

## INVESTMENT BOARD

### GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY03 Adjusted Base	FY04 Recommended	% Change Over FY03	FY05 Recommended	% Change Over FY04
PR-O	17,720,500	17,720,500	0.0	17,720,500	0.0
TOTAL	17,720,500	17,720,500	0.0	17,720,500	0.0

### FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY03 Adjusted Base	FY04 Recommended	FTE Change From FY03	FY05 Recommended	FTE Change From FY04
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, 2002, the board managed over \$61 billion in assets. The trust funds of the Wisconsin Retirement System, which serves over 492,000 current or former employees of the state and most local governments, comprises over 89 percent of the funds under management. With assets over \$54 billion, the Wisconsin Retirement System is currently the tenth largest public pension fund in the United States and the 19th 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 1,000 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 are 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 professional investment experience.

One is a member representing a local government that participates in the board-managed 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 also meet prescribed statutory eligibility criteria.

Two of the members must be Wisconsin Retirement System participants. One of these members 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 Wisconsin Retirement System to meet pension obligations to current and future beneficiaries. Successful investment performance reduces the amount that taxpayers contribute to the funding of Wisconsin Retirement 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 the governing boards.

## PERFORMANCE MEASURES

### HISTORICAL DATA

Prog. No.	Performance Measure	Actual 2000
1.	Five and ten year fixed fund returns averaging at least eight percent annually over the long term. <sup>1</sup>	Exceeded 14.7% 5 yr. 12.7% 10 yr.
1.	Retirement fund one, five and ten year returns that exceed performance benchmarks (determined by the board's benchmark setting process). <sup>2</sup>	Exceeded 1, 5, and 10 year
1.	Fixed fund performance ranking above the median return for public pension fund peers. <sup>3</sup>	Exceeded 1 year, slightly lagged 5 and 10 year <sup>4</sup>
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.	15 basis points <sup>5</sup>
1.	State investment fund returns that exceed performance benchmarks (determined by the board's benchmark setting process). <sup>2</sup>	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
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

Note: Based on fiscal year.

<sup>1</sup>The 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.

<sup>2</sup>This measure will continue to demonstrate the value the board is able to add above market rates of return.

<sup>3</sup>Develop return comparisons on a risk-adjusted basis.

<sup>4</sup>The 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.

<sup>5</sup>As measured by cost effectiveness measurement, the board's 1999 total cost of management was 15¢ per \$100 managed (15 basis points). This compares favorably to 19¢ per \$100 managed (19 basis point), the cost which would be expected for a pension fund, given the board's asset mix.

## 2001 AND 2002 GOALS AND ACTUALS

Prog. No.	Performance Measure	Goal 2001	Actual 2001	Goal 2002	Actual 2002
1.	Five and ten year fixed fund returns averaging at least eight percent annually over the long term. <sup>1</sup>	In excess of 8%	Exceeded 10.3% 5 yr. 11.4% 10 yr.	In excess of 8%	Exceeded 9.5% 10 yr.
1.	Retirement fund one, five and ten year returns that exceed performance benchmarks (determined by the board's benchmark setting process). <sup>2</sup>	Exceed	Exceeded	Exceed	Exceeded
1.	Fixed fund performance ranking above the median return for public pension fund peers. <sup>3</sup>	Above the median	Exceeded 1 and 10 year, slightly lagged 5 year <sup>4</sup>	Above the median	Exceeded 1, 5 and 10 year <sup>7</sup>
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.	Cost of operations typical	17 basis points <sup>5</sup>	Cost of operations typical	22 basis points <sup>8</sup>
1.	State investment fund returns that exceed performance benchmarks (determined by the board's benchmark setting process). <sup>2</sup>	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.	Rank above the median return	Superior ranking in top percentile return <sup>6</sup>	Rank above the median return	Superior ranking in top percentile return <sup>9</sup>
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 cash flow needs for each of these funds

Note: Based on fiscal year.

<sup>1</sup>The 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.

<sup>2</sup>This measure will continue to demonstrate the value the board is able to add above market rates of return.

<sup>3</sup>Develop return comparisons on a risk-adjusted basis.

<sup>4</sup>As measured by the Trust Universe Comparison Service.

<sup>5</sup>As measured by Cost Effectiveness Measurement, the board's 2001 total cost of management was 17¢ per \$100 managed. This is less than the 19¢ per \$100 managed cost expected for a pension fund with the board's asset mix.

<sup>6</sup>The 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.

<sup>7</sup>The 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.

<sup>8</sup>As measured by Cost Effectiveness Measurement, the board's total cost of management was 22¢ per \$100 managed. This compares favorably to 27¢ per \$100 managed (27 basis points), the cost which would be expected for a pension fund, given the board's asset mix.

<sup>9</sup>The 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, 2004 AND 2005 GOALS

Prog. No.	Performance Measure	Goal 2003	Goal 2004	Goal 2005
1.	Five and ten year fixed fund returns averaging at least eight percent annually over the long term. <sup>1</sup>	In excess of 8%	In excess of 8%	In excess of 8%
1.	Retirement fund one, five and ten year returns that exceed performance benchmarks (determined by the board's benchmark setting process). <sup>2</sup>	Exceed	Exceed	Exceed
1.	Fixed fund performance ranking above the median return for public pension fund peers. <sup>3</sup>	Above the median	Above the median	Above the median
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.	Cost of operations typical	Cost of operations typical	Cost of operations typical
1.	State investment fund returns that exceed performance benchmarks (determined by the board's benchmark setting process). <sup>2</sup>	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 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	Meet the cash flow needs of these funds	Meet the cash flow needs of these funds

Note: Based on fiscal year.

<sup>1</sup>The 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.

<sup>2</sup>This measure will continue to demonstrate the value the board is able to add above market rates of return.

<sup>3</sup>Develop return comparisons on a risk-adjusted basis.

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

	ACTUAL FY02	ADJUSTED BASE FY03	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY04	FY05	FY04	FY05
PROGRAM REVENUE (2)	\$15,654.4	\$17,720.5	\$17,720.5	\$17,720.5	\$17,720.5	\$17,720.5
State Operations	15,654.4	17,720.5	17,720.5	17,720.5	17,720.5	17,720.5
TOTALS-ANNUAL	15,654.4	17,720.5	17,720.5	17,720.5	17,720.5	17,720.5
State Operations	15,654.4	17,720.5	17,720.5	17,720.5	17,720.5	17,720.5

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

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

	ADJUSTED BASE FY03	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY04	FY05	FY04	FY05
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 FY02	ADJUSTED BASE FY03	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY04	FY05	FY04	FY05
1. Investment of funds	\$15,654.4	\$17,720.5	\$17,720.5	\$17,720.5	\$17,720.5	\$17,720.5
TOTALS	15,654.4	17,720.5	17,720.5	17,720.5	17,720.5	17,720.5

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

	ADJUSTED BASE FY03	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY04	FY05	FY04	FY05
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

(4) All positions are State Operations unless otherwise specified