

VII. Assets & Liabilities

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

The documents include the State Board of Investment
2015 and 2016 Annual Reports.

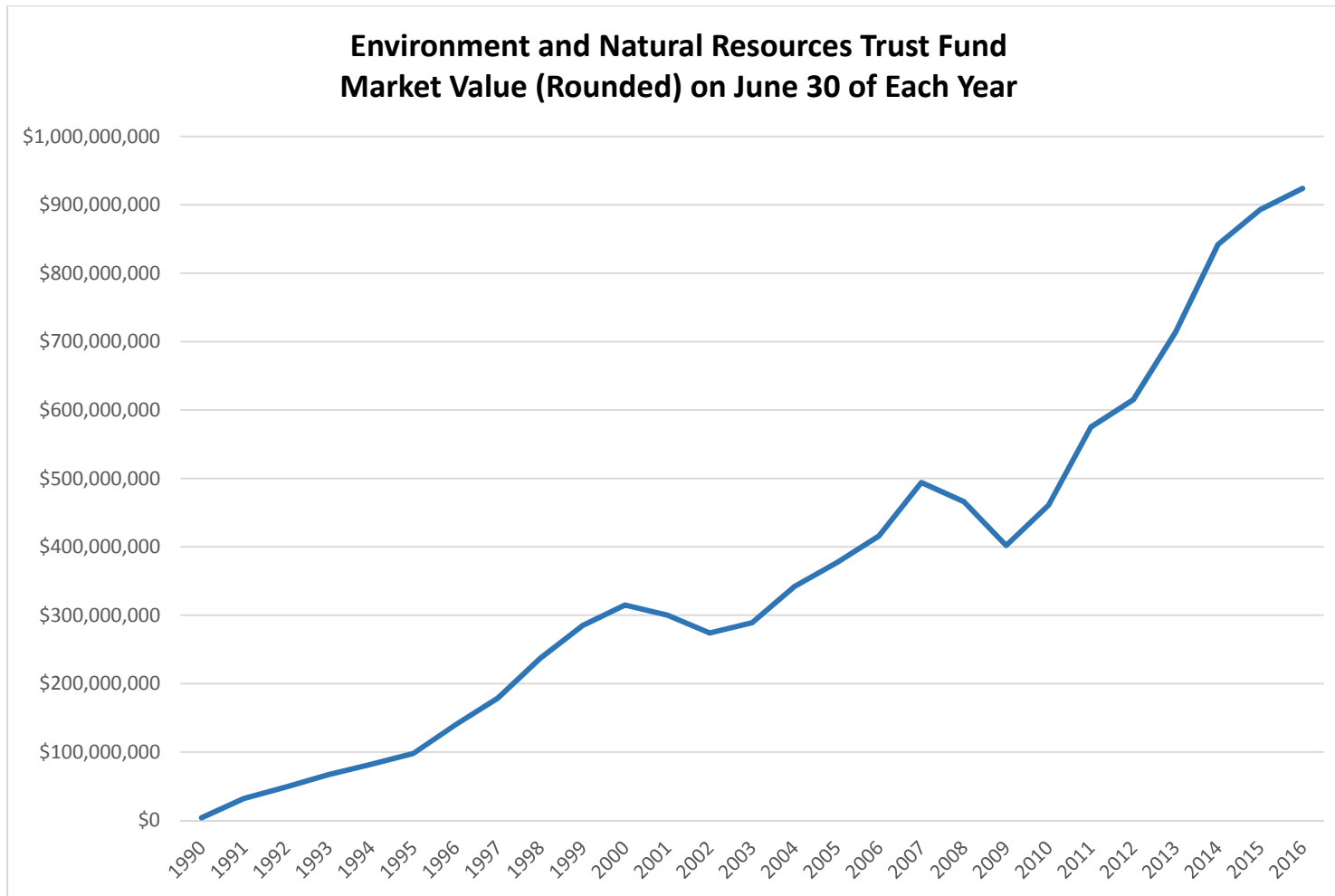
Historical Market Value of the Environment and Natural Resources Trust Fund

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



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
2015	\$893,000,000
2016	\$924,000,000

MINNESOTA STATE BOARD OF INVESTMENT

2015 Annual Report



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, 2015, the market value of the Fund was \$893 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 41 presents the actual asset mix of the Fund at the end of fiscal year 2015.

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.

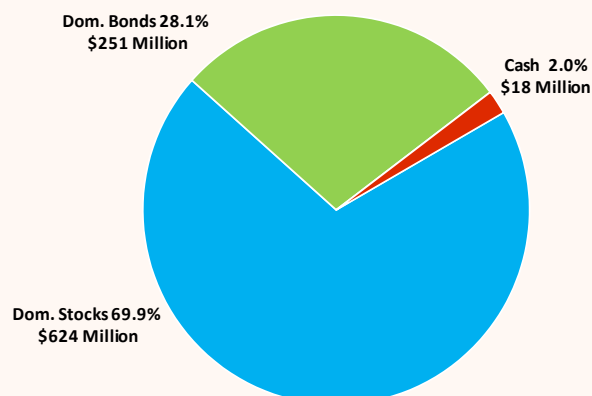
Stock Segment

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.

Figure 41. Environmental Trust Fund Asset Mix as of June 30, 2015



Environmental Trust Fund

Investment Performance

During the fiscal year, the *stock* segment underperformed its benchmark by 0.1 percentage point.

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.

