

Proxy Voting Guidelines - Minnesota State Board of Investment (SBI)

Introduction

The primary mission of the Minnesota State Board of Investment (SBI) is to maintain the long-term viability of the retirement plans for which it invests. As an equity owner of the publicly traded companies in which it invests, the SBI is entitled to exercise the proxy-voting rights attached to those shares. Those rights are plan assets, and their exercise is a core fiduciary function subject to the prudent person standard under Minnesota Statutes, Sections 356A.04 and 11A.09. The SBI's Investment Beliefs provide further context for its actions and acknowledge its role in supporting the State's retirement systems.

The SBI's proxy voting and corporate engagement activities focus on the long-term financial performance and resilience of the companies in which it invests. The SBI views informed voting and constructive engagement as its primary stewardship tools for promoting sound governance, addressing material risks, and supporting long-term shareholder value. Voting decisions undertaken by the SBI are made in accordance with applicable statutes and our fiduciary duty, which requires us to consider all material facts and circumstances in determining whether an action or proposal is in the best interest of long-term shareholder value.

A core pillar of the SBI's approach to proxy voting is the belief that good governance is a source of durable financial value and that companies with accountable boards, independent oversight, transparent reporting, and well-aligned compensation arrangements are better positioned to generate lasting returns. Effective governance depends on clear responsibilities and accountability among shareholders, the board, and management. As a fiduciary, the SBI views accountability, transparency, and robust shareholder rights as important means of protecting long-term value.

These Proxy Voting Guidelines (the Guidelines) are intended to set out the principles the SBI uses to evaluate matters on which shareholders vote and to ensure that a clear and consistent long-term framework guides decision-making on a variety of increasingly complex issues. These Guidelines provide a general framework for evaluating proxy voting matters; they are not prescriptive and are not intended to dictate the outcome of every vote. The SBI evaluates each vote on a case-by-case basis, considering the facts and circumstances applicable to the company, prevailing market conditions, and other relevant considerations, with the objective of promoting long-term shareholder value.

This framework for proxy voting and engagement consists of a focus on issues that are material to a company's long-term business success and risk profile. A material risk or opportunity is a condition, event, or practice that is reasonably likely to affect a company's long-term business, financial condition, or risk profile in a way that would be considered significant to a reasonable long-term investor. The SBI analyzes proposals to determine whether: i) they raise issues that are

material to the specific business, ii) request actions that are feasible and within a company's control, and iii) seek to address a meaningful gap in existing reporting or disclosure in ways that would be considered material to a reasonable shareholder.

Governance and Delegation

This section sets out how authority and responsibility for the SBI's proxy voting program is allocated and exercised.

Board Authority. The Board retains primary fiduciary responsibility for the SBI's proxy voting program and Guidelines approval and modification. The Board reviews the Guidelines at least every two years.

Proxy Committee. The Board delegates proxy voting authority to the Proxy Committee (the Committee) pursuant to a Board resolution. The Committee consists of each Board member's official Designee for matters relating to the SBI, with the Governor's Designee serving as Chair. The Committee holds final authority over decisions within the scope of the Guidelines, oversees the program, and is accountable for ensuring votes align with the SBI's fiduciary obligations. The four-member Committee meets only with a quorum and votes by majority of those present; in the event of a tie or no quorum, the Committee abstains.

Executive Director / Chief Investment Officer. The SBI's Executive Director / Chief Investment Officer (ED/CIO) is responsible for the day-to-day management and execution of the proxy voting program and serves as the primary liaison between SBI Staff and the Board and Committee.

Staff. SBI Staff are responsible for the implementation of the proxy voting program and are authorized to cast votes based on a reasonable interpretation of the Guidelines and applicable precedent.

Escalation Framework. Voting decisions are handled at the appropriate level of authority. SBI Staff are responsible for casting votes on routine items that clearly fall within the Guidelines and established precedent. When a ballot item requires judgment that goes beyond what is contemplated under the Guidelines or established precedent, such as contested elections, novel or complex shareholder proposals, or other matters that warrant heightened review, SBI Staff escalate the item to the ED/CIO, who may refer it to the Committee for decision. All matters involving Minnesota-headquartered companies are referred to the Committee.

Third-Party Research and Proxy Advisory Services. The SBI independently makes all proxy voting decisions, using advisor research and recommendations as additional inputs to its own research and analysis. The SBI may retain independent proxy research and voting-administration

services. The SBI retains sole ownership of its voting criteria, and providers are required to apply the SBI's custom policy to SBI accounts.

