

INVESTMENT BOARD

GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY05 Adjusted Base	FY06 Recommended	% Change Over FY05	FY07 Recommended	% Change Over FY06
PR-O	19,390,300	19,390,300	0.0	19,390,300	0.0
TOTAL	19,390,300	19,390,300	0.0	19,390,300	0.0

FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY05 Adjusted Base	FY06 Recommended	FTE Change From FY05	FY07 Recommended	FTE Change From FY06
PR-O	104.50	104.50	0.00	104.50	0.00
TOTAL	104.50	104.50	0.00	104.50	0.00

AGENCY DESCRIPTION

As of June 30, 2004, the board managed over \$70.3 billion in assets. The trust funds of the Wisconsin Retirement System, which serve over 508,000 current or former employees of the state and most local governments, comprise over 92 percent of the funds under management. With assets over \$64.9 billion, the Wisconsin Retirement System is currently the ninth largest public pension fund in the United States and the 23rd largest public or private pension fund in the world.

The board also manages the state investment fund which invests the cash balances of state agencies, over 1,100 local governments and the Wisconsin Retirement System on a commingled basis. Funds are managed to protect principal, provide liquidity and enhance returns. In addition, the board manages several smaller trust funds. Each has investment objectives to fulfill specific financial needs.

The board is comprised of nine trustees, selected as follows:

- Five public members appointed by the Governor with the advice and consent of the Senate, to staggered six-year terms. Four of these five members must possess at least ten years of investment experience.
- One member representing a local government that participates in the Local Government Investment Pool. This member is appointed by the Governor with the advice and consent of the Senate, to a six-year term, and must meet prescribed statutory eligibility criteria.
- Two members must be Wisconsin Retirement System participants. One member is appointed by the Teacher Retirement Board from among Wisconsin Retirement System teacher participants and the other is appointed by the Wisconsin Retirement Board from among Wisconsin Retirement System nonteacher participants, for six-year terms.
- One member is the secretary of the Department of Administration, or his or her designee.

MISSION

The purpose of the board is to provide prudent and cost-effective management of funds held in trust by the state. This is achieved with solid investment returns, consistent with the purpose and risk profile of each fund.

PROGRAMS, GOALS, OBJECTIVES AND ACTIVITIES

Program 1: Investment of Funds

Goal: Earn the best rate of investment return, with an appropriate level of risk, for each fund managed.

Objective/Activity: The board strives to exceed measurable investment goals for each fund. The investment objective for the Wisconsin Retirement System trust funds is to achieve a long-term rate of return that will enable the system to meet pension obligations to current and future beneficiaries. Successful investment performance reduces the amount that taxpayers contribute to the funding of system benefits and provides for increases in pension benefits. The investment objective for the state investment fund is to exceed its established performance benchmark. The investment objective for the small funds is to meet annual fund cash flow requirements, as established by their governing boards.

PERFORMANCE MEASURES

HISTORICAL DATA

Prog. No.	Performance Measure	Actual 2000	Actual 2001	Actual 2002
1.	Five and ten year fixed retirement fund returns averaging at least eight percent annually over the long term. ¹	Exceeded 14.7% 5 year 12.7% 10 year	Exceeded 10.3% 5 year 11.4% 10 year	Exceeded 9.5% 10 year
1.	Fixed retirement fund one, five and ten year returns that exceed performance benchmarks (determined by the board's benchmark setting process). ²	Exceeded	Exceeded	Exceeded
1.	Fixed retirement fund performance ranking above the median return for public pension fund peers. ³	Exceeded 1 year, slightly lagged 5 and 10 year ⁴	Exceeded 1 and 10 year, slightly lagged 5 year ⁵	Exceeded 1, 5 and 10 year ⁶
1.	Keep total costs (operations plus fees paid to outside suppliers) at a level that is typical for pension funds managing a similar mix of assets. ⁷	15 basis points ⁸	17 basis points ⁹	22 basis points ¹⁰
1.	State investment fund returns that exceed performance benchmarks (determined by the board's benchmark setting process). ²	Exceeded	Exceeded	Exceeded
1.	Achieve returns for the state investment fund which place the fund above the median of money market mutual funds as measured by the iMoneyNet Index.	Ranked well above the median return	Superior ranking in top percentile return ¹¹	Superior ranking in top percentile return ¹²
1.	Meet annual fund cash flow requirements as established by the governing boards for the State Historical Society trust fund, the patients compensation fund, the state life insurance fund, the local government investment pool and the EdVest tuition trust fund.	Met the cash flow needs of these funds	Met the cash flow needs of these funds	Met the cash flow needs of these funds

Note: Based on fiscal year.

