

**Minutes
State Board of Investment
March 6, 2013**

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, March 6, 2013 in Room 118, State Capitol, St. Paul, Minnesota. Governor Mark Dayton, State Auditor Rebecca Otto, Secretary of State Mark Ritchie and Attorney General Lori Swanson were present. The minutes of the December 6, 2012 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and he reported that the Combined Funds had outperformed its Composite Index over the ten year period ending December 31, 2012 (Combined Funds 8.4% vs. Composite 8.2%) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.2% vs. CPI 2.4%).

Mr. Bicker reported that the Combined Funds' assets increased 0.7% for the quarter ending December 31, 2012 due to positive market performance. He said that staff had rebalanced the asset mix back to targets, and he stated that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds 1.7% vs. Composite 1.5%) and for the year (Combined Funds 13.7% vs. Composite 12.9%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks 0.3% vs. Domestic Equity Asset Class Target 0.2%) and for the year (Domestic Stock 16.6% vs. Domestic Equity Asset Class Target 16.4%). He said the international stock manager group matched its target for the quarter (International Stock 5.9% vs. International Equity Asset Class Target 5.9%) and outperformed for the year (International Stock 17.6% vs. International Equity Asset Class Target 16.8%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.6% vs. Fixed Income Asset Class Target 0.2%) and for the year (Bonds 6.7% vs. Fixed Income Asset Class Target 4.2%). He stated that the alternative investments returned 3.3% for the quarter and 12.8% for the year. He concluded his report with the comment that, as of December 31, 2012, the SBI was responsible for over \$62 billion in assets.

Mr. Bicker referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter. He reported that the Legislative Auditor has completed the financial audit of the SBI's operations for FY12 and that members will receive a copy of their report when it becomes available. He added that the report did not have any written findings. Mr. Bicker stated that the SBI had its budget hearing in the Senate. He noted that legislation regarding investing in swaps is also being recommended and Governor Dayton suggested proceeding to that agenda item.

Mr. Bicker referred members to Tab F of the meeting materials and stated that, after further review by staff and the IAC, the IAC is recommending that the Board authorize staff to seek legislation authorizing the SBI to invest in swaps. Mr. Ritchie moved approval of the

recommendation, as stated in Tab F of the meeting materials, which reads: **“The Investment Advisory Council recommends the Board authorize the executive director to seek legislation authorizing the SBI to invest in swaps.”** In response to several questions, Mr. Bicker reviewed the recent federal changes made through the Dodd-Frank legislation that make swaps a viable investment option. He also discussed the various types of swaps the SBI would likely invest in. He reminded members that this recommendation simply allows the SBI to seek legislative authority to invest in swaps and that the Board would be notified prior to staff utilizing swaps. Ms. Otto seconded the motion. The motion passed.

Mr. Bicker referred members back to Tab B to complete his Administrative Report. He stated that Tab B contains updated information on Sudan and Iran. He asked Ms. Eller, Deputy Attorney General for an update on litigation. She stated that the Break the Bonds litigation is over and that there is no new litigation at this time.

Mr. Bicker distributed a memo to members regarding the Attorney General’s request to participate in an investigation related to alleged manipulation of the London Inter-Bank Offering Rate, also known as LIBOR (see **Attachment 1**). Mr. Bicker confirmed that the SBI has not lost any principal but that the amount of interest we have received may be in question. Mr. Ritchie moved approval of the recommendation, as stated in Attachment A. Ms. Otto seconded the motion. The motion passed.

Mr. Bicker referred members to Tab C of the meeting materials and stated that there are recommendations to re-authorize the Proxy Voting Committee and to reaffirm the Proxy Voting Guidelines. Ms. Swanson moved approval of both recommendations, as stated in Tab C of the meeting materials which reads: **“The Executive Director recommends that the SBI adopt the resolution in Attachment A which reauthorizes the Proxy Voting Committee and delegates proxy voting responsibilities according to established guidelines. The Proxy Voting Committee recommends that the Board reaffirm the Proxy Voting Guidelines as shown in Attachment B.”** Mr. Ritchie seconded the motion. The motion passed. (The resolution and guidelines are included with the minutes as **Attachments 2 and 3**.)

Mr. Bailey referred members to Tab D of the meeting materials and noted that there were no action items regarding the stock and bond managers. He noted the IAC’s support of the SBI’s efforts to pursue authority to invest in swaps.

Mr. Bailey referred members to Tab E of the meeting materials and stated that staff and the IAC are recommending that the SBI liquidate the SBI’s investments in open-end real estate funds. Mr. Bailey and Mr. Bicker briefly described the open-end funds and the rationale for initially investing in them and the reasons why they may no longer be the best fit for the SBI. Ms. Otto moved approval of the recommendation, as stated in Tab E of the meeting materials, which reads: **“The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a divestment from all three core open-end real estate funds, based upon the conclusion that these investments are no longer suitable for the SBI Alternative Investment program. This divestment should take place over a time period of up to three years. Staff further recommends that the funds generated from the liquidation of the open-end real estate fund**

holdings be reallocated to alternative investments broadly, subject to available investment opportunities. Mr. Ritchie seconded the motion. The motion passed.

