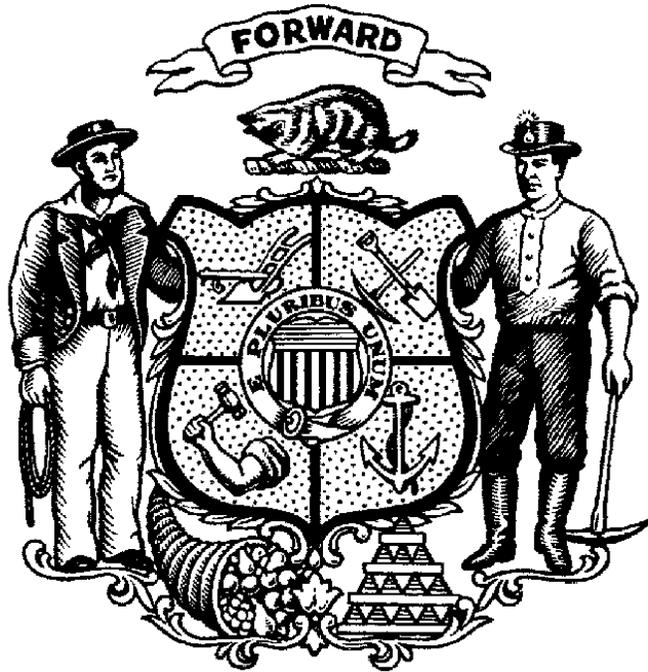


State of Wisconsin

Investment Board



Agency Budget Request
2013 – 2015 Biennium
September 17, 2012

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State of Wisconsin Investment Board

P.O. Box 7842, Madison WI 53707-7842 (608) 266-2381

MEMORANDUM

Date: September 15, 2012

To: Michael Huebsch, Secretary
David Schmiedicke, State Budget Director
Department of Administration

Robert Lang, Director
Legislative Fiscal Bureau

From: Michael Williamson, Executive Director 
Investment Board

Re: **2013-15 Biennial Budget Request**

Attached is SWIB's budget submission for the 2013-15 biennium. Our budget is funded entirely by charges to the funds under management (program revenue) and we seek no increase in budget authority or staff positions. Under Wis. Stats. 25.187(2)(b), the Board of Trustees may establish the operating budget each fiscal year and monitor the fiscal management of the operating budget. The annual operating budget is developed with SWIB's short- and long-term investment strategies in mind.

Performance Goals and Achievements

Despite the financial turbulence of the past several years that has had a major impact on many public pension systems, SWIB has surpassed most performance goals set in our 2011-13 biennial budget request. SWIB has added new staff and technology, improved the selection and oversight of external money managers, managed more money internally at less cost, and implemented new ways to manage risk while generating added returns. The result has been favorable returns for the funds under SWIB's management including the Wisconsin Retirement System (WRS), which accounts for the largest portion (93%) of assets managed by SWIB. Over 75% of the WRS is funded today through investment returns. SWIB's solid investment returns are just one reason the WRS has been able to weather much of the recent financial storm and why the system is, according to the Pew Center on States, the only fully-funded public pension plan in the country.

SWIB's goals for the next biennium include continuing to realize external asset manager fee savings by using less expensive internal management where it makes sense and to further monitor and reduce volatility of assets under management.

Increased Budget Flexibility Leads to Cost Savings

With the support of the Governor and the Legislature, SWIB has had the flexibility to build a stronger internal management program, which is providing a significant financial benefit to the retirement system. Since the policy was initiated, SWIB has saved money by increasing internal management of WRS assets from 21% in 2007 to about 55% in 2012, transferring over \$21 billion to internal

management. If these assets were managed externally, it would cost the WRS \$39.9 million more per year. In addition, managing more investments internally has resulted in investment jobs being created in Wisconsin rather than paying fees to out-of-state investment firms.

Implementing Investment Strategies and Managing Risk

SWIB's overall investment decisions are based on selecting the best opportunities for meeting the long-term investment strategies of the WRS and the other funds managed. Overall, staying the course is especially crucial during volatile markets and has proven to be the best overall strategy for long-term investors such as SWIB. However, SWIB is also using new investment strategies to help stabilize returns and, in turn, contribution rates and pension adjustments. Asset allocation and investment diversification are key components of SWIB's long-term investment strategy. SWIB will continue to implement diverse investment strategies that are designed to help the system withstand the extreme volatility of the world's financial markets.

When economically appropriate, SWIB continues to invest in Wisconsin businesses ranging from small, family-owned companies to billion-dollar manufacturers with worldwide sales. For the fiscal year ending June 30, 2011, SWIB held assets of over \$636 million in companies headquartered in Wisconsin or with significant operations in the state.

