



State Investment Fund
ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2017



STATE OF WISCONSIN
INVESTMENT BOARD

Table of Contents

Message from the Portfolio Manager	3
Independent Auditor's Report	4
Management Discussion & Analysis	7
Financial Statements	9
Notes to the Financial Statements	11
Schedule of Investments	17
Agency Information	21

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Message from the **Portfolio Manager**

The State Investment Fund (SIF) is managed by the State of Wisconsin Investment Board and is a pool of cash balances of various state and local governmental units. It includes retirement trust funds, state funds and funds from over 1,300 Wisconsin municipal units that invest in the Local Government Investment Pool (LGIP). The LGIP was created in 1975 to give local governments an additional investment option providing them with liquidity, active management and returns offered by larger investments. The investment objectives of the SIF are to provide safety, liquidity, and competitive rates of return. To meet these objectives, the fund primarily invests in obligations of the U.S. Government and its Agencies, with a small number of investments in bank and corporate debt.

Over the past year, the U.S. presidential elections and concerns over global tensions have impacted the markets. Meanwhile, the U.S. economy has experienced some weakness including low inflation and tepid wage growth. Nevertheless, the economy continued to strengthen, providing the Federal Reserve the opportunity to continue to slowly ease the accommodative policy that has been in place for many years. Consequently, returns on the SIF increased significantly as the Federal Reserve raised the Federal Funds Target Rate three times over the course of the fiscal year.

On the regulatory front, money market reform, which has been discussed in earnest since the global financial crisis, became effective in October 2016. These new regulations place additional restrictions on money market funds including the potential for redemption gates and a required floating net asset value (NAV) for certain prime money market funds. In response to these changes, investments in money market funds shifted from prime to government funds resulting in a 98% increase in government money market funds in the year leading up to the effective date. The increase in government money fund net assets has resulted in higher demand for U.S. Treasury and Agency securities; the same securities that the SIF has always held to meet the SIF's first two investment objectives of safety and liquidity.

In the coming year, the market expects to see the Federal Reserve continue to tighten, while at the same time unwinding some of their balance sheet. After the Federal Reserve's meeting in June, Janet Yellen indicated the Federal Reserve anticipated further federal fund rate increases this year and next. We will continue to position the SIF to best capture the interest rate increases this year and next, while maintaining the SIF's investment objectives of: safety, liquidity, and competitive rates of return.

Andrea Ruiz
Portfolio Manager



Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Michael Williamson, Executive Director and
Members of the Board of Trustees
State of Wisconsin Investment Board

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the State Investment Fund of the State of Wisconsin as of and for the year ended June 30, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management of the State of Wisconsin Investment Board (SWIB) is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on these financial statements.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State Investment Fund as of June 30, 2017, and the respective changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the State Investment Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2017, or the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, which precedes the financial statements, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

Accompanying Information—Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Investment Fund. The Message from the Portfolio Manager and the Schedule of Investments are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2017, on our consideration of SWIB's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other

matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering SWIB's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

December 1, 2017

Management Discussion & Analysis

The State Investment Fund's (SIF) discussion and analysis of the financial activities for the fiscal year ended June 30, 2017, is presented by management as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison of the prior year's activity. The SIF temporarily invests the operating funds of the State of Wisconsin and agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP).

Following this section are the financial statements and notes to the financial statements. The **Statement of Net Position** provides information

on the financial position of the SIF at June 30, 2017. It reflects the investment assets available for use and any liabilities related to the investments. The **Statement of Operations and Changes in Net Position** presents the results of the investing activities for the twelve months ending June 30, 2017. The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the SIF financial statements. Condensed SIF financial information for the fiscal years ending June 30, 2017 and June 30, 2016 is included in the table entitled **SIF Condensed Financial Information**.

