

INVESTMENT BOARD

GOVERNOR'S BUDGET RECOMMENDATIONS

Source of Funds	FY19 Adjusted Base	FY20 Recommended	% Change Over FY19	FY21 Recommended	% Change Over FY20
PR-O	62,444,700	62,444,700	0.0	62,444,700	0.0
TOTAL	62,444,700	62,444,700	0.0	62,444,700	0.0

FULL-TIME EQUIVALENT POSITION SUMMARY

Source of Funds	FY19 Adjusted Base	FY20 Recommended	FTE Change Over FY19	FY21 Recommended	FTE Change Over FY20
PR-O	203.00	203.00	0.00	203.00	0.00
TOTAL	203.00	203.00	0.00	203.00	0.00

AGENCY DESCRIPTION

As of June 30, 2018, the board managed approximately \$116.1 billion in assets. The trust funds of the Wisconsin Retirement System comprise nearly 92 percent of the funds under management. With assets over \$107.1 billion, the Wisconsin Retirement System is currently the 9th largest public pension fund in the United States and the 24th 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 1,300 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

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

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

2017 AND 2018 GOALS AND ACTUALS

Prog. No.	Performance Measure	Goal 2017	Actual 2017	Goal 2018	Actual 2018
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: Yes 10 Year: Yes <u>Variable:</u> 1 Year: Yes 5 Year: Yes 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: Yes 10 Year: Yes <u>Variable:</u> 1 Year: Yes 5 Year: Yes 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.	Net return averages at least 7.2% annually over the long term ¹ (ten years)	Did not meet goal Ten-year net return was 4.9%	Net return averages at least 7.2% annually over the long term ¹ (ten years)	Did not meet goal Ten-year net return was 6.3%

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Prog. No.	Performance Measure	Goal 2017	Actual 2017	Goal 2018	Actual 2018
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 peers to manage a similar asset mix	Met goal CY 2015 cost was 39.3 basis points (39.3 cents per \$100 managed) compared to typical costs of 58.4 basis points ²	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Met goal CY 2016 cost was 43.1 basis points (43.1 cents per \$100 managed) compared to typical costs of 60.1 basis points ²
1.	Core retirement fund investment returns are in the top half of its peer group.	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis	Not reported	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis	Not reported
1.	State investment fund returns exceed investment performance benchmarks.	Exceed benchmarks	Did not exceed one-year Exceeded five- and ten-year investment benchmarks	Exceed benchmarks	Did not exceed one-year Exceeded five- and ten-year investment benchmarks

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Prog. No.	Performance Measure	Goal 2017	Actual 2017	Goal 2018	Actual 2018
1.	State investment fund returns exceed the median of comparable money market mutual funds. ³	Above the median	Exceeded goal The fund's return of 0.42% compares to the top 1% of money market funds in the Crane Government Money Market Index and the top 8% of money market funds in the Crane Taxable Money Fund Index as of December 31, 2016 ³	Above the median	Exceeded goal The fund's return of 0.85% compares to the top 1% of money market funds in the Crane Government Money Market Index and the top 14% of money market funds in the Crane Taxable Money Fund Index as of December 31, 2017 ³
1.	Meet annual fund cash flow requirements as established by the governing boards for the State Historical Society trust fund, injured patients and families compensation fund, state life insurance fund, local government property insurance fund, UW trust funds ⁴ , and 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.

³As measured by the Crane Government Money Market Index and Crane Taxable Money Fund Index.

⁴Performance start date for the University of Wisconsin (UW) System trust funds was April 1, 2018.

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2019, 2020 AND 2021 GOALS

Prog. No.	Performance Measure	Goal 2019	Goal 2020	Goal 2021
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.	Net return averages at least 7.2% annually over the long term ¹ (ten years)	Net return averages at least 7.0% annually over the long term ¹ (ten years)	Net return averages at least 7.0% annually over the long term ¹ (ten years)
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 peers to manage a similar asset mix	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Total costs are at or below the normal cost paid by peers to manage a similar asset mix
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	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis	Core fund's five-year investment return exceeds the peer group median on a risk adjusted basis
1.	State investment fund returns exceed investment performance benchmarks.	Exceed benchmarks	Exceed benchmarks	Exceed benchmarks

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Prog. No.	Performance Measure	Goal 2019	Goal 2020	Goal 2021
1.	State investment fund returns exceed the median of comparable money market mutual funds. ⁴	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, injured patients and families compensation fund, state life insurance fund, local government property insurance fund, UW System long-term fund ⁵ , and 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.

¹As assumed by the actuary.

²As reported by CEM Benchmarking, Inc.

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

⁴As measured by the Crane Government Money Market Index and Crane Taxable Money Fund Index.

⁵Performance start date for the UW System long-term fund was April 1, 2018.

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

	ACTUAL FY18	ADJUSTED BASE FY19	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY20	FY21	FY20	FY21
PROGRAM REVENUE (2)	\$46,218.3	\$62,444.7	\$62,444.7	\$62,444.7	\$62,444.7	\$62,444.7
State Operations	46,218.3	62,444.7	62,444.7	62,444.7	62,444.7	62,444.7
TOTALS - ANNUAL	\$46,218.3	\$62,444.7	\$62,444.7	\$62,444.7	\$62,444.7	\$62,444.7
State Operations	46,218.3	62,444.7	62,444.7	62,444.7	62,444.7	62,444.7

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

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

	ADJUSTED BASE FY19	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY20	FY21	FY20	FY21
PROGRAM REVENUE (2)	203.00	203.00	203.00	203.00	203.00
TOTALS - ANNUAL	203.00	203.00	203.00	203.00	203.00

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

(4) All positions are State Operations unless otherwise specified

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

	ACTUAL FY18	ADJUSTED BASE FY19	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
			FY20	FY21	FY20	FY21
1. Investment of funds	\$46,218.3	\$62,444.7	\$62,444.7	\$62,444.7	\$62,444.7	\$62,444.7
TOTALS	\$46,218.3	\$62,444.7	\$62,444.7	\$62,444.7	\$62,444.7	\$62,444.7

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

	ADJUSTED BASE FY19	AGENCY REQUEST		GOVERNOR'S RECOMMENDATION	
		FY20	FY21	FY20	FY21
1. Investment of funds	203.00	203.00	203.00	203.00	203.00
TOTALS	203.00	203.00	203.00	203.00	203.00

(4) All positions are State Operations unless otherwise specified