¹The actuary for the Wisconsin Retirement System has confirmed this rate of return will meet the actuarial expectations of the Wisconsin Retirement System and help maintain stable employer/employee contribution rates.

²This measure will continue to demonstrate the value that the board is able to add above market rates of return.

³Return comparisons developed on a risk-adjusted basis.

⁴The fixed fund performance for the one-year time period ending June 30, 2000, exceeded the median return for public pension fund peers (26th percentile). The fixed fund performance slightly lagged the median fund

return for the five and ten year performance time frames (59th and 52nd percentiles, respectively) as measured by the Trust Universe Comparison Service.

⁵As measured by the Trust Universe Comparison Service.

⁶The fixed fund performance for the one-year time period ending June 30, 2002, was in the top quartile for public pension fund peers, as measured by the Trust Universe Comparison Service on a nonrisk-adjusted basis.

⁷Since 2000, the board has increased the amount of assets managed externally and reduced internal and passive management to increase net returns. While this has increased total costs of management, the board's risk-adjusted net returns rank favorably among its peers.

⁸As measured by Cost Effectiveness Measurement, Inc., the board's calendar year 1999 total cost of management was 15¢ per \$100 managed (15 basis points). This compares favorably to 19¢ per \$100 managed (19 basis points), the cost which would be expected for a pension fund with the board's asset mix.

⁹As measured by Cost Effectiveness Measurement, Inc., the board's calendar year 2000 total cost of management was 17¢ per \$100 managed (17 basis points). This is less than the 19¢ per \$100 managed (19 basis points), the cost which would be expected for a pension fund with the board's asset mix.

¹⁰As measured by Cost Effectiveness Measurement, Inc., the board's calendar year 2001 total cost of management was 22¢ per \$100 managed (22 basis points). This compares favorably to 27¢ per \$100 managed (27 basis points), the cost which would be expected for a pension fund with the board's asset mix.

¹¹The state investment fund's return of 5.97 percent ranked first out of 235 government funds in the iMoneyNet Government Index and 47th out of 1,140 money market funds in the iMoneyNet All Taxable Money Market Index (top five percent) as of June 30, 2001.

¹²The state investment fund's return of 2.51 percent tied for first out of 219 government funds in the iMoneyNet Government Index and 40th out of 1,158 money market funds in the iMoneyNet All Taxable Money Market Index (top four percent) as of June 30, 2002.

2003 AND 2004 GOALS AND ACTUALS

Prog. No.	Performance Measure	Goal 2003	Actual 2003	Goal 2004	Actual 2004
1.	Five and ten year fixed retirement fund returns averaging at least eight percent annually over the long term. ¹	In excess of 8%	Exceeded 8.5% 10 year	In excess of 8%	Exceeded 9.8% 10 year
1.	Fixed retirement fund one, five and ten year returns that exceed performance benchmarks (determined by the board's benchmark setting process). ²	Exceed	Exceeded 5 and 10 year	Exceed	Exceeded 1, 5 and 10 year
1.	Fixed retirement fund performance ranking above the median return for public pension fund peers. ³	Above the median	Exceeded 1, 5 and 10 year ⁴	Above the median	Exceeded 1 and 5 year, slightly lagged 10 year ⁴
1.	Keep total costs (operations plus fees paid to outside suppliers) at a level that is typical for pension funds managing a similar mix of assets. ⁵	Cost of operations typical	26.5 basis points ⁶	Cost of operations typical	28.4 basis points ⁷
1.	State investment fund returns that exceed performance benchmarks (determined by the board's benchmark setting process). ²	Exceed	Exceeded	Exceed	Exceeded
1.	Achieve returns for the state investment fund which place the fund above the median of money market mutual funds as measured by the iMoneyNet Index.	Above the median	Superior ranking, in top percentile return ⁸	Above the median	Superior ranking, in top percentile return ⁹
1.	Meet annual fund cash flow requirements as established by the governing boards for the State Historical Society trust fund, the patients compensation fund, the state life insurance fund, the local government investment pool and the EdVest tuition trust fund.	Meet the cash flow needs of these funds	Met the cash flow needs of these funds	Meet the cash flow needs of these funds	Met the cash flow needs of these funds

Note: Based on fiscal year.

¹The actuary for the Wisconsin Retirement System has confirmed this rate of return will meet the actuarial expectations of the Wisconsin Retirement System and help maintain stable employer/employee contribution rates.

²This measure will continue to demonstrate the value that the board is able to add above market rates of return.

³Return comparisons developed on a risk-adjusted basis.

⁴As measured by the Trust Universe Comparison Service.

⁵Since 2000, the board has increased the amount of assets managed externally and reduced internal and passive management to increase net returns. While this has increased total costs of management, the board's risk-adjusted net returns rank favorably among its peers.

