

VII. Assets & Liabilities

“a description of the assets and liabilities of the trust fund;”

The following documents include:

- Historical market value of the Environment and Natural Resources Trust Fund (1992 – June 30, 2020)
- State Board of Investment 2019 Annual Report
- State Board of Investment 2020 Annual Report

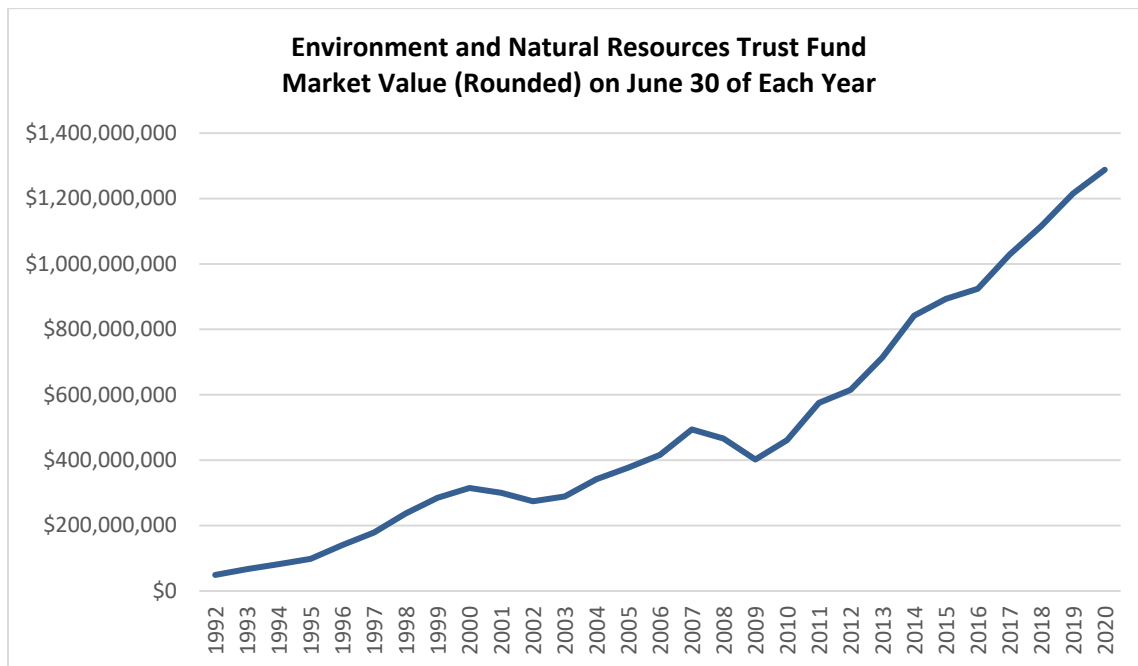
HISTORICAL MARKET VALUE OF THE ENVIRONMENT AND NATURAL RESOURCES TRUST FUND

Background

The assets in the Environment and Natural Resources Trust Fund (ENRTF) originate from a combination of contributions and investment income. Forty percent of the net proceeds from the Minnesota State Lottery, or more than six cents of every dollar spent on playing the lottery, are contributed to the ENRTF each year; this source of contribution is guaranteed by the Minnesota Constitution through December 31, 2024. The ENRTF may also receive contributions from other sources, such as private donations. Once deposited into the ENRTF, contributions become part of the principal balance and are invested in a combination of stocks and bonds by the Minnesota State Board of Investment. The income generated from those investments is reinvested back into the ENRTF.

For FY 1992-1999, investment earnings of the ENRTF and up to 25% of the Minnesota Lottery's annual contributions to the ENRTF were available for appropriation each year. A constitutional amendment in 1998 altered this rule so that beginning in FY 2000, through the present, up to 5.5% of the ENRTF's market value (determined by the market value of the ENRTF on June 30 one year before the start of a biennium) is available for appropriation each year.

History



| Year | June 30 Value |
|------|---------------|
| 1990 | \$4,000,000 |
| 1991 | \$32,000,000 |
| 1992 | \$49,000,000 |
| 1993 | \$67,000,000 |
| 1994 | \$82,000,000 |
| 1995 | \$98,000,000 |
| 1996 | \$140,000,000 |
| 1997 | \$179,000,000 |
| 1998 | \$237,000,000 |
| 1999 | \$285,000,000 |

| Year | June 30 Value |
|------|---------------|
| 2000 | \$315,000,000 |
| 2001 | \$300,000,000 |
| 2002 | \$274,000,000 |
| 2003 | \$289,000,000 |
| 2004 | \$342,000,000 |
| 2005 | \$377,000,000 |
| 2006 | \$416,000,000 |
| 2007 | \$494,000,000 |
| 2008 | \$466,000,000 |
| 2009 | \$402,000,000 |

| Year | June 30 Value |
|------|-----------------|
| 2010 | \$461,000,000 |
| 2011 | \$575,000,000 |
| 2012 | \$615,000,000 |
| 2013 | \$714,000,000 |
| 2014 | \$842,000,000 |
| 2015 | \$893,000,000 |
| 2016 | \$924,000,000 |
| 2017 | \$1,028,000,000 |
| 2018 | \$1,116,000,000 |
| 2019 | \$1,215,000,000 |

| Year | June 30 Value |
|------|-----------------|
| 2020 | \$1,288,000,000 |

MINNESOTA STATE BOARD OF INVESTMENT

2019 Annual Report



Non-Retirement Program Environmental Trust Fund

The Environmental Trust Fund was established in 1988 by the Minnesota Legislature to provide a long-term, consistent and stable source of funding for activities that protect and enhance the environment. On June 30, 2019, the market value of the Fund was \$1.2 billion.

