

VII. Assets & Liabilities

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

The documents include the State Board of Investment
2013 and 2014 Annual Reports.

Historical Market Value of the Environment and Natural Resources Trust Fund

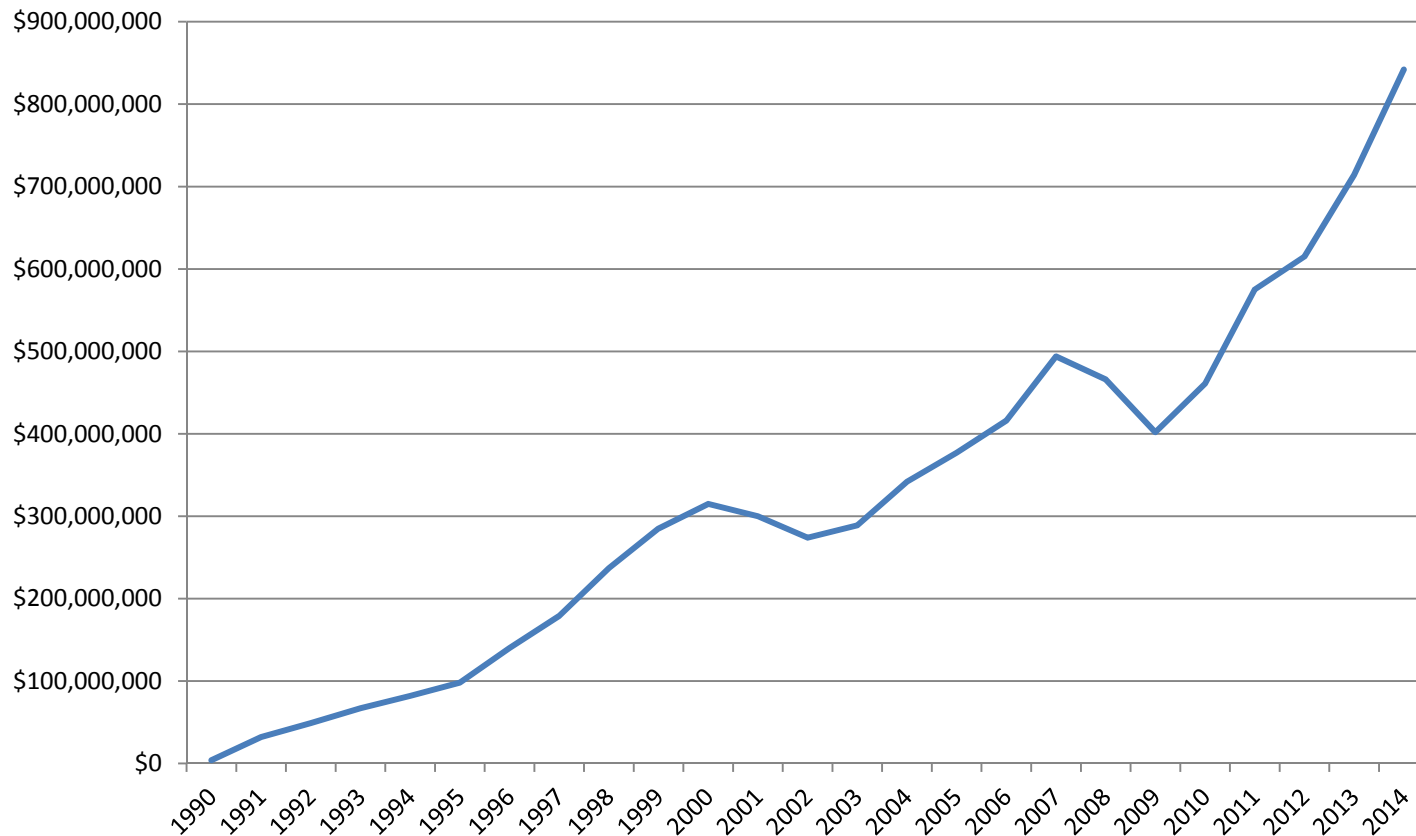
Background

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

**Environment and Natural Resources Trust Fund
Market Value (Rounded) on June 30 of Each Year**



| ENRTF Market Value (Rounded) on June 30 of each year | |
|---|---------------|
| 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 |
| 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 |
| 2010 | \$461,000,000 |
| 2011 | \$575,000,000 |
| 2012 | \$615,000,000 |
| 2013 | \$714,000,000 |
| 2014 | \$842,000,000 |