Scope and Application. The Guidelines apply to all proxy voting decisions made by or on behalf of the SBI for its separately managed equity holdings. SBI Staff directly vote shares held in separately managed domestic equity portfolios. For international portfolios, the SBI delegates voting to its external managers, who are required to apply these guidelines to their proxy voting.

General Principles for Proxy Voting Decision

Section 1. Corporate Board of Directors

A company's board of directors serves as its governing body, with fiduciary duties to both the company and its shareholders, and the quality of its oversight directly affects long-term shareholder value. The board is the primary mechanism through which shareholders hold a company accountable. The SBI expects boards to be independent of management, equipped with relevant skills and experience, accountable to shareholders, and capable of overseeing the strategy and material risks and opportunities that drive long-term outcomes.

Independence. Effective oversight requires a board that can act independently of the management it supervises. At least two-thirds of directors should be independent and free of material financial, professional, or personal ties to the company or its executive officers, and the audit, compensation, and nominating and governance committees should consist entirely of independent directors. The SBI may withhold support from director nominees, including members of these committees, where independence falls short of these expectations or weakens long-term shareholder protections.

Composition and Qualifications. Directors should collectively bring the skills, experience, and range of perspectives needed to oversee the company's strategy, performance, long-term planning, and key risks and opportunities. A board drawing upon varied personal and professional backgrounds yields more varied perspectives and is better positioned to test management's assumptions and identify risks and opportunities. Companies should disclose directors' qualifications in sufficient detail for investors to assess whether the board has the relevant skills and experience needed to oversee the business and management, and the SBI may withhold support from the nominating and governance committee where that disclosure is inadequate or relevant director qualifications are lacking.

Accountability and Director Elections. Directors should devote sufficient time to their duties. The SBI expects directors to attend consistently and to limit outside commitments that could compromise their focus. In uncontested elections, the SBI generally supports management's nominees, withholding support only in cases where specific concerns about a board's composition, performance, qualifications, or accountability arise. In contested elections, the SBI

evaluates all nominees, weighing long term performance, the competing strategic plans, nominee qualifications, and any implications for shareholder rights.

Structure and Responsiveness. The SBI supports the annual election of all directors and opposes classified boards absent a compelling, company-specific rationale, as annual accountability strengthens the tie between directors and shareholders. Boards should be led by an independent chair or, where the roles of Chair and CEO are combined, by a lead independent director with substantive authority. The SBI expects boards to be responsive to shareholder votes, including shareholder proposals that receive majority support and cases in which director nominees fail to receive majority support. The SBI may withhold support from the nominating and governance committee where a board fails these criteria. Charter and bylaw amendments should be presented as separate ballot items, allowing shareholders to judge each proposal on its merits.

Risk and Strategic Oversight. A core responsibility of a board is to oversee and understand the material strategic, operational, financial, legal, regulatory, and reputational risks that bear on long-term shareholder value. The SBI may withhold support from directors on the relevant committees where the board failed to oversee a material, reasonably identifiable risk and that failure caused or could reasonably cause economic harm to shareholders.

Shareholder Legal Recourse. The SBI regards shareholders' access to legal recourse as a structural protection of their investment and opposes issuer-investor mandatory arbitration provisions that materially limit such protection. The SBI may withhold support from the nominating and governance committee where a company adopts such provisions without a compelling, well-disclosed justification. Similarly, the SBI opposes issuer adoption of provisions that limit shareholders' ability to file derivative claims or otherwise remove investor protections.

Section 2. Executive Compensation

Executive compensation should serve as a mechanism to attract, retain, and motivate the leadership needed to build long-term value and should align executives' interests with those of long-term shareholders. The SBI expects programs to be transparent and tied to performance over a multiyear horizon.

Pay-for-Performance Alignment. Pay should track company performance over the long term. The SBI assesses whether compensation arrangements correspond to total shareholder return and financial performance across multi-year periods, with closer scrutiny where the two diverge significantly. The SBI scrutinizes any peer-group selection that may inflate targets and expects clear disclosure of metrics, goals, and peers to enable the compensation program to be properly evaluated. The SBI may withhold support from a say-on-pay vote or from compensation committee members where pay and performance are materially misaligned.