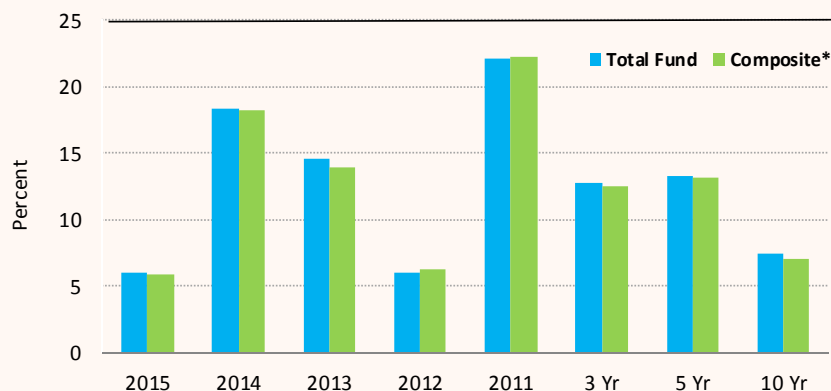
Overall, the Environmental Trust Fund provided a return of 6.0% for fiscal year 2015 and outperformed its composite index by 0.2 percentage point. The Fund outperformed its composite index over the most recent three, five and ten years due to the incremental value added by bonds.

Performance results are presented in Figure 42.

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

<u>Fiscal Year</u>	<u>Millions</u>
2011	\$26
2012	\$25
2013	\$25
2014	\$34
2015	\$34

Figure 42. Environmental Trust Fund Performance For Periods Ending June 30, 2015



	2015	2014	2013	2012	2011	Annualized 3 Yr.	Annualized 5 Yr.	Annualized 10 Yr.
Total Fund	6.0%	18.3%	14.6%	6.0%	22.1%	12.8%	13.2%	7.4%
Composite*	5.8	18.2	13.9	6.3	22.2	12.5	13.1	7.0
Stock Segment	7.5	24.5	20.5	5.5	30.8	17.3	17.4	8.0
S&P 500	7.4	24.6	20.6	5.4	30.7	17.3	17.3	7.9
Bond Segment	2.5	5.0	1.4	6.5	4.3	3.0	3.9	5.1
Barclays Agg.	1.9	4.4	-0.7	7.5	3.9	1.8	3.3	4.4

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

MINNESOTA STATE BOARD OF INVESTMENT

2016 Annual Report

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, 2016, the market value of the Fund was \$924 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% 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 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 45 presents the actual asset mix of the Fund at the end of fiscal year 2016.

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 option at this time.

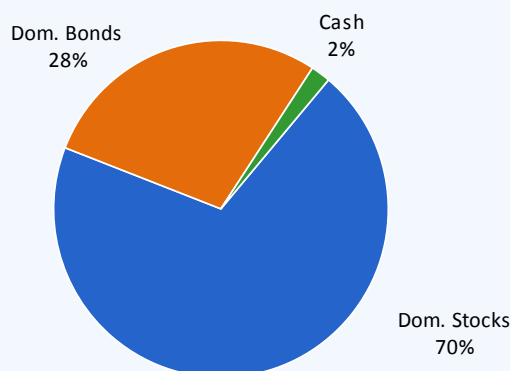
Stock Segment

The stock segment of the Fund is passively managed to track the performance of the S&P 500 (see page 43).

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 (see page 44).

Figure 45. Environmental Trust Fund Asset Mix as of June 30, 2016



Environmental Trust Fund

Investment Performance

During the fiscal year, the *stock* segment tracked its benchmark.

The *bond* segment underperformed its benchmark by 0.3 percentage points during the fiscal year, primarily due to the overweight to the corporate sector and a short duration position relative to the benchmark.

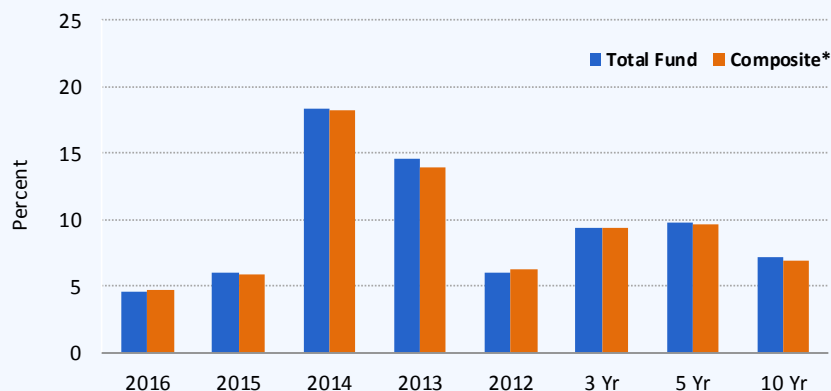
Overall, the Environmental Trust Fund provided a return of 4.5% for fiscal year 2016 and underperformed its composite index by 0.2 percentage point. The Fund tracked its composite index over the three year time period and outperformed over the five and ten year time periods.

Performance results are presented in Figure 46.

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

<u>Fiscal Year</u>	<u>Millions</u>
2012	\$25
2013	\$25
2014	\$34
2015	\$34
2016	\$46

Figure 46. Environmental Trust Fund Performance For Periods Ending June 30, 2016



	2016	2015	2014	2013	2012	Annualized		
						3 Yr.	5 Yr.	10 Yr.
Total Fund	4.5%	6.0%	18.3%	14.6%	6.0%	9.4%	9.7%	7.2%
Composite*	4.7	5.8	18.2	13.9	6.3	9.4	9.6	6.9
Stock Segment	4.0	7.5	24.5	20.5	5.5	11.7	12.1	7.5
S&P 500	4.0	7.4	24.6	20.6	5.4	11.7	12.1	7.4
Bond Segment	5.7	2.5	5.0	1.4	6.5	4.4	4.2	5.6
Barclays Agg.	6.0	1.9	4.4	-0.7	7.5	4.1	3.8	5.1

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