Minnesota State Board of Investment

2013 Annual Report

**Minnesota
State Board
of Investment**

60 Empire Drive
Suite 355
St. Paul, MN 55103

Phone: 651-296-3328

Fax: 651-296-9572

E-mail: minn.sbi@state.mn.us

Website: www.sbi.state.mn.us

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, 2013, the market value of the Fund was \$714 million.

By statute, the State Board of Investment invests the assets of the Environmental Trust Fund. The 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 spending within the constraints of maintaining adequate portfolio quality and liquidity.

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

The amendment provides for spending 5.5 percent of the Fund's market value annually. The amendment eliminated accounting restrictions on capital gains and losses and 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 the best long-term growth potential while meeting the objective of the Fund to produce a growing level of spending.

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

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

Figure 36 presents the actual asset mix of the Fund at the end of fiscal year 2013.

Investment Management

SBI staff internally manages all assets of the Environmental Trust Fund. Management by SBI staff is considered to be the most cost effective at this time.

Stock Segment

The stock segment of the Fund is passively managed to track the performance of the S&P 500.

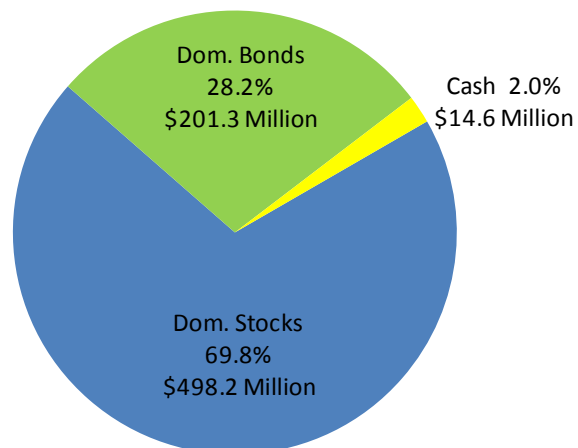
Bond Segment

The bond segment is actively managed to add incremental value through sector, security and yield curve decisions, and its performance is measured against the Barclays Capital Aggregate Bond Index.

Investment Performance

During the fiscal year, the *stock* segment had a negative tracking error of 0.1 percentage point compared to the benchmark, the S&P 500.

Figure 36. Environmental Trust Fund Asset Mix as of June 30, 2013



Environmental Trust Fund

The **bond** segment outperformed its benchmark by 2.1 percentage points during the fiscal year, primarily due to overweights to MBS, CMBS and corporate sectors.

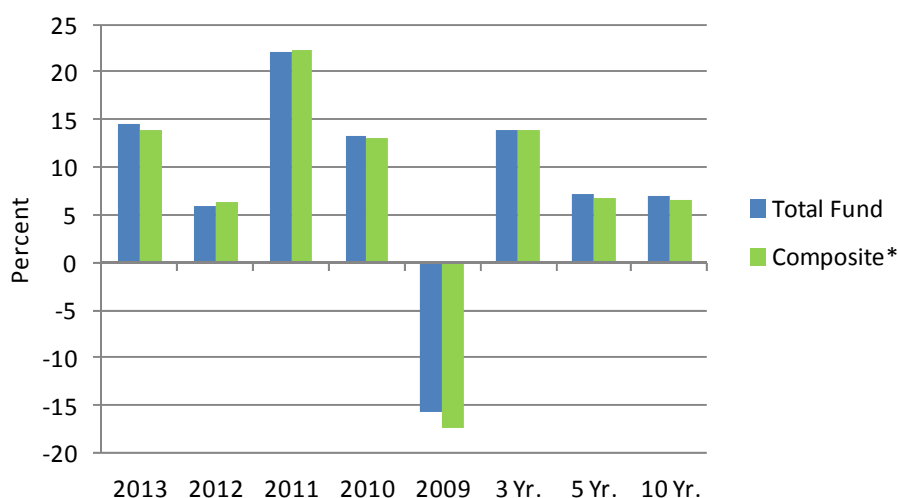
Overall, the Environmental Trust Fund provided a return of 14.6% for fiscal year 2013 and outperformed its composite index by 0.7 percentage point. The Fund outperformed its composite index over the most recent three, five and ten years due to the incremental value added by bonds.

