

2022



Image by Erol Sanderegger

ANNUAL REPORT

Non-Retirement Account Environmental and Natural Resources Trust Fund

Environmental and Natural Resources Trust Fund

Overview

The Environmental and Natural Resources Trust Fund (known as 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. By statute, the SBI invests the assets of the Environmental Trust Fund. The Minnesota Legislature funds environmental projects from a portion of the market value of the Fund.

As of June 30, 2022 the market value of the Fund was \$1.45 billion.

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 Fund allocation is positioned 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:

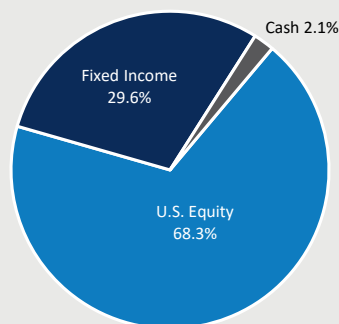
Domestic Equity	70%
Domestic Bonds	28%
Cash	2%

Figure 79 presents the actual asset mix of the Fund at the end of fiscal year 2022.

Investment Management

The Environmental Trust Fund is invested in the Non-Retirement Equity, Bond and Money Market Funds. Fund Summaries are provided on pages 139-141.

Figure 79. Environmental Trust Fund Asset Mix as of June 30, 2022



Non-Retirement Account Environmental Trust Fund

Investment Performance

During the fiscal year, the *equity* segment matched its benchmark, the S&P 500, for the fiscal year.

The *bond* segment underperformed its benchmark, the Bloomberg U.S. Aggregate Index, by 0.8 percentage points during the fiscal year.

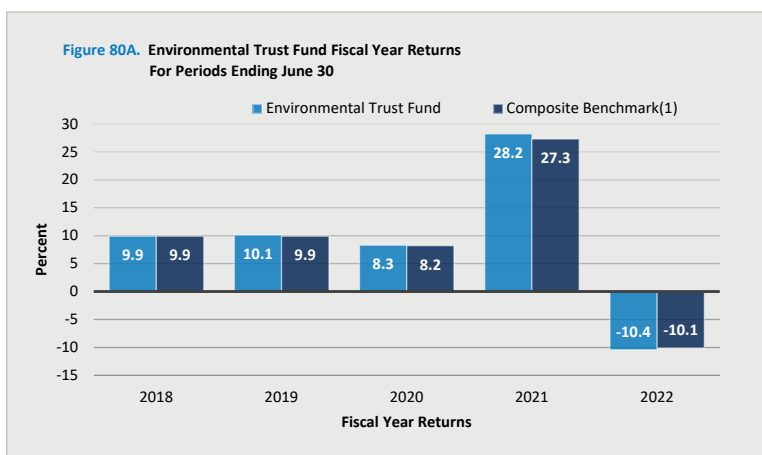
The *cash* segment outperformed its benchmark, the iMoneyNet All Taxable Money Fund Average by 0.1 percentage point during the fiscal year.

Overall, the Environmental Trust Fund provided a return of -10.4% for fiscal year 2022, which underperformed its composite index by 0.3 percentage point during the fiscal year. Results for a longer time-periods, show the Fund outperforming its composite index over the ten- and twenty-year time periods ending June 30, 2022.

Historical performance results for the total Fund and each of the asset class segments are presented in Figures 80A and 80B.

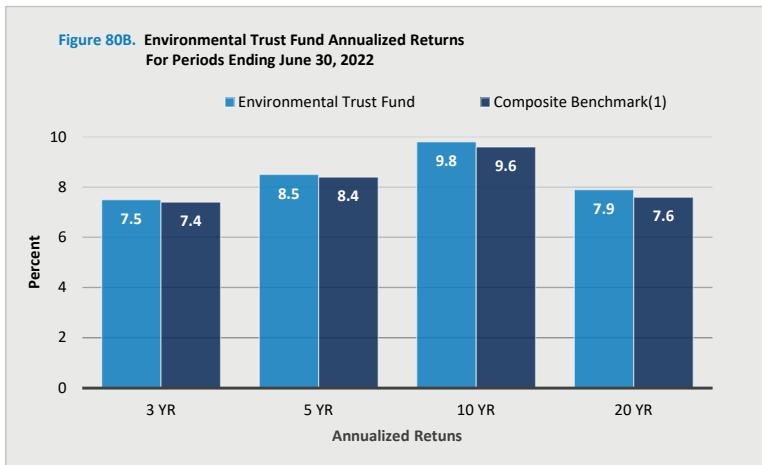
Spendable income generated by the Fund over the last five fiscal years is shown below:

Fiscal Year	Millions
2018	\$51
2019	\$51
2020	\$61
2021	\$61
2022	\$71



	Fiscal Year End Return (%)				
	2018	2019	2020	2021	2022
Environmental Trust Fund Total	9.9	10.1	8.3	28.2	-10.4
Composite Benchmark ¹	9.9	9.9	8.2	27.3	-10.1
Equity Segment	14.3	10.4	7.5	40.8	-10.6
S&P 500	14.4	10.4	7.5	40.8	-10.6
Bond Segment	-0.3	8.4	8.2	1.2	-11.1
Bloomberg Agg	-0.4	7.9	8.7	-0.3	-10.3
Cash Segment	1.4	2.4	1.5	0.1	0.2
iMoney Net All Taxable Fund	1.0	1.9	1.1	0.0	0.1

¹ Represents the aggregate returns of the target allocation: S&P 500 70%, Bloomberg U.S. Aggregate 28%, and iMoney Net All Taxable Money Fund Avg 2%.



	Annualized Returns (%) as of June 30, 2022			
	3 Yr.	5 Yr.	10 Yr.	20 Yr.
Environmental Trust Fund Total	7.5	8.5	9.8	7.9
Composite Benchmark ¹	7.4	8.4	9.6	7.6
Equity Segment	10.6	11.3	12.9	9.1
S&P 500	10.6	11.3	13.0	9.1
Bond Segment	-0.9	1.0	2.0	4.1
Bloomberg Agg	-0.9	0.9	1.5	3.6
Cash Segment	0.6	1.1	0.7	1.4
Custom Benchmark ²	0.4	0.4	0.8	1.1

¹ Represents the aggregate returns of the target allocation: S&P 500 70%, Bloomberg U.S. Aggregate 28%, and iMoney Net All Taxable Money Fund Avg 2%.

² Custom Benchmark is the iMoneyNet All Taxable Money Fund Average since 1/1/2004; prior to that was the ICE BofA 3 Month Treasury Index.