SWIB will continue to be diligent in our efforts to keep the WRS system stable and highly funded.

We look forward to working with your staff as the budget progresses. If you have any questions please contact Lori Wersal at 266-2042.

AGENCY DESCRIPTION

As of June 30, 2012, the Board managed approximately \$86.5 billion in assets. The trust funds of the Wisconsin Retirement System (WRS) comprise nearly 93 percent of the funds under management. With assets over \$80.3 billion, the Wisconsin Retirement System is currently the 9th largest public pension fund in the United States and the 30th 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 WRS 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 WRS participants. One member is appointed by the Teachers Retirement Board from among WRS teacher participants and the other is appointed by the Wisconsin Retirement Board from among WRS non-teacher 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

FY 2011 and FY 2012 Goals and Actuals

Prog. No.	Performance Measure	Goal FY 2011	Actual FY 2011	Goal FY 2012	Actual FY 2012
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: Yes 5 Year: No 10 Year: Yes <u>Variable:</u> 1 Year: Yes 5 Year: No 10 Year: No	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: Yes 10 Year: No
1.	Long-term investment returns for the Core Retirement Fund meet or exceed the rate of return assumed by Wisconsin Retirement System actuary.	Return averages at least 7.8% annually over the long term ¹ (ten years)	Did not meet goal due to significant market declines in 2008. Ten-year net return was 6.2%.	Return averages at least 7.8% annually over the long term ¹ (ten years)	Nearly met adjusted actuary return of 7.2%. Ten-year net return was 6.9%
1.	Total costs to manage the Core Retirement Fund are reasonable when compared to peer funds with a similar asset mix and size. ²	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix	Met goal. CY 2010 cost was 38.0 basis points (38.0 cents per \$100 managed) compared to typical costs of 42.0 basis points. ²	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix	Met goal. CY 2011 cost was 37.9 basis points (37.9 cents per \$100 managed) compared to typical costs of 40.9 basis points. ²
1.	Core Retirement Fund net investment returns are in the top half of its peer group. ^{3,4}	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 36% and ten-year in top 24% of peer group as of December 31, 2010. ³ Five-year risk adjusted return ranked 5 th out of 10 funds in the peer group as of December 31, 2010. ⁴	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 44% and ten-year in top 31% of peer group as of December 31, 2011. ³ Five-year risk adjusted return in the top 36% of peer group as of December 31, 2011. ⁴
1.	State Investment Fund returns exceed investment performance benchmarks.	Exceed	Exceeded one-, five-, and ten-year investment benchmarks.	Exceed	Matched one-year and exceeded five- and ten-year investment

Prog. No.	Performance Measure	Goal FY 2011	Actual FY 2011	Goal FY 2012	Actual FY 2012
					benchmarks.
1.	State Investment Fund returns exceed the median of comparable money market mutual funds. ⁵	Above the median	Exceeded goal. SIF return ranked first out of 186 government funds and 18 th compared to 1,069 taxable funds as of December 31, 2010.	Above the median	Exceeded goal. SIF return ranked first out of 185 government funds and 23 rd compared to 1,082 taxable funds as of December 31, 2011.
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.

¹As assumed by the actuary. Note: the assumed rate was changed from 7.8% to 7.2% in January 2010.

²As reported by CEM Benchmarking, Inc. (CY 2011 data is preliminary)

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

⁴Peer group selected by the Legislative Audit Bureau. The Legislative Audit Bureau selected peer group was replaced by a peer group compiled by Callan Associates, Inc. during 2011.

⁵As measured by the iMoneyNet Government Index and All Taxable Money Market Index.

FY 2013, FY 2014 and FY 2015 Goals

Prog. No.	Performance Measure	Goal FY 2013	Goal FY 2014	Goal FY 2015
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	Same	Same
1.	Long-term investment returns for the Core Retirement Fund meet or exceed the rate of return assumed by Wisconsin Retirement System actuary.	Return averages at least 7.2% annually over the long term ¹ (ten years)	Same	Same
1.	Total costs to manage the Core Retirement Fund are reasonable when compared to peer funds with a similar asset mix and size. ²	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix	Same	Same
1.	Core Retirement Fund investment returns are in the top half of its peer group. ^{3,4}	Core Fund's five-year investment return exceeds the peer group median on an absolute and risk adjusted basis	Same	Same
1.	State Investment Fund returns exceed investment performance benchmarks.	Exceed	Same	Same
1.	State Investment Fund returns exceed the median of comparable money market mutual funds. ⁵	Above the median	Same	Same
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	Same	Same

Note: Based on fiscal year, except where noted.

