

INVESTMENT BOARD

GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY21 Adjusted Base	FY22 Recommended	% Change Over FY21	FY23 Recommended	% Change Over FY22
PR-O	67,664,700	67,664,700	0.0	67,664,700	0.0
TOTAL	67,664,700	67,664,700	0.0	67,664,700	0.0

FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY21 Adjusted Base	FY22 Recommended	FTE Change Over FY21	FY23 Recommended	FTE Change Over FY22
PR-O	236.00	236.00	0.00	236.00	0.00
TOTAL	236.00	236.00	0.00	236.00	0.00

AGENCY DESCRIPTION

As of June 30, 2020, the board managed approximately \$126.3 billion in assets. The trust funds of the Wisconsin Retirement System comprise nearly 89 percent of the funds under management at \$112.5 billion in assets. As of December 31, 2019, the Wisconsin Retirement System was the 9th largest public pension fund in the United States and the 25th 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, 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 Teachers 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

To be a trusted and skilled global investment organization contributing to a strong financial future for the beneficiaries of the funds entrusted to the board.

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 help the system 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 while ensuring the safety of principal and liquidity. The investment objective for the small funds is to meet annual fund cash flow requirements, as established by their governing boards.

PERFORMANCE MEASURES

2019 AND 2020 GOALS AND ACTUALS

Prog. No.	Performance Measure	Goal 2019	Actual 2019	Goal 2020	Actual 2020
1.	Investment returns for the core and variable retirement funds exceed market index returns for the asset classes in which the funds are invested on a net basis. ^{1,2,3}	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	<u>Core:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes <u>Variable:</u> 1 Year: No 5 Year: No 10 Year: Yes	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	<u>Core:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes <u>Variable:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes
1.	Long-term investment returns for the core retirement fund meet or exceed the rate of return assumed by Wisconsin Retirement System actuary. ⁴	Net return averages at least 7.2% annually over the long term (ten years)	Met goal CY 2018 ten-year net return was 8.4%	Net return averages at least 7.0% annually over the long term (ten years)	Met goal CY 2019 ten-year net return was 8.2%

Prog. No.	Performance Measure	Goal 2019	Actual 2019	Goal 2020	Actual 2020
1.	Total costs to manage the core retirement fund are reasonable when compared to peer funds with a similar asset mix and size. ⁵	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Met goal CY 2017 cost was 45.4 basis points (45.4 cents per \$100 managed) compared to typical costs of 58.2 basis points	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Met goal CY 2018 cost was 44.7 basis points (44.7 cents per \$100 managed) compared to typical costs of 56.9 basis points
1.	Core retirement fund investment returns are in the top half of its peer group. ⁶	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis	Did not meet goal CY 2018 gross return of 5.17% vs. median of 5.22%	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis	Met goal CY 2019 gross return of 7.84% vs. median of 7.66%
1.	State investment fund returns exceed investment performance benchmarks. ^{1,2}	Exceed benchmarks	1 Year: Yes 5 Year: Yes 10 Year: Yes	Exceed benchmarks	1 Year: Yes 5 Year: Yes 10 Year: Yes

Prog. No.	Performance Measure	Goal 2019	Actual 2019	Goal 2020	Actual 2020
1.	State investment fund returns exceed the median of comparable money market mutual funds. ⁷	Above the median	Exceeded goal For the year ending June 30, 2019, the fund's return of 2.33% compares to the top 1% of money market funds in the Crane Government Money Market Index and top 6% of money market funds in the Crane Taxable Money Fund Index	Above the median	Exceeded goal For the year ended June 30, 2020, the fund's return of 1.45% compares to the top 3% of money market funds in the Crane Government Money Market Index and the top 13% of money market funds in the Crane Taxable Money Fund Index
1.	Meet annual fund cash flow requirements as established by the governing boards for the State Historical Society trust fund, injured patients and families compensation fund, state life insurance fund, local government property insurance fund ⁸ , UW System trust fund, and EdVest tuition trust funds ⁸ .	Meet the cash flow needs of the funds	Met goal	Meet the cash flow needs of the funds	Met goal

Note: Based on fiscal year, except where noted.

¹Returns reported Net of Fee, except where noted.

²Core and Variable Trust Fund official investment performance and measures are reported on a calendar year basis. State Investment Fund official investment performance and measures are reported on a fiscal year basis.

³The goals for this performance measure reflect the prior calendar year.

⁴The assumed rate of return is established by the Employee Trust Funds Board, acting on recommendation of its independent consulting actuary.

⁵As reported by CEM Benchmarking, Inc. Cost-effectiveness reporting is performed on a calendar year basis and is available on annual calendar year lag.

⁶Peer group Public Funds with over \$10 billion in assets compiled by Callan Associates, Inc. Returns measured at Gross of Fee and on an asset allocation adjusted basis.

