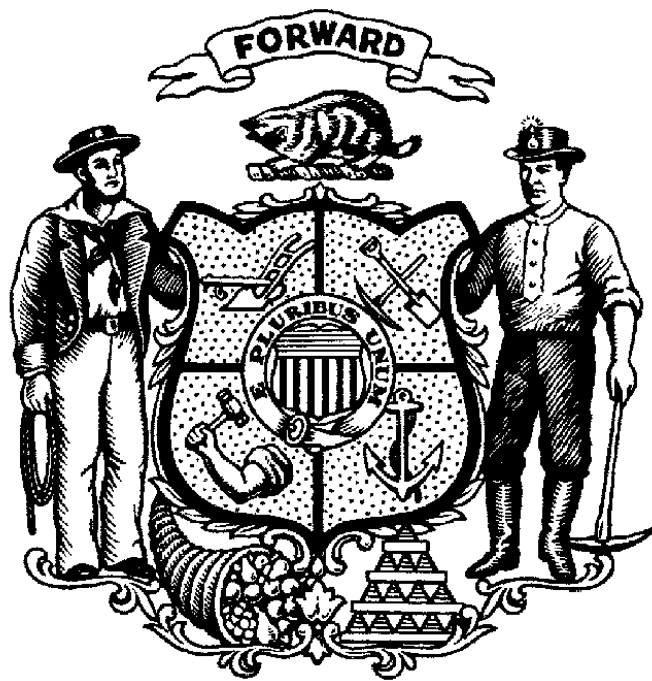


State of Wisconsin

Investment Board



Agency Budget Request

2015 – 2017 Biennium

September 15, 2014

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State of Wisconsin Investment Board


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

MEMORANDUM

Date: September 15, 2014

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

Robert Lang, Director
Legislative Fiscal Bureau

From: Michael Williamson, Executive Director 
Investment Board

Re: **2015-17 Biennial Budget Request**

Attached is SWIB's budget submission for the 2015-17 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 as part of the biennial budget request. 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 to provide the necessary resources to manage trust fund assets and for the Board to fulfill its fiduciary duty to manage the assets in the best interest of the beneficiaries.

Performance Goals and Achievements

SWIB has surpassed nearly all performance goals established in our 2013-15 biennial budget request. As can be seen in the attached Performance Measures, SWIB has exceeded nearly all investment benchmarks after costs for the one-, five-, and ten-year periods ending June 30, 2014, for the Core and Variable funds that make up the Wisconsin Retirement System (WRS). The WRS funds represent 93% of assets managed by SWIB or \$98.1 billion as of June 30, 2014, and total assets under management exceed \$105.1 billion. On average, investment returns account for nearly 80% of the income of the WRS. SWIB's strong investment returns are one reason the WRS is, according to the Pew Center on States, one of the best funded public pension plans 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 appropriate and to further reduce volatility of assets under management by implementing new, diversified investment strategies.

Budget Flexibility Leads to Net Cost Savings

With the support of the Governor and the Legislature, SWIB has the budget flexibility to build a strong internal investment management program that is providing a significant financial benefit to the WRS. Since SWIB began an initiative to manage more money internally, internal management of WRS assets has increased from 21% in 2007 to nearly 58% in 2014, and SWIB manages nearly 61% of all trust fund

assets internally. Net cost savings resulting from internal management are significant. If internally managed public market assets in the WRS were managed by out-of-state external money managers, it would cost approximately \$50 million more annually.

Investment Strategies and Managing Risk

SWIB's asset allocation and investment decisions are based on selecting the best opportunities to meet the long-term investment objectives of the WRS and the other trust funds under management while taking an appropriate level of risk. Having a long-term view of performance and the investment markets is crucial especially when markets become volatile as has been the case over the last decade or more. As a result, SWIB is continuing to explore and implement new investment strategies to help stabilize investment returns and, in turn, contribution rates for active employees and pension adjustments for retirees. Asset allocation and investment diversification are essential components of SWIB's long-term investment strategy.

Investment in Wisconsin Businesses

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, 2013, SWIB held assets of over \$682.6 million in companies headquartered in Wisconsin or with significant operations in the state. SWIB has also invested in venture capital funds designed to identify and invest in promising young technology businesses in Wisconsin and the region.

SWIB will continue to be diligent in our efforts to keep the WRS system stable and well-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, 2014, the Board managed approximately \$105.1 billion in assets. The trust funds of the Wisconsin Retirement System (WRS) comprise nearly 93 percent of the funds under management. With assets over \$98.1 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 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

To be a trusted and skilled global investment organization contributing to strong financial futures for the beneficiaries of the funds entrusted to us.

