

## INVESTMENT BOARD

### GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY13 Adjusted Base	FY14 Recommended	% Change Over FY13	FY15 Recommended	% Change Over FY14
PR-O	35,300,000	35,300,000	0.0	35,300,000	0.0
TOTAL	35,300,000	35,300,000	0.0	35,300,000	0.0

### FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY13 Adjusted Base	FY14 Recommended	FTE Change Over FY13	FY15 Recommended	FTE Change Over FY14
PR-O	145.10	145.10	0.00	145.10	0.00
TOTAL	145.10	145.10	0.00	145.10	0.00

### AGENCY DESCRIPTION

As of June 30, 2012, the board managed approximately \$86.5 billion in assets. The trust funds of the Wisconsin Retirement System 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 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.

**Investment Board**

**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**

**2011 AND 2012 GOALS AND ACTUALS**

<b>Prog. No.</b>	<b>Performance Measure</b>	<b>Goal 2011</b>	<b>Actual 2011</b>	<b>Goal 2012</b>	<b>Actual 2012</b>
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 <sup>1</sup>	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 <sup>1</sup>	Nearly met adjusted actuary return of 7.2%; ten-year net return was 6.9%

**Investment Board**

<b>Prog. No.</b>	<b>Performance Measure</b>	<b>Goal 2011</b>	<b>Actual 2011</b>	<b>Goal 2012</b>	<b>Actual 2012</b>
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 2010 cost was 38.0 basis points (38.0 cents per \$100 managed) compared to typical costs of 42.0 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 2011 cost was 37.9 basis points (37.9 cents per \$100 managed) compared to typical costs of 40.9 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	Met goal  Five-year in top 36% and ten-year in top 24% of peer group as of December 31, 2010 <sup>3</sup>  Five-year risk adjusted return ranked 5th out of 10 funds in the peer group as of December 31, 2010 <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 44% and ten-year in top 31% of peer group as of December 31, 2011 <sup>3</sup>  Five-year risk adjusted return in the top 36% of peer group as of December 31, 2011 <sup>4</sup>
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 benchmarks

## Investment Board

Prog. No.	Performance Measure	Goal 2011	Actual 2011	Goal 2012	Actual 2012
1.	State investment fund returns exceed the median of comparable money market mutual funds. <sup>5</sup>	Above the median	Exceeded goal  Return ranked 1st out of 186 government funds and 18th compared to 1,069 taxable funds as of December 31, 2010	Above the median	Exceeded goal  Return ranked 1st out of 185 government funds and 23rd 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.

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

<sup>2</sup>As reported by CEM Benchmarking, Inc. (CY 2011 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. The Legislative Audit Bureau selected peer group was replaced by a peer group compiled by Callan Associates, Inc., during 2011.

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

### 2013, 2014 AND 2015 GOALS

Prog. No.	Performance Measure	Goal 2013	Goal 2014	Goal 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	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

**Investment Board**

<b>Prog. No.</b>	<b>Performance Measure</b>	<b>Goal 2013</b>	<b>Goal 2014</b>	<b>Goal 2015</b>
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 <sup>1</sup>	Return averages at least 7.2% annually over the long term <sup>1</sup>	Return averages at least 7.2% annually over the long term <sup>1</sup>
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 investment returns are in the top half of its peer group. <sup>3, 4</sup>	Core fund's five-year investment return exceeds the peer group median on an absolute and risk adjusted basis	Core fund's five-year investment return exceeds the peer group median on an absolute and risk adjusted basis	Core fund's five-year investment return exceeds the peer group median on an absolute and risk adjusted basis
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. Note: The assumed rate was changed from 7.8% to 7.2% in January 2010.

<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 compiled by Callan Associates, Inc.

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

**Investment Board**

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

	ACTUAL FY12	ADJUSTED BASE FY13	AGENCY REQUEST FY14	AGENCY REQUEST FY15	GOVERNOR'S RECOMMENDATION FY14	GOVERNOR'S RECOMMENDATION FY15
PROGRAM REVENUE (2)	\$28,710.2	\$35,300.0	\$35,300.0	\$35,300.0	\$35,300.0	\$35,300.0
State Operations	28,710.2	35,300.0	35,300.0	35,300.0	35,300.0	35,300.0
TOTALS - ANNUAL	\$28,710.2	\$35,300.0	\$35,300.0	\$35,300.0	\$35,300.0	\$35,300.0
State Operations	28,710.2	35,300.0	35,300.0	35,300.0	35,300.0	35,300.0

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

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

	ADJUSTED BASE FY13	AGENCY REQUEST FY14	AGENCY REQUEST FY15	GOVERNOR'S RECOMMENDATION FY14	GOVERNOR'S RECOMMENDATION FY15
PROGRAM REVENUE (2)	145.10	145.10	145.10	145.10	145.10
TOTALS - ANNUAL	145.10	145.10	145.10	145.10	145.10

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

(4) All positions are State Operations unless otherwise specified

**Investment Board**

**Table 3  
Department Budget Summary by Program (in thousands of dollars)**

	ACTUAL FY12	ADJUSTED BASE FY13	AGENCY REQUEST FY14      FY15		GOVERNOR'S RECOMMENDATION FY14      FY15	
1. Investment of funds	\$28,710.2	\$35,300.0	\$35,300.0	\$35,300.0	\$35,300.0	\$35,300.0
<b>TOTALS</b>	\$28,710.2	\$35,300.0	\$35,300.0	\$35,300.0	\$35,300.0	\$35,300.0

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

	ADJUSTED BASE FY13	AGENCY REQUEST FY14      FY15		GOVERNOR'S RECOMMENDATION FY14      FY15	
1. Investment of funds	145.10	145.10	145.10	145.10	145.10
<b>TOTALS</b>	145.10	145.10	145.10	145.10	145.10

(4) All positions are State Operations unless otherwise specified

## Investment Board