Because the SIF is used to temporarily invest participants' operating cash flows, investments are in highly liquid, short-term fixed income

SIF Condensed Financial Information				SIF Annualized Returns (as of June 30)		
Fiscal Year Ended:	2017	2016	Change%	Year(s)	Return%	Benchmark%
Total Assets	\$10,140,419,912	\$9,740,838,899	4.1	One Year:		
Total Liabilities	299,438,808	202,429,667	47.9	2008	4.02	3.20
Net Position	\$ 9,840,981,104	\$9,538,409,232	3.2	2009	1.33	0.81
				2010	0.25	0.15
Investment Income	\$ 58,933,341	\$ 27,265,759	116.1	2011	0.19	0.15
Investment Expenses	1,865,993	1,718,793	8.6	2012	0.14	0.09
State Working Bank Charges	2,855,560	2,724,255	4.8	2013	0.15	0.10
Net Income	\$ 54,211,788	\$ 22,822,711	137.5	2014	0.09	0.06
				2015	0.11	0.05
Average Monthly Balance	\$11,039,423,973	\$8,762,749,707	26.0	2016	0.28	0.19
Weighted Avg. Maturity (WAM)	29	67		2017	0.54	0.57
SIF Ownership:				Multi-Year:		
State of Wisconsin & Agencies	34%	34%		Three Year	0.31	0.27
Wisconsin Retirement System	34%	33%		Five Year	0.23	0.20
Local Govt Investment Pool	32%	33%		Ten Year	0.70	0.53
Total	100%	100%				

Management Discussion & Analysis

securities. At June 30, 2017, SIF Net Position had increased by \$302.6 million or 3.2% from the prior year primarily due to the combined increase in the WRS, the State of Wisconsin and agencies, and the LGIP balances. The SIF Average Monthly Balance increased by \$2.3 billion in fiscal year 2017 compared to fiscal year 2016. The monthly balance peaked at \$13.6 billion in January 2017.

Investment Income increased by \$31.7 million or 116.1% from the previous fiscal year largely due to an increase in the return on investments resulting from an increase in the Federal Funds rate. During fiscal year 2017, the Federal Reserve increased the Federal Funds “target range” from between 0.25% and 0.50% to between 1.00% and 1.25%. As a result, the average Federal Funds effective rate increased

to 0.63% in FY 2017 compared to 0.26% in fiscal year 2016. Accordingly, the one year SIF return increased from 0.28% in the prior fiscal year to 0.54%. Investment Expenses increased by \$147,200 or 8.6% from the prior fiscal year for SWIB’s investment expenses allocated to SIF participants. The increase can be attributed to investment operating services that support the investing activities of the SIF. The weighted average maturity decreased from 67 to 29 days due largely to the decrease in the weighted average maturity of the Government & Agencies securities from 77 days to 33 days. The decrease in the weighted average maturity put the SIF in a position to quickly take advantage of the anticipated increases in the Federal Funds rate.

Financial Statements

State Investment Fund Statement of Net Position As of June 30, 2017		2017
Assets		
Investments		
Repurchase Agreements	\$	1,374,000,000
Government & Agencies		8,534,169,210
Commercial Paper		99,974,862
Certificates of Deposit		121,553,764
Banker's Acceptances		9,222,438
		<hr/>
Total Investments		10,138,920,274
Other Assets		
Accrued Interest Receivable		1,499,638
		<hr/>
Total Assets		10,140,419,912
		<hr/>
Liabilities		
Check Float Invested		292,506,486
Earnings Distribution Payable		6,483,364
Accounts Payable		448,958
		<hr/>
Total Liabilities		299,438,808
		<hr/>
NET POSITION	\$	9,840,981,104
		<hr/>
Net Position consists of:		
Participating Shares	\$	9,842,187,000
Undistributed Unrealized Gains (Losses)		(1,205,896)
		<hr/>
NET POSITION	\$	9,840,981,104
		<hr/>

The accompanying notes are an integral part of this statement.

