

MINNESOTA STATE BOARD OF INVESTMENT

2019 Annual Report



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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:

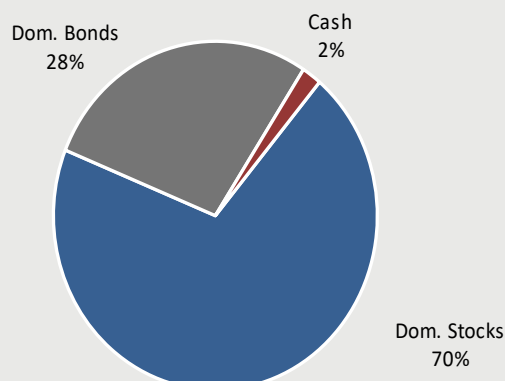
Domestic Stocks	70%
Domestic Bonds	28%
Cash	2%

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.

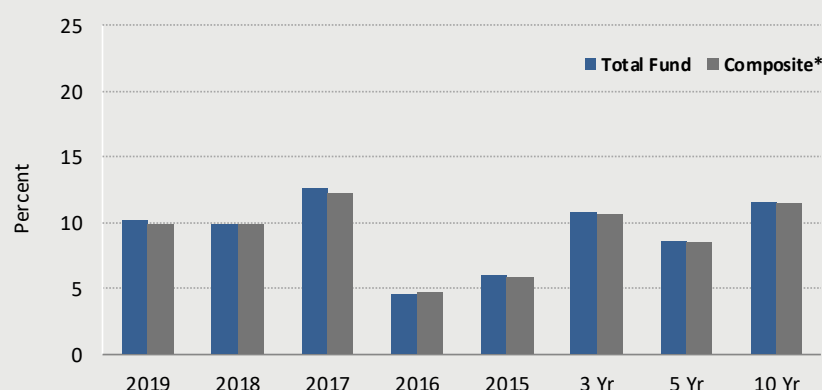
Overall, the Environmental Trust Fund provided a return of 10.1% for fiscal year 2019 and outperformed its composite index by 0.2 percentage point during the fiscal year. The Fund outperformed its composite index over the ten year time period by 0.1 percentage point.

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.