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 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 2013 and FY 2014 Goals and Actuals

Prog. No.	Performance Measure	Goal FY 2013	Actual FY 2013	Goal FY 2014	Actual FY 2014
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	<p><u>Core:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes</p> <p><u>Variable:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes</p>	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	<p><u>Core:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes</p> <p><u>Variable:</u> 1 Year: Yes 5 Year: Yes 10 Year: No</p>
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)	Met goal. Ten-year net return was 7.5%.	Return averages at least 7.2% annually over the long term ¹ (ten years)	Met goal. Ten-year net return was 7.5%
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 2012 cost was 37.6 basis points (37.6 cents per \$100 managed) compared to typical costs of 42.4 basis points. ²	Total costs are at or below the normal cost paid by our peers to manage a similar asset mix	CY 2013 cost was 37.6 basis points (37.6 cents per \$100 managed) compared to typical costs of 47.1 basis points. ²
1.	Core Retirement Fund net 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	<p>Met goal. Five-year in top 25% and ten-year in top 20% of peer group as of December 31, 2012.³</p> <p>Five-year risk adjusted return in the top 24% of peer group as of December 31, 2012.⁴</p>	Core Fund's five-year investment return exceeds the peer group median on an absolute and risk adjusted basis	<p>Met goal. Five-year in top 40% and ten-year in top 40% of peer group as of December 31, 2013.³</p> <p>Five-year risk adjusted return in the top 32% of peer group as of December 31, 2013.⁴</p>
1.	State Investment Fund returns exceed investment performance benchmarks.	Exceed Benchmark	Exceeded one-, five-, and ten-year investment benchmarks.	Exceed Benchmark	Matched one-year and exceeded five- and ten-year investment benchmarks.
1.	State Investment Fund returns exceed the median of	Above the median	Exceeded goal. SIF return	Above the median	Exceeded goal. SIF return

Prog. No.	Performance Measure	Goal FY 2013	Actual FY 2013	Goal FY 2014	Actual FY 2014
	comparable money market mutual funds. ⁵		ranked first out of 180 government funds and 30 th compared to 1,031 taxable funds as of December 31, 2012.		ranked first out of 159 government funds and 15 th compared to 994 taxable funds as of December 31, 2013.
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.

²As reported by CEM Benchmarking, Inc. (CY 2013 data is draft)

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

⁴Peer group with over \$10 billion in assets compiled by Callan Associates, Inc. (risk adjusted)

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

FY 2015, FY 2016 and FY 2017 Goals

Prog. No.	Performance Measure	Goal FY 2015	Goal FY 2016	Goal FY 2017
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.	Net 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	Core Fund's five-year investment return exceeds the peer group median on a risk adjusted basis	Same	Same
1.	State Investment Fund returns exceed investment performance benchmarks.	Exceed Benchmark	Same	Same
1.	State Investment Fund returns exceed the median of comparable money market mutual funds. ⁴	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.

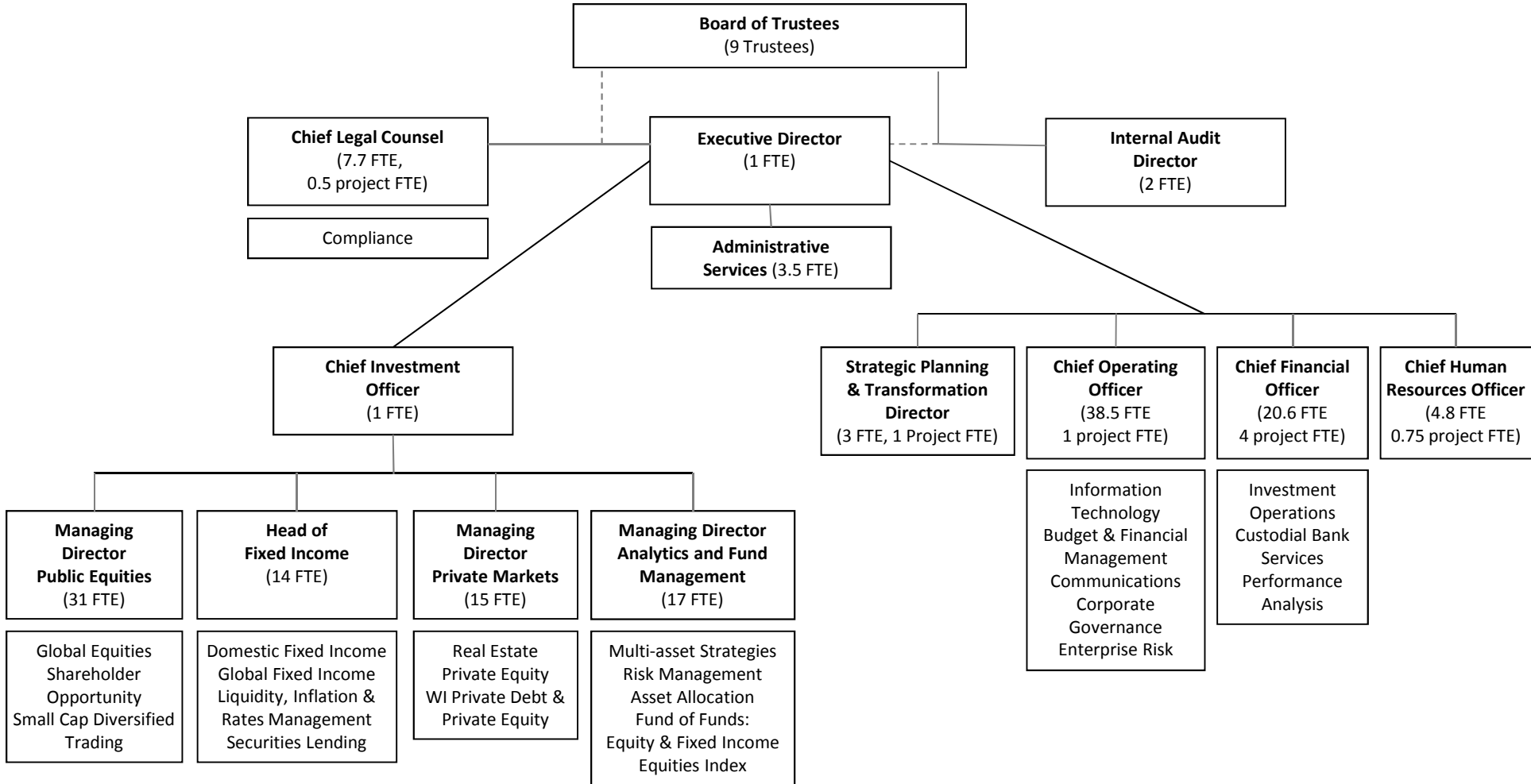
¹ As assumed by the actuary.