Say-on-Pay and Committee Responsiveness. The SBI supports annual advisory votes on executive compensation as an important way for shareholders to express support or concern about pay design. Where a say-on-pay vote receives low support, the SBI expects the compensation committee to engage with shareholders, identify the concerns, and respond in a timely and constructive manner. The SBI may withhold support from the say-on-pay proposal or from members of the compensation committee where the company does not respond to clear shareholder dissatisfaction.

Equity Plan Design. The SBI evaluates equity incentive plans based on their total cost to shareholders, potential dilution, performance rigor, and vesting terms. The SBI expects any resulting dilution to be reasonable given the company's circumstances and for compensation to include and clearly disclose meaningful vesting periods and managed payout amounts. The SBI may oppose compensation plans whose features separate realizable pay from sustained performance or transfer value to executives on terms that are not aligned with shareholders.

Severance and Recoupment. The SBI views excessive severance and weak recoupment policies as contrary to shareholder interests. The SBI supports clawback provisions that allow recovery of compensation paid on material misstatements in financial results or in connection with misconduct that causes material harm and opposes outsized severance and accelerated-vesting arrangements that reward executives without regard to performance. The SBI opposes excise tax gross-ups and single-trigger change-in-control provisions in all cases, as both transfer value to executives regardless of performance or continued service.

Alignment of Executive Risk. Executives' long-term exposure to company performance should be in alignment with shareholders. The SBI opposes arrangements that let executives or directors hedge, pledge, or otherwise insulate themselves from the risk of holding company stock, since these break the alignment equity ownership is meant to create.

Section 3. Auditors and Financial Integrity

Reliable, independent financial reporting is the foundation on which investors evaluate a company, and its integrity depends on auditors who possess sufficient expertise and are independent of the management whose results they examine. The SBI expects audit arrangements that provide such auditor expertise and independence, audit committees that have sufficient expertise to exercise oversight, and disclosures sufficient for investors to assess both auditors and audit committees.

Auditor Independence. Auditor independence can weaken when a firm earns substantial fees for non-audit services, creating an incentive that competes with objective judgment. The SBI generally supports ratification of the independent auditor but may withhold support where non-audit fees are significant relative to audit fees, or where other circumstances call the firm's independence or expertise into question. The SBI also opposes engagement terms that limit

shareholders' legal recourse against an audit firm, such as mandatory arbitration, liability caps, or exclusions of damages.

Audit Committee Accountability. The audit committee should consist entirely of independent directors with the financial expertise to oversee the company's reporting and controls. The SBI may withhold support from audit committee members where the record reflects unaddressed material weaknesses in internal controls, restatements, late filings, or other clear failures of oversight.

Tenure, Rotation, and Ratification. The audit committee should disclose the external auditor's tenure, evaluate the engagement competitively, and explain its considerations on periodic rotation, so investors can assess whether independence is maintained over time. Shareholders should retain the ability to ratify the auditor annually.

Section 4. Capital Structure and Corporate Transactions

The SBI balances a company's need for access to capital and flexibility to pursue strategic transactions, against the extent to which existing shareholders may be diluted, the allocation of control, and whether management remains accountable. The SBI evaluates strategic transactions on their economic merits, supporting arrangements that finance the business on fair terms and opposing those that inappropriately entrench management or separate control from economic ownership.

Share Issuance. The SBI supports capital raises that are reasonably sized, fairly priced, and tied to a credible business purpose. The SBI closely scrutinizes issuances that would materially dilute shareholders, lack adequate disclosure of the use of proceeds, unduly favor insiders, or shift control without adequate shareholder input.

Anti-Takeover Provisions and Shareholder Rights Plans. The SBI does not support measures that insulate management from accountability or limit shareholders' ability to respond to a change of control, including poison pills adopted without shareholder approval and restrictions on the right to call special meetings. Where a rights plan serves a documented tax or economic purpose, the SBI may support it only if it is narrowly tailored, with a low trigger and short, fixed duration, and subject to shareholder ratification.

Multi-Class Share Structures. Long-term accountability is best served when voting rights track economic interest. The SBI supports "one share, one vote" structure and opposes the creation or continuation of dual-class or super-voting structures. Where they exist, the SBI expects a reasonable, time-based sunset that restores voting power proportionate to economic ownership.