By statute, the State Board of Investment invests the assets of the Environmental Trust Fund. The Minnesota Legislature funds environmental projects from a portion of the market value of the Fund.

Investment Objective

The Environmental Trust Fund's investment objective is long-term growth in order to produce a growing level of funding within the constraints of maintaining adequate portfolio liquidity.

A constitutional amendment passed in November 1998 continues the mandate that 40% of the net proceeds from the state lottery be credited to the Fund through 2025.

The amendment provides for spending 5.5% of the Fund's market value annually. The amendment eliminated certain accounting restrictions on capital gains and losses as well as the provision that the principal must remain inviolate.

Asset Allocation

After the constitutional amendment was adopted in November 1998, SBI staff worked with the Legislative Citizen Commission on Minnesota Resources to establish an asset allocation policy that is consistent with the Commission's goals for spending and growth of the Fund. The allocation positions the Fund for an appropriate long-term growth potential to

meet the Fund's objective to produce a growing level of funding.

The current long-term asset allocation targets for the Fund are:

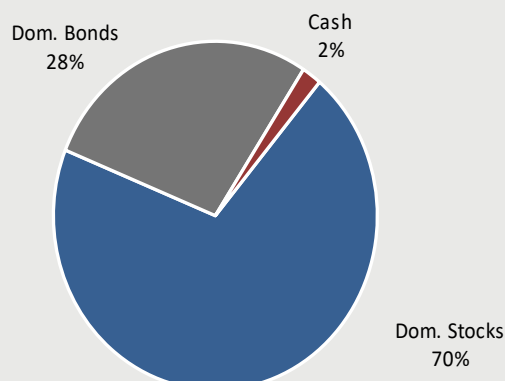
| | |
|-----------------|-----|
| Domestic Stocks | 70% |
| Domestic Bonds | 28% |
| Cash | 2% |

Figure 48 presents the actual asset mix of the Fund at the end of fiscal year 2019.

Investment Management

The Environmental Trust Fund is invested in the Non-Retirement Equity, Bond and Money Market Funds (see pages 111-113).

Figure 48. Environmental Trust Fund Asset Mix as of June 30, 2019



Non-Retirement Program Environmental Trust Fund

Investment Performance

During the fiscal year, the **stock** segment matched its benchmark for the fiscal year.

The **bond** segment outperformed its benchmark by 0.5 percentage point during the fiscal year.

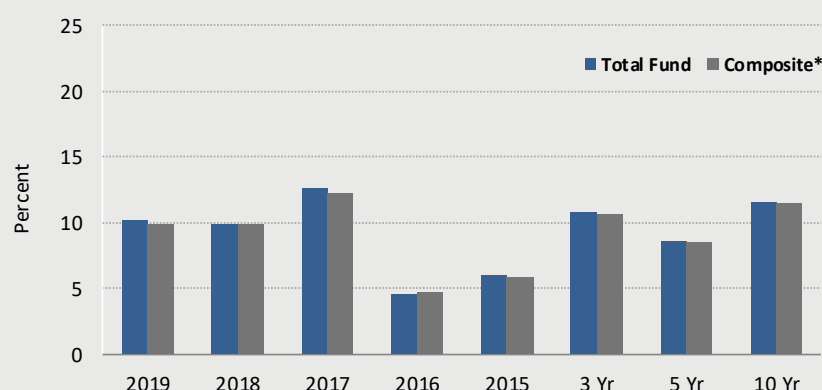
Overall, the Environmental Trust Fund provided a return of 10.1% for fiscal year 2019 and outperformed its composite index by 0.2 percentage point during the fiscal year. The Fund outperformed its composite index over the ten year time period by 0.1 percentage point.

Performance results are presented in Figure 49.

Spendable income generated by the Fund over the last five fiscal years is shown below:

| Fiscal Year | Millions |
|--------------------|-----------------|
| 2015 | \$34 |
| 2016 | \$46 |
| 2017 | \$46 |
| 2018 | \$51 |
| 2019 | \$51 |

Figure 49. Environmental Trust Fund Performance For Periods Ending June 30, 2019



| | 2019 | 2018 | 2017 | 2016 | 2015 | Annualized | | |
|----------------------|--------------|-------------|--------------|-------------|-------------|--------------|-------------|--------------|
| | | | | | | 3 Yr. | 5 Yr. | 10 Yr. |
| Total Fund | 10.1% | 9.9% | 12.6% | 4.5% | 6.0% | 10.8% | 8.6% | 11.6% |
| Composite* | 9.9 | 9.9 | 12.2 | 4.7 | 5.8 | 10.7 | 8.5 | 11.5 |
| Stock Segment | 10.4 | 14.3 | 17.9 | 4.0 | 7.5 | 14.2 | 10.7 | 14.7 |
| S&P 500 | 10.4 | 14.4 | 17.9 | 4.0 | 7.4 | 14.2 | 10.7 | 14.7 |
| Bond Segment | 8.4 | -0.3 | 0.8 | 5.7 | 2.5 | 2.9 | 3.4 | 4.3 |
| BB Barclays Agg. | 7.9 | -0.4 | -0.3 | 6.0 | 1.9 | 2.3 | 2.9 | 3.9 |

* Weighted 70% S&P 500/ 28% Bloomberg Barclays U.S. Aggregate/ and 2% 3 month T-Bill.

**State Board of Investment
2020 Annual Report
Pending**