Financial Statements

State Investment Fund	
Statement of Operations and Changes in Net Position	
For the Fiscal Year Ended June 30, 2017	
2017	
Additions	
Investment Income	
Net Increase (Decrease) in the Fair Value of Investments	\$ 49,559,679
Interest	9,373,662
Total Investment Income	<u>58,933,341</u>
Less	
Investment Expenses	
Management Operating Expenses	1,251,695
Custodial Bank Charges	211,490
Research and Data Services	136,000
Legal and Consulting Fees	94,725
Investment Operating Services	172,083
Total Investment Expenses	<u>1,865,993</u>
Net Investment Income	57,067,348
Less	
State Working Bank Charges	<u>2,855,560</u>
Net Income	54,211,788
Distributions Paid and Payable	<u>55,417,684</u>
End of Period Undistributed Unrealized Gains (Losses)	(1,205,896)
Net Change in Participating Shares	304,727,000
Beginning of Period Participating Shares	<u>9,537,460,000</u>
End of Period Participating Shares	9,842,187,000
NET POSITION	\$ <u>9,840,981,104</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

1. Description of Funds

The State Investment Fund (SIF) pools the cash of the State of Wisconsin and its agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP) into a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. Only State of Wisconsin agencies are required to invest their operating cash in the SIF. In the State’s Comprehensive Annual Financial Report (CAFR), the SIF is not reported as a separate fund; rather, each State fund’s share in the “pool” is reported on the balance sheet as “Cash and Cash Equivalents.” Shares of the SIF belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund. The staff of the State of Wisconsin Investment Board (SWIB) manages the SIF with oversight by the Board of Trustees as authorized in Wisconsin Statutes 25.14 and 25.17. The SWIB is not registered with the SEC as an investment company. The statements are not intended to present the financial activity for the State of Wisconsin as a whole.

Wisconsin Statutes 25.17(3)(b), (ba), (bd), and (dg) enumerate the various types of securities in which the SIF can be invested, which include direct obligations of the United States or its Agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin and banker’s acceptances. The Board of Trustees may specifically approve other prudent legal investments.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the SIF are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB).

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Interest income is accrued as earned.

C. Valuation of Securities

For financial statement purposes, the fair value of securities depends on asset class. Repurchase Agreements and non-negotiable Certificates of Deposit are carried at cost, because they are non-participating contracts that do not capture interest rate changes in their value.

All remaining short-term debt investments (U.S. Government/Agency securities, Banker’s Acceptances, Commercial Paper, and negotiable Certificates of Deposit) are carried at fair value. Because quoted market prices for SIF securities are often not available at month end, BNY Mellon, as SWIB’s custodial bank, compiles fair values from third party pricing services which use matrix pricing models to estimate a security’s fair value.

The table entitled **Summary of Information by Investment Classification** contains summarized SIF information by investment type as of June 30, 2017.

Notes to the Financial Statements

D. Investment Expenses

Investment Expenses are SWIB's administrative and investment costs that are allocated to the SIF participants which consist of management operating expenses, custodial bank charges, research and data services, legal and consulting fees, and investment operating services.

E. State Working Bank Charges

State Working Bank Charges represent charges for various state banking services such as lockbox, ePay, and depository services. These expenses are allocated to SIF participants based on their proportionate usage of banking services and, accordingly, reduce the participant's share of the Net Investment Income.

F. Accounting Changes

Government Accounting Standards Board (GASB) Statement No. 62 defines a change in accounting principle as the adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. This includes the methods of applying the principles. In the fiscal year 2016 SIF financial statements, securities maturing within 90 days were valued at amortized cost, which approximated fair value, and securities with remaining maturities greater than 90 days were valued at fair value. Securities reported in the fiscal year 2017 financial statements are valued at fair value. While both methods are permitted by GASB, the presentation of fair value in the financial statements permits more consistent reporting. The change in method results in a net decrease of \$851,501 in "Total Investments" and a corresponding decrease in "Total Investment Income" for fiscal year 2017. This change had no impact on the SIF's fiscal year 2016 reported "Net Position."