⁷As measured by the appropriate market index or peer data.

⁸Performance end date for the State of Wisconsin Investment Board's managed local government property insurance fund and EdVest tuition trust funds was July 2019.

2021, 2022 AND 2023 GOALS

Prog. No.	Performance Measure	Goal 2021	Goal 2022	Goal 2023
1.	Investment returns for the core and variable retirement funds exceed market index returns for the asset classes in which the funds are invested on a net basis. ^{1,2}	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis
1.	Long-term investment returns for the core retirement fund meet or exceed the rate of return assumed by Wisconsin Retirement System actuary. ³	Net return averages at least 7.0% annually over the long term ¹ (ten years)	Net return averages at least 7.0% annually over the long term ¹ (ten years)	Net return averages at least 7.0% annually over the long term ¹ (ten years)
1.	Total costs to manage the core retirement fund are reasonable when compared to peer funds with a similar asset mix and size. ⁴	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Total costs are at or below the normal cost paid by peers to manage a similar asset mix
1.	Core retirement fund investment returns are in the top half of its peer group. ⁵	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis
1.	State investment fund returns exceed investment performance benchmarks. ^{1,2}	Exceed benchmarks	Exceed benchmarks	Exceed benchmarks
1.	State investment fund returns exceed the median of comparable money market mutual funds. ⁶	Above the median	Above the median	Above the median

Prog. No.	Performance Measure	Goal 2021	Goal 2022	Goal 2023
1.	Meet annual fund cash flow requirements as established by the governing boards for the State Historical Society trust fund, injured patients and families compensation fund, state life insurance fund, local government property insurance fund, UW System trust funds, and EdVest tuition trust funds.	Meet the cash flow needs of the funds	Meet the cash flow needs of the funds	Meet the cash flow needs of the funds

Note: Based on fiscal year, except where noted.

¹Returns reported Net of Fee, except where noted.

²Core and Variable Trust Fund official investment performance and measures are reported on a calendar year basis. State Investment Fund official investment performance and measures are reported on a fiscal year basis.

³The assumed rate of return is established by the Employee Trust Funds Board, acting on recommendation of its independent consulting actuary.

⁴As reported by CEM Benchmarking, Inc. Cost-effectiveness reporting is performed on a calendar year basis and is available on annual calendar year lag.

⁵Peer group Public Funds with over \$10 billion in assets compiled by Callan Associates, Inc. Returns measured at Gross of Fee and reported on an asset allocation adjusted basis.

⁶As measured by the appropriate market index or peer data.

INVESTMENT BOARD

GOVERNOR'S BUDGET RECOMMENDATIONS

RECOMMENDATIONS

1. University of Wisconsin Working Capital Investments

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

	ACTUAL FY20	ADJUSTED BASE FY21	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY22	FY23	FY22	FY23
PROGRAM REVENUE (2)	\$58,477.5	\$67,664.7	\$67,664.7	\$67,664.7	\$67,664.7	\$67,664.7
State Operations	58,477.5	67,664.7	67,664.7	67,664.7	67,664.7	67,664.7
TOTALS - ANNUAL	\$58,477.5	\$67,664.7	\$67,664.7	\$67,664.7	\$67,664.7	\$67,664.7
State Operations	58,477.5	67,664.7	67,664.7	67,664.7	67,664.7	67,664.7

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

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

	ADJUSTED BASE FY21	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY22	FY23	FY22	FY23
PROGRAM REVENUE (2)	236.00	236.00	236.00	236.00	236.00
TOTALS - ANNUAL	236.00	236.00	236.00	236.00	236.00

(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 FY20	ADJUSTED BASE FY21	AGENCY REQUEST FY22 FY23		GOVERNOR'S RECOMMENDATION FY22 FY23	
1. Investment of funds	\$58,477.5	\$67,664.7	\$67,664.7	\$67,664.7	\$67,664.7	\$67,664.7
TOTALS	\$58,477.5	\$67,664.7	\$67,664.7	\$67,664.7	\$67,664.7	\$67,664.7

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

	ADJUSTED BASE FY21	AGENCY REQUEST FY22 FY23		GOVERNOR'S RECOMMENDATION FY22 FY23	
1. Investment of funds	236.00	236.00	236.00	236.00	236.00
TOTALS	236.00	236.00	236.00	236.00	236.00

(4) All positions are State Operations unless otherwise specified

1. University of Wisconsin Working Capital Investments

The Governor recommends allowing the University of Wisconsin System Board of Regents to designate system revenues that may be invested by the State of Wisconsin Investment Board outside of the state investment fund, under contract with the Board of Regents and according to the Investment Board's general standard of investment prudence. See University of Wisconsin System, Item #5.