

## INVESTMENT BOARD

### GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY11 Adjusted Base	FY12 Recommended	% Change Over FY11	FY13 Recommended	% Change Over FY12
PR-O	30,022,600	28,888,600	-3.8	28,888,600	0.0
TOTAL	30,022,600	28,888,600	-3.8	28,888,600	0.0

### FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY11 Adjusted Base	FY12 Recommended	FTE Change From FY11	FY13 Recommended	FTE Change From FY12
PR-O	124.25	124.25	0.00	124.25	0.00
TOTAL	124.25	124.25	0.00	124.25	0.00

### AGENCY DESCRIPTION

As of June 30, 2010, the board managed approximately \$74.4 billion in assets. The trust funds of the Wisconsin Retirement System comprise nearly 93 percent of the funds under management. With assets over \$69.2 billion, the Wisconsin Retirement System is currently the 9th largest public pension fund in the United States and the 28th 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 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

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 help 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 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

### 2009 AND 2010 GOALS AND ACTUALS

Prog. No.	Performance Measure	Goal 2009	Actual 2009	Goal 2010	Actual 2010
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.	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	<u>Core:</u> 1 Year: No 5 Year: No 10 Year: Yes  <u>Variable:</u> 1 Year: Yes 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: No 10 Year: Yes  <u>Variable:</u> 1 Year: Yes 5 Year: No 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. <sup>1</sup>	Return averages at least 7.8% annually over the long term	Did not exceed goal due to extreme market downturn in FY09; ten-year return was 3.6%	Return averages at least 7.8% annually over the long term	Did not exceed goal due to extreme market downturn in FY09; ten-year return was 3.7%

Prog. No.	Performance Measure	Goal 2009	Actual 2009	Goal 2010	Actual 2010
1.	Total costs to manage the core retirement fund are reasonable when compared to peer funds with a similar asset mix and size. <sup>2</sup>	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix	Met goal CY 2008 cost was 35.3 basis points (35.3 cents per \$100 managed) compared to typical costs of 39.8 basis points <sup>2</sup>	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix	Met goal CY 2009 cost was 42.6 basis points (42.6 cents per \$100 managed) compared to typical costs of 45.3 basis points <sup>2</sup>
1.	Core retirement fund net investment returns are in the top half of its peer group. <sup>3,4</sup>	Core fund's net five-year investment return exceeds the peer group median on an absolute and risk adjusted basis	Nearly met goal Five-year in top 46% and ten-year in top 35% of peer group as of December 31, 2008 <sup>3</sup> Five-year risk adjusted return ranked 7th out of 10 funds in the peer group as of December 31, 2008 <sup>4</sup>	Core fund's net five-year investment return exceeds the peer group median on an absolute and risk adjusted basis	Met goal Five-year in top 25% and ten-year in top 26% of peer group as of December 31, 2009 <sup>3</sup> Five-year risk adjusted return ranked 4th out of 10 funds in the peer group as of December 31, 2009 <sup>4</sup>
1.	State investment fund returns exceed investment performance benchmarks.	Exceed	Exceeded one-, five- and ten-year investment benchmarks	Exceed	Exceeded one-, five- and ten-year investment benchmarks
1.	State investment fund returns exceed the median of comparable money market mutual funds. <sup>5</sup>	Above the median	Exceeded goal Return ranked 2nd out of 189 government funds and 302nd compared to 1,154 taxable funds as of December 31, 2008	Above the median	Exceeded goal Return ranked 1st out of 177 government funds and 84th compared to 1,094 taxable funds as of December 31, 2009

Prog. No.	Performance Measure	Goal 2009	Actual 2009	Goal 2010	Actual 2010
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 property insurance fund and the EdVest tuition trust fund.	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.

<sup>1</sup>As assumed by the actuary.

<sup>2</sup>As reported by CEM Benchmarking, Inc. (CY 2009 data is preliminary).

<sup>3</sup>Trust Universe Comparison Service data for public funds with over \$1 billion in assets (not risk adjusted).

<sup>4</sup>Peer group selected by the Legislative Audit Bureau.

<sup>5</sup>As measured by the iMoneyNet Government Index and All Taxable Money Market Index.