⁶As measured by Cost Effectiveness Measurement, Inc., the board's calendar year 2002 total cost of management was 26.5¢ per \$100 managed (26.5 basis points). This compares to 26.1¢ per \$100 managed (26.1 basis points), the cost which would be expected for a pension fund with the board's asset mix.

⁷As measured by Cost Effectiveness Measurement, Inc., the board's calendar year 2003 total cost of management was 28.4¢ per \$100 managed (28.4 basis points). This compares equally to 28.4¢ per \$100 managed (28.4 basis points), the cost which would be expected for a pension fund with the board's asset mix.

⁸The state investment fund's return of 1.49 percent ranked first out of 235 government funds in the iMoneyNet Government Index (top fund) and ninth out of 1,207 money market funds in the iMoneyNet All Taxable Money Market Index (top one percent).

⁹The state investment fund's return of 1.03 percent ranked first out of 228 government funds in the iMoneyNet Government Index (top fund) and sixth out of 1,233 money market funds in the iMoneyNet All Taxable Money Market Index (top one percent).

2005, 2006 AND 2007 GOALS

Prog. No.	Performance Measure	Goal 2005	Goal 2006	Goal 2007
1.	Five and ten year fixed retirement fund returns averaging at least 7.8 percent annually over the long term. ¹	In excess of 7.8%	In excess of 7.8%	In excess of 7.8%
1.	Fixed retirement fund one, five and ten year returns that exceed performance benchmarks (determined by the board's benchmark setting process). ²	Exceed	Exceed	Exceed
1.	Fixed retirement fund performance ranking above the median return for public pension fund peers. ³	Above the median	Above the median	Above the median
1.	Keep costs (operations plus fees paid to outside suppliers) at a competitive level. ⁴	At or below the median peer group cost for similar services	At or below the median peer group cost for similar services	At or below the median peer group cost for similar services
1.	State investment fund returns that exceed performance benchmarks (determined by the board's benchmark setting process). ²	Exceed	Exceed	Exceed
1.	Achieve returns for the state investment fund which place the fund above the median of money market mutual funds as measured by the iMoneyNet Index.	Above the median	Above the median	Above the median
1.	Meet annual fund cash flow requirements as established by the governing boards for the State Historical Society trust fund, the injured patients and families compensation fund, the state life insurance fund, the local government investment pool and the EdVest tuition trust fund.	Meet the cash flow needs of these funds	Meet the cash flow needs of these funds	Meet the cash flow needs of these funds

Note: Based on fiscal year.

¹The actuary for the Wisconsin Retirement System has confirmed this rate of return will meet the actuarial expectations of the Wisconsin Retirement System and help maintain stable employer/employee contribution rates.

²This measure will continue to demonstrate the value that the board is able to add above market rates of return.

³Return comparisons developed on a risk-adjusted basis.

⁴This measure has been modified.

Table 1
Department Budget Summary by Funding Source (in thousands of dollars)

	ACTUAL FY04	ADJUSTED BASE FY05	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY06	FY07	FY06	FY07
PROGRAM REVENUE (2)	\$19,169.4	\$19,390.3	\$19,390.3	\$19,390.3	\$19,390.3	\$19,390.3
State Operations	19,169.4	19,390.3	19,390.3	19,390.3	19,390.3	19,390.3
TOTALS-ANNUAL	19,169.4	19,390.3	19,390.3	19,390.3	19,390.3	19,390.3
State Operations	19,169.4	19,390.3	19,390.3	19,390.3	19,390.3	19,390.3

(2) Includes Program Revenue-Service and Program Revenue-Other

Table 2
Department Position Summary by Funding Source (in FTE positions) (4)

	ADJUSTED BASE FY05	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY06	FY07	FY06	FY07
PROGRAM REVENUE (2)	104.50	104.50	104.50	104.50	104.50
TOTALS-ANNUAL	104.50	104.50	104.50	104.50	104.50

(2) Includes Program Revenue-Service and Program Revenue-Other

(4) All positions are State Operations unless otherwise specified

Table 3
Department Budget Summary by Program (in thousands of dollars)

	ACTUAL FY04	ADJUSTED BASE FY05	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY06	FY07	FY06	FY07
1. Investment of funds	\$19,169.4	\$19,390.3	\$19,390.3	\$19,390.3	\$19,390.3	\$19,390.3
TOTALS	19,169.4	19,390.3	19,390.3	19,390.3	19,390.3	19,390.3

Table 4
Department Position Summary by Program (in FTE positions)

	ADJUSTED BASE FY05	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY06	FY07	FY06	FY07
1. Investment of funds	104.50	104.50	104.50	104.50	104.50
TOTALS	104.50	104.50	104.50	104.50	104.50