3. SIF Investment Income and Pool Shares

For reporting purposes, as noted in Note 2C,

Summary of Information by Investment Classification June 30, 2017

Investment Type	Maturity Dates	Fair Value
Repurchase Agreements	07/03/17	\$ 1,374,000,000
Government & Agencies	07/03/17 - 07/17/18	8,534,169,210
Certificates of Deposit	07/03/17 - 05/15/18	121,553,764
Banker's Acceptances	07/03/17 - 07/17/17	9,222,438
Commercial Paper	07/06/17 - 07/11/17	99,974,862
Total Investments		<u>\$ 10,138,920,274</u>

investments are valued at fair value. For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, the SIF distributes income to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method does not distribute to participants any unrealized gains or losses generated by the pool's investments. Unrealized gain (losses) are reported in the equity section of the Statement of Net Position as "Undistributed Unrealized Gains (Losses)."

SIF pool shares are bought and redeemed at \$1.00 based on the amortized cost of the investments in the SIF. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares.

4. Deposit and Investment Risk

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. For the SIF, evaluations of levels of diversification; nominal risk exposures including sector, maturity, and interest rate exposures; and risk/return

Notes to the Financial Statements

plots form the core of the monitoring process. In addition, the portfolio is reviewed daily for compliance with investment guidelines. At least quarterly, comprehensive reporting is presented to SWIB's Investment Committee and the Board of Trustees.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the SIF. The Board established SIF investment guidelines with maximum exposure limits by security type based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). The table entitled **Credit Quality Distribution for Securities** displays the credit ratings and aggregate exposures by investment type for the securities held by the SIF as of June 30, 2017.

B. Custodial Credit Risk

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. As of June 30, 2017, the SIF held Certificates of Deposit (CDs) with a value of \$29,950,000 invested pursuant to the Wisconsin Certificate of Deposit Program (administered by Bankers' Bank) established in July 1987. Investment guidelines provide that to be accepted into this program, banks must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits. Concerns and issues are discussed with SWIB's credit task force for further action.

The Federal Deposit Insurance Corporation (FDIC) insures the pro rata share of Certificates of Deposit held by the LGIP up to \$250,000, and the State of Wisconsin appropriation for losses

on public deposits protects a depositing municipality up to \$400,000 if the local governing body has designated the LGIP as a public depository. As of June 30, 2017, \$29,950,000 is insured through FDIC insurance and the State of Wisconsin appropriation for losses on public deposits. The actual coverage of these deposits can fluctuate daily based on the allocable share of participants' accounts.

Credit Quality Distribution for Securities June 30, 2017			
Investment Type	Rating	Fair Value	%
Repurchase Agreements (Collateral):			
U.S. Government and Agencies Debt	AA	\$ 1,374,000,000	13.6
U.S. Treasury:			
Short-Term (Bills and Notes)	A-1+	799,526,599	7.9
Government Sponsored Entity U.S. Agency:			
Federal Home Loan Bank (FHLB)	A-1+	2,564,191,252	25.3
Federal Home Loan Mortgage Corp (FHLMC)	A-1+	2,400,300,805	23.7
Federal Home Loan Mortgage Corp (FHLMC)	AA	25,002,000	0.2
Federal National Mortgage Association (FNMA)	A-1+	2,745,148,554	27.1
Certificates of Deposit:			
Negotiable	A-1+	65,602,874	0.6
Negotiable	A-1	26,000,890	0.3
Non-Negotiable (Wisconsin CD Program)	NR	29,950,000	0.3
Banker's Acceptances	A-1+	9,222,438	0.1
Commercial Paper	A-1+	74,982,133	0.7
Commercial Paper	A-1	24,992,729	0.2
Total Investments		<u>\$ 10,138,920,274</u>	<u>100.0</u>

Notes to the Financial Statements

Investments — Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, SWIB will not be able to recover the value of investments that are in the possession of an outside party. The SIF held four repurchase agreements totaling \$1.37 billion as of June 30, 2017. All the repurchase agreements were tri-party agreements. The underlying securities (collateral) for these repurchase agreements were held by the tri-party's agent, not in SWIB's name.