Performance results are presented in Figure 37.

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

| Fiscal Year | Millions |
|-------------|----------|
| 2008 | \$23 |
| 2009 | \$23 |
| 2010 | \$26 |
| 2011 | \$26 |
| 2012 | \$25 |
| 2013 | \$25 |

Figure 37. Environmental Trust Fund Performance For Period Ending June 30, 2013



| | 2013 | 2012 | 2011 | 2010 | 2009 | Annualized | | |
|----------------------|--------------|-------------|--------------|--------------|---------------|--------------|-------------|-------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 3 Yr. | 5 Yr. | 10 Yr. |
| Total Fund | 14.6% | 6.0% | 22.1% | 13.2% | -15.6% | 14.0% | 7.2% | 7.0% |
| Composite* | 13.9 | 6.3 | 22.2 | 13.1 | -17.4 | 13.9 | 6.7 | 6.6 |
| Stock Segment | 20.5 | 5.5 | 30.8 | 14.2 | -25.8 | 18.5 | 7.1 | 7.4 |
| S&P 500 | 20.6 | 5.4 | 30.7 | 14.4 | -26.2 | 18.5 | 7.0 | 7.3 |
| Bond Segment | 1.4 | 6.5 | 4.3 | 9.7 | 8.3 | 4.0 | 6.0 | 5.2 |
| Barclays Agg. | -0.7 | 7.5 | 3.9 | 9.5 | 6.0 | 3.5 | 5.2 | 4.5 |

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



Minnesota State Board of Investment

2014 Annual Report

**Minnesota
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60 Empire Drive
Suite 355
St. Paul, MN 55103

Phone: 651-296-3328

Fax: 651-296-9572

E-mail: minn.sbi@state.mn.us

Website: www.sbi.state.mn.us

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, 2014, the market value of the Fund was \$842 million.

By statute, the State Board of Investment invests the assets of the Environmental Trust Fund. The 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 spending within the constraints of maintaining adequate portfolio quality and liquidity.

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

The amendment provides for spending 5.5 percent of the Fund's market value annually. The amendment eliminated accounting restrictions on capital gains and losses and 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 the best long-term growth potential while meeting the objective of the Fund to produce a growing level of spending.

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

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

Figure 39 presents the actual asset mix of the Fund at the end of fiscal year 2014.

Investment Management

SBI staff internally manages all assets of the Environmental Trust Fund. Management by SBI staff is considered to be the most cost effective at this time.

Stock Segment

The stock segment of the Fund is passively managed to track the performance of the S&P 500.

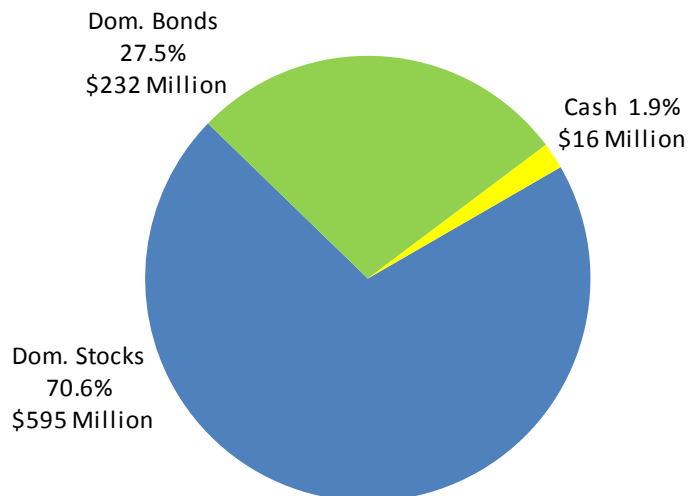
Bond Segment

The bond segment is actively managed to add incremental value through sector, security and yield curve decisions, and its performance is measured against the Barclays Capital Aggregate Bond Index.