Mergers, Acquisitions, and Significant Transactions. The SBI evaluates mergers, acquisitions, restructurings, and significant asset transactions on the economic facts and strategic rationale

presented. The SBI weighs the fairness of the terms, the independence of the negotiation process, the soundness of the supporting financial analysis, and any effects on shareholder rights and shareholder value.

Supermajority Voting. The SBI opposes supermajority voting requirements for fundamental changes such as mergers and charter or bylaw amendments, since they can entrench management and block changes a majority of shareholders may support; a simple majority of outstanding shares should ordinarily suffice. The SBI supports proposals to eliminate supermajority requirements, especially where a simple majority of outstanding shares should ordinarily suffice. At controlled companies with a dominant shareholder, however, a supermajority threshold may help protect minority shareholders, and the SBI evaluates such cases on their individual facts and circumstances.

Section 5. Shareholder Rights

The SBI believes that shareholders need meaningful rights to effectively protect long-term shareholder value. When those rights are materially weakened, boards and management become less accountable and long-term value may be put at risk. The SBI supports provisions that preserve and strengthen these rights and opposes those that dilute or otherwise weaken shareholder rights.

Right to Call Special Meetings. Shareholders should have a meaningful right to call a special meeting when circumstances warrant, subject to a reasonable ownership threshold and holding period. The SBI supports provisions that establish or restore this right and opposes efforts to eliminate or unduly limit it.

Proxy Access. The SBI supports proxy access that allows qualifying shareholders to nominate directors via the company's proxy materials, subject to reasonable ownership, holding, and nominee limits. Applied appropriately, meaningful access can strengthen board accountability without displacing the board's nominating role.

Written Consent. The right to act by written consent is a useful governance check, particularly where the ability to call a special meeting is limited. The SBI opposes proposals that unduly restrict or prohibit it and supports proposals that establish or ease it.

Confidential Voting. Proxy votes should be cast confidentially and tabulated by parties independent of management, so that the outcome reflects shareholders' judgment free of pressure. The SBI expects timely, transparent disclosure of voting results, and at companies with two or more share classes carrying differential voting rights, disclosure of those results by share class.

Reincorporation. The SBI supports incorporation in jurisdictions with strong shareholder protections and opposes reincorporation to jurisdictions with materially weaker legal frameworks, shareholder rights, or enforcement, and expects any reincorporation to be approved by a majority vote of unaffiliated shareholders.

Section 6. Shareholder Proposals

The SBI supports the right of shareholders to bring proposals before their fellow owners as a fundamental expression of long-term ownership. This practice allows shareholders to raise matters directly with the company and with the owners who will vote on them. The right to file shareholder proposals also gives the SBI a meaningful way to express its views on issues that the board or management has not otherwise resolved or adequately addressed.

The SBI supports shareholder proposals where (i) the matter raised is material to the company's business, strategy, financial condition, or risk profile; (ii) the company has not already addressed it adequately through its existing practices, commitments, or disclosure; and (iii) the requested action is feasible and within the company's control or influence to carry out. A proposal earns support based on its materiality to the specific company and whether the company has failed to adequately address the concern, not on the general importance of the topic. Material and unaddressed gaps, including those substantiated by allegations of wrongdoing, inaction, governance shortfalls, and disclosure omissions, may warrant support.

Reporting and Disclosure. Many of the proposals the SBI supports ask companies to report on a material risk or opportunity rather than to act on it, and the SBI expects any such reporting to meet a clear standard. Adequate disclosure is regularly updated, sufficiently detailed to allow investors to assess the company's exposure and progress, and presented in a way that is consistent and comparable, including, where relevant, the use of recognized reporting frameworks and/or standardized metrics. The SBI supports proposals that would close a material and unaddressed gap in this kind of disclosure, so long as the information can be compiled at reasonable cost, does not require disclosure of proprietary or confidential data, and companies are given a reasonable time to respond.

Policies and Operational Mandates. Shareholders are owners of company stock, not operators of the underlying business, and the SBI is correspondingly more cautious about proposals that would require a company to adopt a specific policy, industry framework, or operational target, since these decisions are properly the responsibility of management and the board. The SBI does not support proposals to cease specific business activities or business lines. Where a company has voluntarily adopted targets or policy commitments, the SBI expects timely and transparent reporting on the company's progress and, where a target is withdrawn, we expect the company to provide a clear explanation for such withdrawal.

Section 7. Statutory Obligations

The SBI carries out its proxy voting and engagement activities in accordance with all applicable statutory obligations under Minnesota law.