SWIB's custodial credit risk policy addresses the primary risks associated with safekeeping and custody. It requires that SWIB's custodial institution be selected through a competitive bid process and that the institution be designated a "Systematically Important Financial Institution" by the U.S. Federal Reserve. The policy also requires that SWIB be reflected as beneficial owner on all securities entrusted to the custodian and that SWIB have access to safekeeping and custody accounts. The custodian is also required to be insured for errors and omissions and must provide SWIB with an annual report on internal controls, prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16. Furthermore, SWIB management has established a system of controls for the oversight of services and related processes of the custodian. SWIB's current custodial bank was selected in accordance with these guidelines and meets all requirements stipulated in the custodial credit risk policy.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for U.S. Treasury bills or Agency discount notes. As of June 30, 2017, the SIF had more than five percent of its investments in FNMA (27.1%),

FHLB (25.3%), FHLMC (23.9%), U.S. Treasury (7.9%), and Repurchase Agreement collateral (13.6%) consisting of various securities issued by these same U.S. Agencies. Since the Repurchase Agreements generally mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each day.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The SIF uses the Weighted Average Maturity (WAM) method to analyze interest rate risk and investment guidelines mandate that the weighted average maturity for the entire portfolio will not exceed one year.

Weighted average maturity is the maturity of each position in a portfolio weighted by the dollar value of the position to compute an average maturity for the portfolio as a whole. This measure indicates a portfolio's sensitivity to interest rate changes: a longer weighted average maturity implies greater volatility in response to interest rate changes. Depending on the types of securities held in a fund, certain maturity shortening devices (e.g., interest rate resets, call options, and demand features) are taken into account when calculating the weighted average maturity.

The table entitled **Weighted Average Maturities (WAM) for Securities** presents the aggregated weighted average maturity by investment type for securities held by the SIF at June 30, 2017.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SIF guidelines do not permit investment in foreign denominated securities.

5. Related Party Transactions

Wisconsin Statutes 20.002 (11) provides for the short-term temporary reallocation of surplus

Notes to the Financial Statements

moneys between statutory funds, provided that the borrowing fund anticipates receiving future revenues to pay back the temporary loan. For fiscal year 2017, Section 20.002 (11) (b) 2 provides that General Fund borrowings may not exceed 9% of defined revenues (estimated borrowing cap of \$1.531 billion). Section 20.002 (11) (b) 3 permits an additional temporary allocation not to exceed 3% of defined revenues for a period of up to 30 days (estimated total borrowing cap of \$2.042 billion). Further, Section 20.002 (11) (b) 1 limits the total amount of any temporary reallocations to a fund other than the General Fund to \$400 million. The borrowing fund is charged interest on the inter-fund loan at the SIF monthly interest rate. As of June 30, 2017, the amount of inter-fund borrowings between statutory funds invested in the SIF is listed in the table entitled **Inter-Fund Loans**.

Inter-Fund Loans June 30, 2017	
Fund	Loan Amount
Industrial Building Construction Loan Fund	\$ 1,000
Medical Assistance Trust Fund	120,513,000
Environmental Fund	16,976,000
Recycling & Renewable Energy Fund	1,000
Total Loans	<u>\$ 137,491,000</u>

Weighted Average Maturities (WAM) for Securities June 30, 2017		
Investment Type	Fair Value	WAM (Days)
Repurchase Agreements	\$ 1,374,000,000	3
Government & Agencies	8,534,169,210	33
Certificates of Deposit	121,553,764	41
Banker's Acceptances	9,222,438	10
Commercial Paper	99,974,862	8
Total Investments	<u>\$ 10,138,920,274</u>	
Portfolio Weighted Average Maturity (Days)		<u>29</u>

6. Fair Value Reporting

Fair value measurements of the investments held by the SIF are categorized by the hierarchy established by generally accepted accounting principles. The hierarchy, which has three levels, is based on the valuation inputs used to measure the fair value of the asset.

