



State Investment Fund
Annual Financial Report
Fiscal Year Ended June 30, 2014

State Investment Fund

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Message from State Investment Fund Portfolio Manager

The State Investment Fund (SIF) is managed by the State of Wisconsin Investment Board and is a pool of cash balances of various state and local governmental units. It includes retirement trust funds, state funds, and funds from over 1,300 Wisconsin municipal units that invest in the Local Government Investment Pool (LGIP). The LGIP was created in 1975 to give local governments an additional investment option to provide them with liquidity, active management, and returns offered by larger investments. The investment objectives of the SIF are to provide safety, liquidity, and competitive rates of return. To meet these objectives, the fund primarily invests in obligations of the U.S. Government and its agencies, with minimal investments in bank and corporate debt.

Fund balances can be highly variable throughout the year. For fiscal year 2014 the fund seasonally peaked at \$10.8 billion in February and ended the year at \$7.5 billion. May 1st was the fund's largest cash flow day, with a \$1.8 billion net outflow. These large changes, although common, illustrate the importance of excellent cash flow information and liquidity. Thank you to all the government units that help keep us informed.

Fund returns were less variable. Just as the benign economic environment continued, so did the Federal Reserve with their accommodative stance. Signs of improving economic indicators late in 2013 prompted the Federal Reserve's policy makers to announce, in December, that they would begin tapering their quantitative easing measures, buying fewer bonds each month. This optimism for economic growth stumbled temporarily after 2014's harsh winter put a damper on many economic sectors. Despite the slowdown, the Federal Reserve, under the new leadership of Janet Yellen, continued tapering their monthly bond buying. Although the tapering is expected to end in October 2014 and the Federal Reserve is confident in the current economic growth trend and comfortable with current inflation numbers, they are sending signals that the benchmark rate will remain at zero for a "considerable time." As long as geopolitical or other factors don't disrupt the current trajectory, economic forecast surveys are calling for rate increases to begin in the fall of 2015. In the coming year, the SIF will continue to be managed consistent with its investment objectives, with the cash flow projections provided to us, and with the available investment opportunities based on current and projected rate forecasts.



Laurel Butler
SIF Portfolio Manager



STATE OF WISCONSIN

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Joe Chrisman
State Auditor

Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Michael Williamson, Executive Director and
Members of the Board of Trustees
State of Wisconsin Investment Board

Report on the Financial Statements

We have audited the Statement of Net Position, Statement of Operations and Changes in Net Position, and the related notes of the State Investment Fund of the State of Wisconsin as of and for the year ended June 30, 2014.

Management's Responsibility for the Financial Statements

Management of the State of Wisconsin Investment Board (SWIB) is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on these financial statements.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State Investment Fund as of June 30, 2014, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the State Investment Fund and do not purport to, and do not, present fairly the financial position of SWIB or of the State of Wisconsin as of June 30, 2014, or the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information—We previously audited the State Investment Fund's financial statements as of and for the year ended June 30, 2013, and we expressed an unmodified opinion in our report dated September 13, 2013. In our opinion, the State Investment Fund's comparative financial information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it is derived.

Accompanying Information—Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Investment Fund. The supplementary information included as Management Discussion and Analysis on page 7 is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so. The introductory information on page 3 and the schedule of investments on pages 15 through 19 are presented for purposes of additional analysis and are not required parts of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2014, on our consideration of SWIB's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SWIB's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman".

Joe Chrisman
State Auditor

October 28, 2014

Management Discussion and Analysis

Management Discussion and Analysis provides general information on the financial activities of the State Investment Fund (SIF). The SIF temporarily invests the operating funds of the State of Wisconsin and agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP). The table below provides information about ownership at June 30.

Following this section are the financial statements and notes to the financial statements. The **Statement of Net Position** provides information on the types of assets and the liabilities of the SIF. The **Statement of Operations and Changes in Net Position** provides information on the net income of the SIF and its net position at year end. The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the SIF financial statements. The table entitled **SIF Condensed Financial Information** contains a summary for the fiscal years ended June 30, 2014 and 2013 (for comparison).

Because the SIF is used to temporarily invest participants' operating cash flows, investments are

in highly liquid, short-term fixed income securities.

At June 30, 2014, SIF Net Position had decreased by \$1.622 billion from the prior year due to the combined decrease in the State of Wisconsin and agencies (-\$701 million), the WRS (-\$650 million), and the LGIP (-\$271 million) balances. The SIF Average Daily Balance increased by \$575 million in the current fiscal year compared to the prior year. The monthly average balance peaked at \$10.362 billion in February 2014.

The Net Income decrease of 48.6% from the previous fiscal year was largely due to the ongoing low interest rate environment caused by the Federal Reserve continuing to maintain the federal funds "target range" to between zero and 0.25% since December 16, 2008. For fiscal year 2014, the average federal funds effective rate was 0.08%. The one year SIF return dropped to 0.09% from 0.15% in the prior fiscal year. The Investment Expense increase of 23.5% during fiscal year 2014 was a function of SWIB's investment and administrative expenses allocated to SIF participants based on increased time spent on the fund. The Weighted Average Maturity increased from 34 to 88 days due to the investment mix decrease in Repurchase Agreements (WAM=1 Day) and the increase in Government & Agencies (WAM=97 Days).

