

United Nations Principles of Responsible Investment Reporting
Senior Leadership Statement
Minnesota State Board of Investment
Submitted: Fall 2023

Our Commitment

The primary mission of the Minnesota State Board of Investment (MSBI) is to maintain the long-term viability of retirement plans for which it invests. Our fiduciary duty serves as the touchstone for all investment decisions undertaken by the MSBI, as codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A. Among other things, our fiduciary duty requires us to consider all material risks and opportunities for the benefit of the retirement funds under our management. As detailed below, consistent with our fiduciary duty, the MSBI has taken a measured and pragmatic approach to carefully considering and integrating appropriate environmental, social, and governance (“ESG”) related constructs into our organization and framework. Given the complexity of the underlying issues, we expect our efforts to evolve thoughtfully over time, as appropriate, to create an enduring framework that is in keeping with our mission.

Overview

In addition to the statutory fiduciary rule framework described above, in 2017, the MSBI adopted a set of Investment Beliefs that provide additional context for MSBI actions, reflect our investment values, and acknowledge our role in supporting the State’s broader retirement systems. One of these beliefs is as follows:

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 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.

In 2019 the MSBI became a signatory of the Principles of Responsible Investment. Consistent with this undertaking and its fiduciary duty, the MSBI committed to incorporating appropriate ESG risks and opportunities into its investment analysis and decision-making process.

In February 2020, the MSBI adopted a resolution on ESG to continue developing its approach to addressing ESG-related investment risks and opportunities throughout the investment portfolios. The resolution stated that the MSBI believes that corporations and partnerships that do not take ESG risk into consideration may jeopardize their financial viability and decrease their value, and that the MSBI encourages managers to enhance their ESG risk analysis. Consistent with its fiduciary responsibility, the Resolution stated that the MSBI would continue to vote proxies, continue to participate in ESG coalitions, periodically update ESG informational materials,

develop plans for addressing ESG investment risks, evaluate reducing the MSBI's investments to long-term carbon risk exposure and promote diversity on corporate boards and within the investment industry.

The MSBI recognizes the impact that maximizing talent, opportunity, and investment culture has on generating long-term investment returns for the retirement funds under our management. To that end, in 2022 the MSBI augmented its Investment Beliefs with the following:

Best Practices are developed by the best teams.

There is no merit-based explanation for the lack of racial and gender diversity in the investment industry. In fact, research indicates that such diversity adds value. The SBI must ensure that non-financial biases do not prevent it from working with the best teams. In this diverse and changing world, organizations that demonstrate a commitment to diversity are more likely to succeed.

In keeping with our fiduciary duty, and consistent with the commitments described above, the MSBI has devoted additional resources, worked to integrate appropriate ESG frameworks into its processes, and engaged with numerous industry partners to enhance our approach. Among other things, in 2021 the MSBI dedicated a senior full-time staff person to Stewardship and ESG integration. In 2023, this role was elevated to an independent division reporting directly to the Executive Director and Chief Investment Officer. Additional hiring efforts are in progress to provide sufficient resources to support this division.

Additionally, in order to conduct many of its stewardship and ESG integration activities, the MSBI maintains membership in several investor organizations such as, Council of Institutional Investors (CII), Ceres Investor Network, Midwest Investors Diversity Initiative, United Nations Principles of Responsible Investment, Thirty Percent Coalition, Climate Action 100+, and Institutional Limited Partners Association. These organizations provide research, engagement opportunities and other resources to more effectively address a range of ESG issues. Common issues addressed by these organizations include, but are not limited to, climate; gender, racial, and ethnic diversity; shareholder rights; corporate governance; and workers' rights.

As described in more detail below, the MSBI's efforts to date are focused on four key areas: 1) Engagement – through proxies and direct action; 2) maximizing talent, opportunity, and investment culture; 3) creating a roadmap for climate and the energy transition; and 4) integrating our efforts into our investment process.

Annual Overview

Engagement. We are pleased that in early 2023 the MSBI's Director of Legal and Policy Services, John Mulé, was appointed Chair of the U.S. Asset Owners Advisory Council for the CII. CII is a leading voice for effective corporate governance, strong shareowner rights and sensible financial regulations that foster fair, vibrant capital markets. As a highly respected

leader in his field, Mr. Mulé's service in this position reflects the MSBI's commitment to these important principles.