Level 1 – Investments reflect unadjusted quoted prices in active markets for identical assets.

Level 2 – Investments reflect prices that are based on inputs that are either directly or indirectly observable for an asset (including quoted prices for similar assets), which may include inputs in markets that are not considered to be active.

Level 3 – Investments reflect prices based upon valuation techniques in which significant inputs or significant value drivers are unobservable.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to fair value. The categorization of investments within the

hierarchy is based upon the pricing transparency of the instrument and does not represent the investment's overall risk.

The fair value measurements of investments held by the SIF as of June 30, 2017 are found in the table titled **Investments Measured at Fair Value**.

Securities classified in Level 1 are generally valued at the official closing price

Notes to the Financial Statements

(usually the last trade prices) or the last bid price on the security's primary exchange. Such investments include U.S. Treasury bills and only the most recently-issued U.S. Treasury notes and bonds are classified as Level 1 because available pricing for these securities is similarly reliable to exchange-traded securities.

Securities classified as Level 2 are valued using observable inputs, by third-party pricing services using a matrix-pricing technique. Matrix-pricing is used to value securities based on their relationship to quoted market prices for securities with similar interest rates, maturities, and credit ratings. The majority of debt securities are classified as Level

2 because they are generally traded using a dealer market, with lower trading volumes than Level 1 securities.

Level 3 investments are generally valued using significant outputs that are unobservable to the marketplace. Banker's Acceptances included in Level 3 represent securities that derive their fair value from cost. Typically, due to their short-term nature, cost approximates fair value for these investments.

Investments held at cost (Repurchase Agreements and non-negotiable Certificates of Deposit) are not reported within the fair value hierarchy.

Investments Measured at Fair Value June 30, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by Fair Value Level:				
Government & Agencies	\$ 599,573,600	\$7,934,595,610		\$ 8,534,169,210
Commercial Paper		99,974,862		99,974,862
Certificates of Deposit (negotiable)		91,603,764		91,603,764
Banker's Acceptances			\$ 9,222,438	9,222,438
Total Investments by Fair Value Level	\$ 599,573,600	\$8,126,174,236	\$ 9,222,438	\$ 8,734,970,274
Short-term Investments Reported at Cost				
Repurchase Agreements				\$ 1,374,000,000
Certificates of Deposit (non-negotiable)				29,950,000
Total Investments				\$ 10,138,920,274



State Investment Fund
SCHEDULE OF INVESTMENTS

Fiscal Year Ended June 30, 2017



REPURCHASE AGREEMENTS

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
CREDIT AGRICOLE TRIPARTY	1.06	7/3/2017	321,000,000
DAIWA TRIPARTY	1.10	7/3/2017	475,000,000
JEFFERIES TRIPARTY	1.20	7/3/2017	458,000,000
MITSUBISHI TRIPARTY	1.02	7/3/2017	120,000,000
TOTAL REPURCHASE AGREEMENTS.....			1,374,000,000

