

Time for state to 'buy local' with pension investments

by Robert Moilanen

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The Minnesota State Board of Investments (SBI) oversees the investment of approximately \$58 billion, most of which is designed to pay retirement benefits to public employees. The SBI consists of the governor, the attorney general, the secretary of state and the auditor. They are assisted by many others.

Minnesota is home to numerous Fortune 500 companies including UnitedHealth, Medtronic, 3M, General Mills, Target, Ecolab, C.H. Robinson, Ameriprise, Supervalu and Hormel. The SBI's total equity investment in these 10 Minnesota companies collectively, while meaningful, is less than its current equity investment in Exxon alone, which exceeds \$500 million.

The SBI should increase its investments in Minnesota-based businesses and become a more active shareholder.

The SBI is guided by a "prudent person" rule. It must ensure that the state's funds are invested in a way to minimize risk while maximizing returns. In carrying out its responsibilities, the SBI employs an allocation system using nearly 50 outside investment advisers who manage the state's money for a significant fee. By retaining outside advisers, the SBI insulates itself from assertions that it failed to comply with its responsibility.

According to the SBI's reports, these outside advisers are paid more than \$50 million annually. Contrary to political pledges to "Buy Minnesota," almost all of these investment advisers are based outside the state and include such familiar names as Goldman Sachs and J.P. Morgan. However, especially in these times of exposés revealing excesses and malfeasance by Wall Street, the SBI would be better served by placing more money with locally based investment managers and having more of the \$50 million in annual fees stay within the state. Further, in light of the Securities and Exchange Commission's new proxy access rules making more proxy contests inevitable, a greater direct investment by the SBI in publicly held, homegrown Minnesota businesses makes sense for a number of reasons.

Minnesota-based businesses are periodically pressured by investors outside the state to maximize short-term bottom line results while risking long-term prospects. For example, Pershing Square Capital Management pressured Target through a proxy contest to elect directors who would purportedly "unlock" shareholder value through a spinoff of certain real estate assets. Target management opposed the move. In the spirit of "partnering," a large direct equity investment in Minnesota businesses by the SBI could work to deflect shortsighted outside pressure like that experienced by Target.

Further, if Minnesota companies are pressured to boost short-term shareholder value by reducing costs through, for example, transferring jobs overseas, the state could be better positioned as a large shareholder to intervene if appropriate. So, when Toro announced its intention to build a manufacturing plant in Romania, as a more active, large shareholder, SBI could obtain assurances that such a move by Toro truly fits an overall corporate strategic plan and does not reflect a problem with Minnesota's business climate that could be easily corrected.

Minnesota businesses often seek legislative and regulatory concessions from the state in the form of preferential tax treatment or expedited permitting. The state's bargaining position on those issues may be supplemented if it was a large shareholder in businesses seeking such concessions. While conflicts may arise between the dual roles (regulator and shareholder), why not deal with those conflicts forthrightly as other state funds have done?

For example, the state of New York pension fund is partnering with other shareholders to insist that the natural gas industry conduct exploration and extraction in an environmentally friendly manner. During the recently completed proxy season, numerous funds sought to obtain additional transparency from companies with respect to lobbying activities, political donations and executive salary packages. The mere challenges made by activist shareholders have caused some companies to adjust their corporate culture involving such issues.

As a large shareholder, the SBI could certainly become a leader pressing Minnesota businesses on issues consistent with our state's culture. For example, there is nothing inconsistent with the SBI's goal of maximizing returns while simultaneously pushing Minnesota businesses on issues like affirmative action. Instead, in 2010 the SBI voted proxies for more than 1,600 companies but only initiated two resolutions, both of which involved non-Minnesota-based businesses and were subsequently withdrawn.

The SBI's main obligation is to maximize return while minimizing risk. Proponents of using SBI funds to stimulate Minnesota's economy through risky investments run afoul of this mandate. However, increasing the state's investment in large publicly held Minnesota businesses that have been vetted by the market through the



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passage of time could give the state some influence over those businesses. Such "local" investments present no greater risk than the risk associated with the SBI's current investment in companies like Exxon and present an opportunity to affect our state's culture through more active engagement with businesses based here.

"Partnership" should not be a one-way street in which government, under the threat of harming the "business climate," merely accedes to the business community in exchange for mere speculation that such concessions may create jobs. By employing more Minnesota investment advisers, increasing its financial stake and ownership in large Minnesota-based businesses, and positioning itself as a shareholder to demand more from Minnesota businesses, the SBI will help ensure that a true "partnership" between the state and Minnesota-based businesses actually occurs.

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