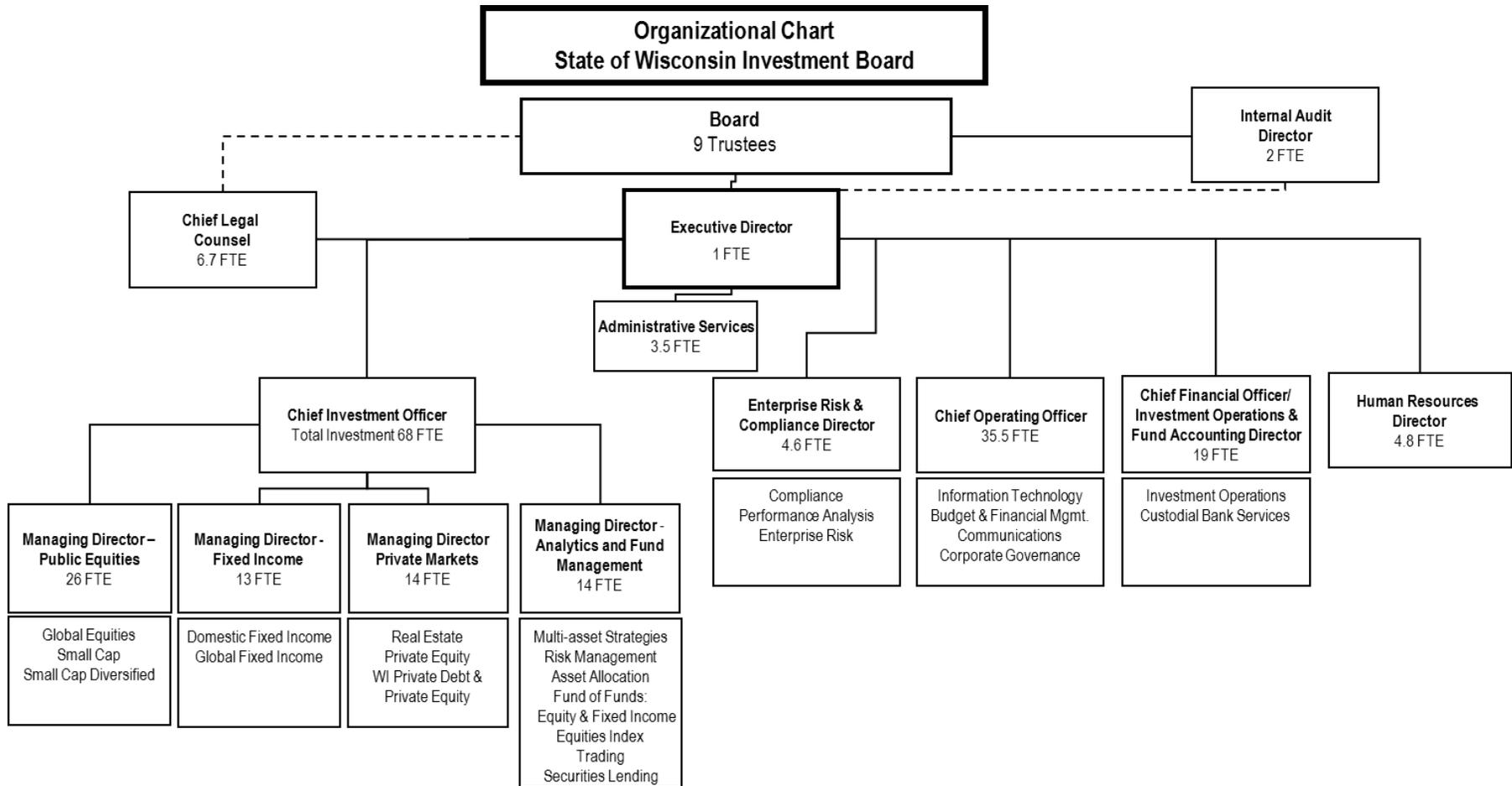
¹As assumed by the actuary.

²As reported by CEM Benchmarking, Inc.

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

⁴Peer group compiled by Callan Associates, Inc.

⁵As measured by the iMoneyNet Government Index and All Taxable Money Market Index.