GOVERNMENTS & AGENCIES

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
FHLB	DISCOUNT	7/3/2017	302,390,000
FHLB	DISCOUNT	7/5/2017	19,098,854
FHLB	DISCOUNT	7/7/2017	69,567,347
FHLB	DISCOUNT	7/11/2017	49,989,000
FHLB	DISCOUNT	7/14/2017	99,969,000
FHLB	DISCOUNT	7/19/2017	99,956,000
FHLB	DISCOUNT	7/21/2017	64,967,500
FHLB	DISCOUNT	7/24/2017	249,855,000
FHLB	DISCOUNT	7/25/2017	24,984,750
FHLB	DISCOUNT	7/28/2017	140,902,710
FHLB	DISCOUNT	8/1/2017	214,523,946
FHLB	DISCOUNT	8/2/2017	249,787,500
FHLB	DISCOUNT	8/3/2017	104,907,600
FHLB	DISCOUNT	8/4/2017	149,863,500
FHLB	DISCOUNT	8/9/2017	47,050,545
FHLB	DISCOUNT	8/11/2017	142,842,700
FHLB	DISCOUNT	8/16/2017	49,937,500
FHLB	DISCOUNT	8/17/2017	1,997,460
FHLB	DISCOUNT	8/18/2017	49,935,000
FHLB	DISCOUNT	8/23/2017	24,964,000
FHLB	DISCOUNT	8/25/2017	4,992,500
FHLB	DISCOUNT	8/30/2017	24,959,000
FHLB	DISCOUNT	9/5/2017	24,954,250
FHLB	DISCOUNT	9/15/2017	26,194,350
FHLB	DISCOUNT	9/19/2017	26,939,790
FHLB	DISCOUNT	11/7/2017	24,905,750
FHLB	DISCOUNT	11/9/2017	49,808,500
FHLB	DISCOUNT	11/22/2017	19,915,600
FHLB	DISCOUNT	11/28/2017	24,890,000
FHLB	DISCOUNT	12/1/2017	159,248,000
FHLB	DISCOUNT	12/21/2017	19,893,600
FHLMC	DISCOUNT	7/3/2017	165,000,000
FHLMC	DISCOUNT	7/5/2017	123,992,560
FHLMC	DISCOUNT	7/7/2017	96,589,374
FHLMC	1.00	7/7/2017	500,005
FHLMC	DISCOUNT	7/12/2017	124,968,750
FHLMC	DISCOUNT	7/13/2017	97,972,560
FHLMC	0.75	7/14/2017	4,359,564
FHLMC	DISCOUNT	7/17/2017	78,827,245

SECURITY NAME	COUPON RATE	MATURITY		FAIR VALUE
		DATE		
FHLMC	DISCOUNT	7/19/2017		154,931,800
FHLMC	DISCOUNT	7/20/2017		199,545,170
FHLMC	DISCOUNT	7/24/2017		74,956,500
FHLMC	DISCOUNT	7/26/2017		234,929,549
FHLMC	DISCOUNT	7/27/2017		109,930,297
FHLMC	1.00	7/28/2017		36,617,901
FHLMC	DISCOUNT	8/1/2017		319,737,600
FHLMC	DISCOUNT	8/14/2017		699,167
FHLMC	0.85	8/14/2017		7,497,975
FHLMC	DISCOUNT	8/18/2017		9,820,217
FHLMC	5.50	8/23/2017		1,509,090
FHLMC	DISCOUNT	8/24/2017		49,926,500
FHLMC	DISCOUNT	8/28/2017		149,761,500
FHLMC	DISCOUNT	9/1/2017		99,828,000
FHLMC	DISCOUNT	9/18/2017		99,780,000
FHLMC	DISCOUNT	9/22/2017		106,183,082
FHLMC	1.00	9/29/2017		2,616,398
FHLMC	DISCOUNT	11/1/2017		49,820,000
FHLMC	VARIABLE	7/17/2018		25,002,000
FNMA	DISCOUNT	7/3/2017		802,500,000
FNMA	DISCOUNT	7/5/2017		383,080,014
FNMA	DISCOUNT	7/7/2017		139,985
FNMA	DISCOUNT	7/12/2017		296,712,803
FNMA	DISCOUNT	7/17/2017		145,490,237
FNMA	DISCOUNT	7/19/2017		107,052,876
FNMA	DISCOUNT	7/24/2017		9,444,519
FNMA	DISCOUNT	7/26/2017		105,132,672
FNMA	DISCOUNT	7/31/2017		999,220
FNMA	DISCOUNT	8/1/2017		42,824,855
FNMA	DISCOUNT	8/2/2017		59,295,556
FNMA	DISCOUNT	8/9/2017		111,393,913
FNMA	DISCOUNT	8/16/2017		304,618,750
FNMA	DISCOUNT	8/23/2017		202,607,824
FNMA	0.88	8/28/2017		21,733,825
FNMA	1.00	8/28/2017		399,968
FNMA	DISCOUNT	9/11/2017		21,150,799
FNMA	1.00	9/27/2017		1,044,739
FNMA	DISCOUNT	9/27/2017		74,815,500
FNMA	DISCOUNT	10/6/2017		4,986,000
FNMA	DISCOUNT	12/27/2017		49,724,500
TREASURY BILL	DISCOUNT	7/6/2017		99,994,000
TREASURY BILL	DISCOUNT	7/13/2017		24,994,750
TREASURY BILL	DISCOUNT	7/20/2017		199,926,000
TREASURY BILL	DISCOUNT	8/17/2017		194,779,650
TREASURY BILL	DISCOUNT	8/31/2017		79,879,200
TREASURY NOTE	0.88	7/15/2017		149,983,497
TREASURY NOTE	0.88	10/15/2017		49,969,502

