issues pertaining to companies headquartered in Minnesota.

Domestic voting: The SBI directly votes shares held in all domestic equity manager portfolios.

International voting: The SBI delegates to international equity managers the voting of shares held in the managers' portfolios following the Proxy Voting Guidelines, where feasible. The SBI believes that several factors affecting the voting of international proxies, including time constraints and lack of company specific information, support the conclusion that the SBI's international equity managers can more efficiently and effectively vote the proxies in their portfolios.

Corporate Governance Issues

**Routine
Matters**

In general, the SBI **supports** management on routine matters of corporate governance. These issues include:

- uncontested election of directors.
- selection of auditors and approval of financial statements.
- management proposals on non-executive compensation issues including savings plans and stock options.
- limits on director and officer liability or increases in director and officer indemnification permitted under the laws of the state of incorporation.

The SBI directs the Proxy Committee, at its discretion, to review the positions taken by directors and withhold votes from or vote against some or all of the directors standing for election if they have taken positions on issues which are potentially not in the best interests of shareholders.

Shareholder Rights

In general, the SBI **opposes** proposals that would restrict shareholder ability to effect change. Such proposals include:

- instituting supermajority requirements to ratify certain events.
- creating classified boards.
- barring shareholders from participating in the determination of the rules governing the board's actions, such as quorum requirements and the duties of directors.
- prohibiting or limiting shareholder action by written consent.
- granting certain stockholders superior voting rights over other stockholders.
- removing directors without cause.
- eliminating or limiting special meetings.

In general, the SBI **supports** proposals that preserve shareholder rights to effect change. Such proposals include:

- having boards of directors comprised of a majority of independent directors.
- having compensation committees comprised entirely of independent directors.
- requiring shareholder approval of poison pill plans.
- repealing classified boards.
- adopting secret ballot of proxy votes.
- reinstating cumulative voting.
- adopting anti-greenmail provisions.
- the right to increase or decrease common stock.
- eliminating dual class stock.
- approving bankruptcy restructuring.

Executive Compensation	In general, the SBI supports efforts to have boards of directors comprised of a majority of independent directors, to have compensation committees made up entirely of independent directors, to have executive compensation linked to a company's long-term performance and to encourage full disclosure of compensation packages for principal executives. Accordingly, the SBI evaluates compensation packages on a case-by-case basis, including compensation agreements that are contingent upon corporate change in control.
Buyouts	In general, the SBI supports friendly takeovers and management buyouts.
Special Cases	The SBI evaluates the following proposals on a case-by-case basis: <ul style="list-style-type: none"> • hostile takeovers. • recapitalization plans. • contested election of directors.

Environmental and Social Responsibility Issues

In general, the SBI **supports** proposals that require a company to report or disclose to shareholders company efforts concerning a variety of social responsibility issues. The SBI supports proposals addressing environmental, social, and workforce issues if they seek to further responsible corporate citizenship while at the same time preserving and enhancing long-term shareholder value. The SBI typically supports proposals that ask for disclosure or reporting of information not available outside the company that is not proprietary in nature. In the past, these reporting proposals have included issues such as affirmative action programs, animal testing procedures, and nuclear plan safety procedures. Such reporting is most vital when it appears that a company has not adequately addressed shareholder concerns regarding social, workplace, environmental and/or other issues, and when such information is deemed material to the business. The Committee considers whether the request is relevant to the company's core business, feasible, in the best interest of shareholders and in-line with industry practice on a case-by-case basis. The proponent of the proposal must make the case that the benefits of additional disclosure outweigh the costs of producing the report, and give the company adequate time to comply.

In general, the SBI **opposes** proposals that require a company to institute a specific business action. This is because the SBI generally defers to company management and board of directors expertise regarding such proposals. Proposals requesting that the company cease certain actions that the proponent believes are harmful to society or some segment of society will be evaluated on a case-by-case basis. Special attention will be directed to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity. A high standard will need to be met by proponents requesting specific action such as divestiture of a business line or operation, legal remuneration, or withdrawal from certain high-risk markets.

The following sections provide international managers and the SBI with guidance on specific proposals that may occur. Environmental and social shareholder-sponsored proposals continue to evolve. Issues that are not specifically addressed in the following guidelines should be evaluated using the framework delineated above.

Tobacco The SBI **supports** shareholder proposals that call for a company to reduce its involvement in tobacco production, product marketing and other related lines of business in order to diversify its business in a manner that will reduce or eliminate potential liability to legal claims associated with tobacco that may negatively impact the value of the SBI’s holdings.

In furtherance of this policy, the SBI has sponsored and co-sponsored shareholder proposals to reduce youth access to tobacco products, to request companies to voluntarily comply with FDA regulations, to eliminate smoking in restaurants, and other tobacco related issues.

Northern Ireland *Minnesota Statutes*, Section 11A.241 requires the SBI to **support** proposals that call for the adoption of the MacBride Principles as a means to encourage equal employment opportunities in Northern Ireland.

The SBI **supports** proposals that request companies to submit reports to shareholders concerning their labor practices or their sub-contractors' labor practices in Northern Ireland.

Iran *Minnesota Statutes*, Section 11A.244 requires the SBI to make its best efforts to identify all “scrutinized companies” with operations in Iran in which the SBI has direct holdings. The SBI will engage with each scrutinized company. The legislation calls for the SBI to notify companies with scrutinized business operations that it may be subject to divestment by the State Board of Investment. In general, the SBI **supports** proposals consistent with this legislation.

Environmental Protection/Awareness And Climate Change In general, the SBI **supports** proposals that require a corporation to report or disclose to shareholders company efforts in the environmental arena, seek to improve a company’s environmental practices to protect the world’s natural resources, or address climate change. Proposals that request the adoption of various environmental policies are evaluated on a case-by-case basis.

¹ *Minnesota Statutes*, Section 356A.04, subdivision 1.

² *Minnesota Statutes*, Section 11A.09, and Section 356A.04, subdivision 2.