Mr. Bailey stated that the second recommendation is for a new investment with a new private equity manager, Apax Partners. Mr. Ritchie moved approval of the recommendation, as stated in Tab E of the meeting materials, which reads: **“The Investment Advisory Council recommends that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a commitment of \$200 million, or 20% of Apax VIII, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Apax upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Apax or reduction or termination of the commitment.”** Ms. Otto seconded the motion. The motion passed.

The meeting adjourned at 9:32 A.M.

Respectfully submitted,



Howard Bicker
Executive Director

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members:

Governor
Mark Dayton

State Auditor
Rebecca Otto

Secretary of State
Mark Ritchie

Attorney General
Lori Swanson

Executive Director:

Howard J. Bicker

*60 Empire Drive
Suite 355
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us
www.sbi.state.mn.us*

*An Equal Opportunity
Employer*

DATE: March 4, 2013

TO: Members, State Board of Investment

FROM: Howard Bicker 

SUBJECT: LIBOR

The SBI has been asked by the Attorney General's Office to participate in an investigation which may lead to legal action, initiated by over 30 states, related to alleged manipulation of LIBOR (London inter-bank offering rate) by a number of financial institutions. The Board has had on average over \$1 billion worth of securities with interest rates set by LIBOR.

RECOMMENDATION:

Staff recommends that the Board authorize the SBI to participate in this action and expend up to \$100 thousand for expense related to this matter. Staff shall make necessary adjustments in its budget to meet the expenses.

**RESOLUTION OF THE
MINNESOTA BOARD OF INVESTMENT
CONCERNING PROXY VOTING**

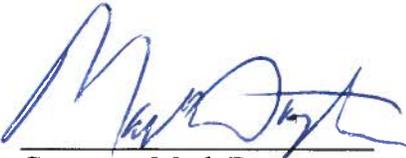
WHEREAS, as a stockholder, the Minnesota State Board of Investment (SBI) is entitled to sponsor and cosponsor shareholder resolutions and participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings; and

WHEREAS, the SBI has previously established a Proxy Committee:

NOW THEREFORE, BE IT RESOLVED THAT:

1. To advise and assist the SBI in the implementation of proxy voting guidelines previously adopted by the Board the SBI hereby authorizes and reaffirms the establishment of the SBI Proxy Committee composed of a representative selected by each member of the SBI to be chaired by the designee of the Governor and convened as necessary in accord with the Guidelines.
2. The SBI further authorizes the SBI Proxy Committee to review the Guidelines periodically and report to the SBI as necessary.
3. The SBI further directs its staff to advise and assist the Proxy Committee in the implementation of this resolution and directs its Executive Director to obtain such consulting and reporting services as may be necessary.
4. This resolution shall take effect immediately.

Adopted this 6th day
of March, 2013



Governor Mark Dayton
Chair, Minnesota
State Board of Investment

MINNESOTA STATE BOARD OF INVESTMENT

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 stockholder, the Board is entitled to participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings. The following guidelines constitute an effort by the SBI to manage and control its proxy voting.

**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 the cash balances of state government funds and assets of several trust funds.

Statutory Purpose

According to statute, state assets are to be responsibly invested by the SBI to maximize the total rate of return without incurring undue risk.¹ 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.²

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.³

**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 on a wide range of corporate governance 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.

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.

Executive Compensation

In general, the SBI **supports** efforts 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:

- hostile takeovers.
- recapitalization plans.
- contested election of directors.

Social Responsibility Issues

Tobacco

The SBI supports shareholder resolutions 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 resolutions 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**

The SBI **supports** resolutions that call for the adoption of the MacBride Principles as a means to encourage equal employment opportunities in Northern Ireland.

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

In addition to casting proxy votes, the SBI sponsors and cosponsors Northern Ireland resolutions as required by *Minnesota Statutes*, Section 11A.241.

**Environmental
Protection/Awareness**

In general, the SBI **supports** resolutions that require a corporation to report or disclose to shareholders company efforts in the environmental arena. Resolutions that request the adoption of various environmental policies are evaluated on a case-by-case basis.

Sudan

Minnesota Statutes, Section 11A.243 requires the SBI to make its best efforts to identify all “scrutinized companies” with operations in Sudan in which the SBI has direct or indirect holdings or could possibly have holdings in the future. The SBI will engage each scrutinized company. The legislation calls for the SBI to: encourage companies with inactive business operations to continue to refrain from initiating active operations; and to notify companies with active business operations that it may be subject to divestment by the State Board of Investment. In general, the SBI **supports** resolutions consistent with this legislation.

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 or indirect holdings or could possibly have holdings in the future. The SBI will engage each scrutinized company. The legislation calls for the SBI to: encourage companies with inactive business operations to continue to refrain from initiating active operations; and to notify companies with active business operations that it may be subject to divestment by the State Board of Investment. In general, the SBI **supports** resolutions consistent with this legislation.

**Other
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. In the past, these reporting resolutions have included issues such as affirmative action programs, animal testing procedures, and nuclear plant safety procedures.

In general, the SBI **opposes** proposals that require a company to institute a specific business action in response to such issues. As an example, the SBI voted against a shareholder proposal which would have required a utility to phase out operations of a nuclear power plant.

1 *Minnesota Statutes*, Section 11A.01.

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

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