Agency Total by Fund Source

Investment Board

1315 Biennial Budget

		ANNUAL SUMMARY					BIENNIAL SUMMARY				
Source of Funds		Prior Year Total	Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %
PR	S	\$28,710,191	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.0%
Total		\$28,710,191	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.0%
Grand Total		\$28,710,191	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.0%

Agency Total by Program

536 Investment Board

1315 Biennial Budget

Source of Funds	ANNUAL SUMMARY						BIENNIAL SUMMARY			
	Prior Year Actual	Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %
01 INVESTMENT OF FUNDS										
Non Federal										
PR	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
S	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
Total - Non Federal	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
S	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
PGM 01 Total	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
PR	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
S	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
TOTAL 01	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
S	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%
Agency Total	\$0	\$35,300,000	\$35,300,000	\$35,300,000	145.10	145.10	\$70,600,000	\$70,600,000	\$0	0.00%

Agency Total by Decision Item

Investment Board

1315 Biennial Budget

Decision Item	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
2000 Adjusted Base Funding Level	\$35,300,000	\$35,300,000	145.10	145.10
TOTAL	\$35,300,000	\$35,300,000	145.10	145.10

Agency Total by Alpha

Investment Board

1315 Biennial Budget

Program	Alpha Code	1st Year Total	2nd Year Total	Change Author	Decision Item	Title		
01		Investment of funds						
	(k)	General program operations		PR	S	100	02	S
		\$35,300,000	\$35,300,000	1A	2000	Adjusted Base Funding Level		
	Total	\$35,300,000	\$35,300,000					

Program Revenue

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	536	Investment Board
PROGRAM	01	Investment of funds
SUBPROGRAM		
NUMERIC APPROPRIATION	31	General program operations

Revenue and Expenditures	Prior Year Actuals	Base Year Estimate	1st Year Estimate	2nd Year Estimate
Opening Balance	\$358,000	\$1,670,400	\$0	\$0
Transfer in from 1 32 R	\$1,201,100	\$84,300	\$0	\$0
Program Revenue	\$28,827,900	\$33,545,300	\$35,300,000	\$35,300,000
Total Revenue	\$30,387,000	\$35,300,000	\$35,300,000	\$35,300,000
Expenditures	\$28,710,200	\$35,300,000	\$0	\$0
2000 Adjusted Base Funding Level	\$0	\$0	\$35,300,000	\$35,300,000
Total Expenditures	\$28,710,200	\$35,300,000	\$35,300,000	\$35,300,000
Closing Balance	\$1,676,800	\$0	\$0	\$0

Program Revenue

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	536	Investment Board
PROGRAM	01	Investment of funds
SUBPROGRAM		
NUMERIC APPROPRIATION	32	General program operations - incentive awards

Revenue and Expenditures	Prior Year Actuals	Base Year Estimate	1st Year Estimate	2nd Year Estimate
Opening Balance	\$1,285,400	\$84,300	\$0	\$0
Transfers Out to 1 31 R	(\$1,201,100)	(\$84,300)	\$0	\$0
Total Revenue	\$84,300	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0
Total Expenditures	\$0	\$0	\$0	\$0
<u>Closing Balance</u>	\$84,300	\$0	\$0	\$0

Decision Item (DIN) - 2000

Decision Item (DIN) Title - Adjusted Base Funding Level

NARRATIVE

Adjusted Base Funding Level

Decision Item by Line

1315 Biennial Budget

	CODES	TITLES
DEPARTMENT	536	Investment Board
	CODES	TITLES
DECISION ITEM	2000	Adjusted Base Funding Level

Expenditure items		1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$24,565,000	\$24,565,000
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$335,000	\$335,000
05	Fringe Benefits	\$5,700,000	\$5,700,000
06	Supplies and Services	\$4,700,000	\$4,700,000
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13		\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
17	Total Cost	\$35,300,000	\$35,300,000
18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	145.10	145.10

Decision Item by Numeric

Investment Board

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	2000	Adjusted Base Funding Level			
01	Investment of funds				
	31 General program operations	\$35,300,000	\$35,300,000	145.10	145.10
	Investment of funds SubTotal	\$35,300,000	\$35,300,000	145.10	145.10
	Adjusted Base Funding Level SubTotal	\$35,300,000	\$35,300,000	145.10	145.10
	Agency Total	\$35,300,000	\$35,300,000	145.10	145.10

Decision Item by Fund Source

Investment Board

	Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
Decision Item	2000	Adjusted Base Funding Level				
	PR	S	\$35,300,000	\$35,300,000	145.10	145.10
	Total		\$35,300,000	\$35,300,000	145.10	145.10
Agency Total			\$35,300,000	\$35,300,000	145.10	145.10

Decision Item (DIN) - 9925

Decision Item (DIN) Title - Board Approved Authority

NARRATIVE

According to statute, the SWIB Board of Trustees is authorized to establish the annual operating budget.