TOTAL GOVERNMENTS & AGENCIES..... 8,534,169,210

CERTIFICATES OF DEPOSIT (CDs)

SECURITY NAME	COUPON RATE	MATURITY		FAIR VALUE
		DATE		
ROYAL BANK OF CANADA	VARIABLE	7/3/2017		6,000,180

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
SUMITOMO MITSUI BANKING CORP	VARIABLE	7/3/2017	25,001,000
TORONTO DOMINION BANK	VARIABLE	7/12/2017	400,060
TORONTO DOMINION BANK	1.20	7/13/2017	6,899,931
US BANK NATIONAL	0.85	7/13/2017	29,997,300
TORONTO DOMINION BANK	VARIABLE	7/17/2017	10,002,000
BANKERS' BANK	0.80	7/17/2017	1,800,000
TORONTO DOMINION BANK	1.18	8/3/2017	1,599,952
TORONTO DOMINION BANK	VARIABLE	8/7/2017	2,000,540
TORONTO DOMINION BANK	1.33	8/9/2017	1,000,110
TORONTO DOMINION BANK	VARIABLE	8/10/2017	2,001,080
TORONTO DOMINION BANK	1.33	8/11/2017	4,000,480
TORONTO DOMINION BANK	VARIABLE	8/15/2017	1,701,241
BANKERS' BANK	0.80	8/15/2017	500,000
BANKERS' BANK	1.00	8/15/2017	7,750,000
BANK OF MONTREAL	1.18	8/17/2017	999,890
BANKERS' BANK	1.00	9/15/2017	2,000,000
BANKERS' BANK	1.10	9/15/2017	4,500,000
BANKERS' BANK	1.20	11/15/2017	400,000
BANKERS' BANK	1.00	12/15/2017	4,000,000
BANKERS' BANK	1.30	12/15/2017	1,500,000
BANKERS' BANK	1.00	1/16/2018	3,500,000
BANKERS' BANK	1.00	2/15/2018	1,000,000
BANKERS' BANK	1.40	3/15/2018	1,000,000
BANKERS' BANK	1.50	5/15/2018	2,000,000
TOTAL CERTIFICATES OF DEPOSIT.....			121,553,764

BANKER'S ACCEPTANCE (BA)

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
US BANK NA	DISCOUNT	7/3/2017	1,996,315
US BANK NA	DISCOUNT	7/5/2017	2,466,869
US BANK NA	DISCOUNT	7/10/2017	967,986
US BANK NA	DISCOUNT	7/17/2017	3,791,268
TOTAL BANKER'S ACCEPTANCES.....			9,222,438

COMMERCIAL PAPER

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
JOHNSON & JOHNSON	DISCOUNT	7/6/2017	24,995,546
WAL-MART STORES INC	DISCOUNT	7/7/2017	24,994,799
TOYOTA MOTOR CREDIT CORP	DISCOUNT	7/10/2017	24,992,729
WAL-MART STORES INC	DISCOUNT	7/11/2017	24,991,788
TOTAL COMMERCIAL PAPER.....			99,974,862

GRAND TOTAL STATE INVESTMENT FUND..... 10,138,920,274

Agency Information

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