² As reported by CEM Benchmarking, Inc.

³ Peer group with over \$10 in assets compiled by Callan Associates, Inc. (risk adjusted)

⁴ As measured by the iMoneyNet Government Index and All Taxable Money Market Index.

**Organizational Chart
State of Wisconsin Investment Board**



Agency Total by Fund Source

Investment Board

1517 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	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.0%
Total		\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.0%
Grand Total		\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.0%

Agency Total by Program

536 Investment Board

1517 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	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%
S	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%
Total - Non Federal	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%
S	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%
PGM 01 Total	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%
PR	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%
S	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%

TOTAL 01		\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%
	S	\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%
Agency Total		\$41,361,602	\$46,853,600	\$46,853,600	\$46,853,600	166.35	166.35	\$93,707,200	\$93,707,200	\$0	0.00%

Agency Total by Decision Item

Investment Board

1517 Biennial Budget

Decision Item	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
2000 Adjusted Base Funding Level	\$46,853,600	\$46,853,600	166.35	166.35
TOTAL	\$46,853,600	\$46,853,600	166.35	166.35

Agency Total by Alpha

Investment Board

1517 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	
		\$46,853,600	\$46,853,600	1A	2000	Adjusted Base Funding Level			
	Total	\$46,853,600	\$46,853,600						

Program Revenue

1517 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	\$1,532,900	\$3,333,000	\$0	\$0
Program Revenue	\$43,161,700	\$43,520,600	\$46,853,600	\$46,853,600
	\$0	\$0	\$0	\$0
	\$0	\$0	\$0	\$0
Total Revenue	\$44,694,600	\$46,853,600	\$46,853,600	\$46,853,600
Expenditures	\$41,361,600	\$46,853,600	\$0	\$0
2000 Adjusted Base Funding Level	\$0	\$0	\$46,853,600	\$46,853,600
Total Expenditures	\$41,361,600	\$46,853,600	\$46,853,600	\$46,853,600
Closing Balance	\$3,333,000	\$0	\$0	\$0

Program Revenue

1517 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	\$0	\$0	\$0	\$0
Total Revenue	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0
Total Expenditures	\$0	\$0	\$0	\$0
<u>Closing Balance</u>	\$0	\$0	\$0	\$0

Decision Item (DIN) - 2000

Decision Item (DIN) Title - Adjusted Base Funding Level

NARRATIVE

Adjusted Base Funding Level

Decision Item by Line

1517 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	\$32,965,200	\$32,965,200
02	Turnover	\$0	\$0
03	Project Position Salaries	\$309,200	\$309,200
04	LTE/Misc. Salaries	\$447,500	\$447,500
05	Fringe Benefits	\$7,810,900	\$7,810,900
06	Supplies and Services	\$5,320,800	\$5,320,800
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	\$46,853,600	\$46,853,600
18	Project Positions Authorized	7.25	7.25
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	159.10	159.10

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	\$46,853,600	\$46,853,600	166.35	166.35
	Investment of funds SubTotal	\$46,853,600	\$46,853,600	166.35	166.35
	Adjusted Base Funding Level SubTotal	\$46,853,600	\$46,853,600	166.35	166.35
	Agency Total	\$46,853,600	\$46,853,600	166.35	166.35

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	\$46,853,600	\$46,853,600	166.35	166.35
	Total		\$46,853,600	\$46,853,600	166.35	166.35
Agency Total			\$46,853,600	\$46,853,600	166.35	166.35