Investment Performance

During the fiscal year, the *stock* segment had a negative tracking error of 0.1 percentage point compared to the benchmark, the S&P 500.

Figure 39. Environmental Trust Fund Asset Mix as of June 30, 2014



Environmental Trust Fund

The *bond* segment outperformed its benchmark by 0.6 percentage points during the fiscal year, primarily due to the overweight to the corporate sector and a short duration position relative to the benchmark.

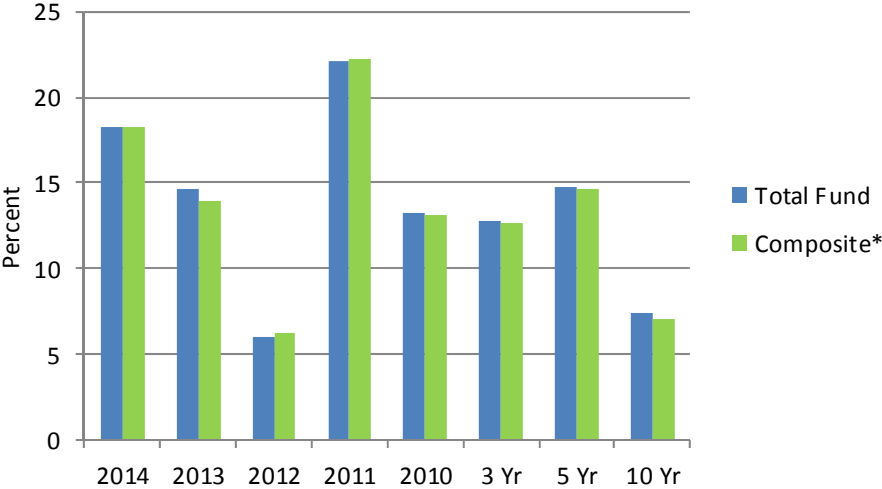
Overall, the Environmental Trust Fund provided a return of 18.3% for fiscal year 2014 and outperformed its composite index by 0.1 percentage point. The Fund outperformed its composite index over the most recent three, five and ten years due to the incremental value added by bonds.

Performance results are presented in Figure 40.

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

| Fiscal Year | Millions |
|-------------|----------|
| 2010 | \$26 |
| 2011 | \$26 |
| 2012 | \$25 |
| 2013 | \$25 |
| 2014 | \$34 |

Figure 40. Environmental Trust Fund Performance For Period Ending June 30, 2014



| | 2014 | 2013 | 2012 | 2011 | 2010 | Annualized | | |
|----------------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|-------------|
| | | | | | | 3 Yr. | 5 Yr. | 10 Yr. |
| Total Fund | 18.3% | 14.6% | 6.0% | 22.1% | 13.2% | 12.8% | 14.7% | 7.4% |
| Composite* | 18.2 | 13.9 | 6.3 | 22.2 | 13.1 | 12.7 | 14.6 | 7.1 |
| Stock Segment | 24.5 | 20.5 | 5.5 | 30.8 | 14.2 | 16.5 | 18.8 | 7.8 |
| S&P 500 | 24.6 | 20.6 | 5.4 | 30.7 | 14.4 | 16.6 | 18.8 | 7.8 |
| Bond Segment | 5.0 | 1.4 | 6.5 | 4.3 | 9.7 | 4.3 | 5.3 | 5.6 |
| Barclays Agg. | 4.4 | -0.7 | 7.5 | 3.9 | 9.5 | 3.7 | 4.9 | 4.9 |

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