In 2022-23, the MSBI continued its long history of engagement by voting proxies for approximately 2,100 U.S. corporations. The MSBI, along with many other U.S. public pensions and institutional investors, plays an important role in encouraging improved ESG practices that are material to the long-term sustainability of the world's largest corporations. The MSBI continues to support a significant number of ESG related shareholder proposals. Executive compensation alignment with shareholders, for example, is a key area of focus for MSBI proxy voting activities. In general, the MSBI supports efforts to have executive compensation linked to a company's long-term performance and to encourage full disclosure of compensation packages for key executives. The MSBI has high standards for alignment and transparency which resulted in voting against close to 68% of advisory votes on executive compensation in the most recent fiscal year. Other key areas of activity, where appropriate, included fair labor practices, decarbonization, board composition, and reporting/disclosure practices.

Talent. In furtherance of our commitment to talent, opportunity, and investment culture, we recognize that continuously examining and improving our internal practices is fundamental. To that end, we have undertaken a number of efforts, including: 1) creation of an internal committee, composed of key investment staff, empowered to review current practices and identify continuous improvement pathways; 2) refined our job postings to reflect core skill elements that are aligned with long-term success; 3) expanded our recruiting pipeline; 4) created an internship program; 5) modified our interview process; and 6) expanded our external investment manager interactions around these important topics.

The MSBI is also proud to continue our participation in the Midwest Investors Diversity Initiative (MIDI), which works to increase racial and gender diversity on corporate boards. In 2021, the MSBI cosigned a letter that was sent to companies listed in the Russell 3000 index urging the companies to disclose the racial/ethnic and gender composition of their boards of directors in each company's proxy disclosure statement. The MSBI also led successful engagements on board diversity at Midwest-based companies Perficient, R1-RCM and OptimizeRx.

Climate and Energy Transition. We recognize that complex and evolving issues regarding the risks and opportunities inherent in climate change and the energy transition are among those that must be considered as fiduciaries of long-term pools of capital. In 2021 and 2022, the MSBI successfully engaged with several companies on climate change-related issues. Engagements with Hess and Marathon Oil were followed by both companies making significant commitments to reduce flaring intensity and methane emissions intensity within its broader greenhouse gas emissions reduction goals. In addition to engaging with companies, the MSBI also submitted a comment to the Securities Exchange Commission regarding the "Proposed Rules for The Enhancement and Standardization of Climate-Related Disclosures for Investors." Our broad engagement efforts continued in 2023 and expanded to include more direct company interaction and more extensive engagement with our underlying external managers.

As part of our ongoing efforts to analyze the complex issues associated with climate change and the associated investment landscape, the MSBI engaged the services of Meketa Investment Group (“Meketa”). In 2022, Meketa produced a climate change investment analysis report for the MSBI’s investment portfolio. This report concluded that the MSBI should continue its efforts to address and manage climate change and other material ESG risks and opportunities. In May 2023, Meketa led an all-staff education session discussing key investment considerations related to the Inflation Reduction Act and the developing opportunities in carbon markets. The MSBI is currently engaged, with the support of Meketa and other external advisors, in the next phase of our efforts, which focus principally on 1) continued integration throughout our investment process and 2) constructing our investment roadmap for climate change and the energy transition.

Next Steps

In the coming year, MSBI staff will continue to develop and refine its approach to addressing ESG investment risks and opportunities throughout its investment portfolio. As MSBI engages external managers for all retirement fund assets, we are focused on integrating ESG evaluation frameworks into the investment due diligence process for new and existing external managers. These efforts will leverage industry standards developed by organizations such as the PRI, ILPA, and CFA to evaluate investment managers in all asset classes.

We will continue to emphasize the importance of talent, opportunity, and investment culture within the MSBI and our external investment managers. Our newly formed internal committee will continue its efforts in this regard. The projects they will devote their time and resources to are expected to include 1) developing a framework for analysis across all asset classes, and 2) developing a framework for measurement and monitoring information gathered from MSBI investment managers and other service providers.

Climate change and the energy transition will continue to be included in the MSBI’s analysis of material risks and opportunities that must be considered in the management of a long-term investment program. We will continue 1) our work with Meketa and other external advisors on the development of an appropriate investment roadmap and 2) to evolve our approach to integrating these considerations into our investment process.

Underpinning our work described above, in the coming year we intend to expand our engagement efforts. As long-term shareholders of publicly traded companies, we are committed to exercising our proxy rights and direct engagement opportunities to enhance the value of our investments.

In addition to the increasing complexity of the issues underlying the topics discussed above, the resources required to address them in an investment environment are also increasing. To that end, in the upcoming year, we expect to expand the team of professionals focused on these areas within our Stewardship group.

As an important closing note, as stewards of the MSBI, every effort that we undertake will be focused on achieving our primary mission: maintaining the long-term viability of the retirement plans for which we invest.

Jill E. Schurtz

Executive Director and Chief Executive Officer

Minnesota State Board of Investment