### 2011, 2012 AND 2013 GOALS

Prog. No.	Performance Measure	Goal 2011	Goal 2012	Goal 2013
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.	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. <sup>1</sup>	Return averages at least 7.8% annually over the long term	Return averages at least 7.8% annually over the long term	Return averages at least 7.8% annually over the long term
1.	Total costs to manage the core retirement fund are reasonable when compared to peer funds with a similar asset mix and size. <sup>2</sup>	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix
1.	Core retirement fund net investment returns are in the top half of its peer group. <sup>3,4</sup>	Core fund's net five-year investment return exceeds the peer group median on an absolute and risk adjusted basis	Core fund's net five-year investment return exceeds the peer group median on an absolute and risk adjusted basis	Core fund's net five-year investment return exceeds the peer group median on an absolute and risk adjusted basis

Prog. No.	Performance Measure	Goal 2011	Goal 2012	Goal 2013
1.	State investment fund returns exceed investment performance benchmarks.	Exceed	Exceed	Exceed
1.	State investment fund returns exceed the median of comparable money market mutual funds. <sup>5</sup>	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 property insurance fund and the EdVest tuition trust fund.	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.

<sup>1</sup>As assumed by the actuary.

<sup>2</sup>As reported by CEM Benchmarking, Inc.

<sup>3</sup>Trust Universe Comparison Service data for public funds with over \$1 billion in assets (not risk adjusted).

<sup>4</sup>Peer group selected by the Legislative Audit Bureau.

<sup>5</sup>As measured by the iMoneyNet Government Index and All Taxable Money Market Index.

## **INVESTMENT BOARD**

### **GOVERNOR'S BUDGET RECOMMENDATIONS**

#### **RECOMMENDATIONS**

1. Increase Employee Contributions to Pension and Health Insurance

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

	ACTUAL FY10	ADJUSTED BASE FY11	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY12	FY13	FY12	FY13
PROGRAM REVENUE (2)	\$27,651.9	\$30,022.6	\$30,022.6	\$30,022.6	\$28,888.6	\$28,888.6
State Operations	27,651.9	30,022.6	30,022.6	30,022.6	28,888.6	28,888.6
TOTALS - ANNUAL	\$27,651.9	\$30,022.6	\$30,022.6	\$30,022.6	\$28,888.6	\$28,888.6
State Operations	27,651.9	30,022.6	30,022.6	30,022.6	28,888.6	28,888.6

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

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

	ADJUSTED BASE FY11	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY12	FY13	FY12	FY13
PROGRAM REVENUE (2)	124.25	124.25	124.25	124.25	124.25
TOTALS - ANNUAL	124.25	124.25	124.25	124.25	124.25

(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 FY10	ADJUSTED BASE FY11	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY12	FY13	FY12	FY13
1. Investment of funds	\$27,651.9	\$30,022.6	\$30,022.6	\$30,022.6	\$28,888.6	\$28,888.6
TOTALS	\$27,651.9	\$30,022.6	\$30,022.6	\$30,022.6	\$28,888.6	\$28,888.6

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

	ADJUSTED BASE FY11	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY12	FY13	FY12	FY13
1. Investment of funds	124.25	124.25	124.25	124.25	124.25
TOTALS	124.25	124.25	124.25	124.25	124.25

(4) All positions are State Operations unless otherwise specified

### 1. Increase Employee Contributions to Pension and Health Insurance

Source of Funds	Agency Request				Governor's Recommendation			
	FY12		FY13		FY12		FY13	
	Dollars	Positions	Dollars	Positions	Dollars	Positions	Dollars	Positions
PR-O	0	0.00	0	0.00	-1,134,000	0.00	-1,134,000	0.00
TOTAL	0	0.00	0	0.00	-1,134,000	0.00	-1,134,000	0.00

The Governor recommends increasing state employee contributions towards pension and health insurance costs. Employees will generally pay 50 percent of the total required retirement contribution, which for calendar year 2011 equals 5.8 percent of salary. The Governor further recommends increasing employee contributions for health insurance from approximately 6 percent of the premium to 12.6 percent of the premium. These modifications are necessary to bring state employee compensation in line with private sector employment and reduce compensation costs.