SIF Condensed Financial Information

| Fiscal Year Ended | 2014 | 2013 | % Change |
|-------------------------------|-------------------------|-------------------------|----------|
| Total Assets | \$ 7,722,462,299 | \$ 9,273,688,319 | (16.7) |
| Total Liabilities | 193,007,299 | 122,614,319 | 57.4 |
| Net Position | <u>\$ 7,529,455,000</u> | <u>\$ 9,151,074,000</u> | (17.7) |
| Investment Income | \$9,674,222 | \$ 13,976,289 | (30.8) |
| Investment Expenses | 1,950,733 | 1,580,035 | 23.5 |
| State Working Bank Charges | 2,814,235 | 2,843,631 | (1.0) |
| Net Income | <u>\$4,909,254</u> | <u>\$ 9,552,623</u> | (48.6) |
| Average Daily Balance | \$ 8,893,079,423 | \$ 8,317,930,810 | 6.9 |
| Weighted Avg. Maturity (WAM) | 88 DAYS | 34 DAYS | |
| SIF Ownership: | | | |
| State of Wisconsin & Agencies | 46% | 46% | |
| Wisconsin Retirement System | 21% | 24% | |
| Local Govt Investment Pool | 33% | 30% | |
| Total | <u>100%</u> | <u>100%</u> | |

SIF Annualized Returns (as of June 30)

| Year | Return % | Benchmark % |
|--------------------|----------|-------------|
| One Year: | | |
| 2005 | 2.08 | 2.25 |
| 2006 | 4.23 | 4.15 |
| 2007 | 5.40 | 5.01 |
| 2008 | 4.02 | 3.20 |
| 2009 | 1.33 | 0.81 |
| 2010 | 0.25 | 0.15 |
| 2011 | 0.19 | 0.15 |
| 2012 | 0.14 | 0.09 |
| 2013 | 0.15 | 0.10 |
| 2014 | 0.09 | 0.06 |
| Multi-Year: | | |
| Three Year | 0.13 | 0.08 |
| Five Year | 0.17 | 0.11 |
| Ten Year | 1.77 | 1.58 |

State Investment Fund

Financial Statements

State Investment Fund

Statement of Net Position

As of June 30, 2014 (with Comparative Amounts as of June 30, 2013)

| | 2014 | 2013 |
|---|-------------------------|-------------------------|
| Assets | | |
| Investments (Note 2D): | | |
| Repurchase Agreements | \$ 699,000,000 | \$ 5,291,000,000 |
| Government & Agencies | 6,936,055,185 | 3,910,778,873 |
| Certificates of Deposit | 52,750,000 | 25,800,000 |
| Banker's Acceptances | 34,451,142 | 45,987,078 |
| Total Investments | 7,722,256,327 | 9,273,565,951 |
| Other Assets: | | |
| Accrued Interest Receivable | 205,972 | 122,368 |
| Total Assets | 7,722,462,299 | 9,273,688,319 |
| Liabilities | | |
| Payable for Investments Purchased | 0 | 3,572,424 |
| Check Float Invested | 192,540,756 | 118,483,270 |
| Earnings Distribution Payable | 349,062 | 430,105 |
| Accrued Expenses | 117,481 | 128,520 |
| Total Liabilities | 193,007,299 | 122,614,319 |
| NET POSITION | <u>\$ 7,529,455,000</u> | <u>\$ 9,151,074,000</u> |
| Net Position consist of: | | |
| Participating Shares | \$ 7,529,455,000 | \$ 9,151,074,000 |
| Undistributed Unrealized Gains (Losses) | 0 | 0 |
| NET POSITION | <u>\$ 7,529,455,000</u> | <u>\$ 9,151,074,000</u> |

The accompanying notes are an integral part of this statement.

State Investment Fund

Statement of Operations and Changes in Net Position

For the Fiscal Year Ended June 30, 2014 (with Comparative Amounts for June 30, 2013)

| | 2014 | 2013 |
|---|------------------|------------------|
| Investment Income | \$ 9,674,222 | \$ 13,976,289 |
| Investment Expenses | | |
| Management Operating Expenses | 1,555,647 | 1,229,545 |
| Custodial Bank Charges | 219,772 | 181,120 |
| Electronic Services | 175,314 | 168,370 |
| Legal and Consulting Fees | 0 | 1,000 |
| Total Expenses | 1,950,733 | 1,580,035 |
| Net Investment Income | 7,723,489 | 12,396,254 |
| State Working Bank Charges | 2,814,235 | 2,843,631 |
| Net Income | 4,909,254 | 9,552,623 |
| Distributions Paid and Payable | 4,909,254 | 9,552,623 |
| Change in Undistributed Unrealized Gains (Losses) | 0 | 0 |
| Beginning of Period Undistributed Unrealized Gains (Losses) | 0 | 0 |
| End of Period Undistributed Unrealized Gains (Losses) | 0 | 0 |
| Participant Transactions: | | |
| Receipts by Transfer to Fund | 30,465,620,000 | 32,115,484,000 |
| Disbursements by Transfer from Fund | 32,087,239,000 | 29,804,792,000 |
| Net Change in Participating Shares | (1,621,619,000) | 2,310,692,000 |
| Beginning of Period Participating Shares | 9,151,074,000 | 6,840,382,000 |
| End of Period Participating Shares | 7,529,455,000 | 9,151,074,000 |
| NET POSITION | \$ 7,529,455,000 | \$ 9,151,074,000 |

The accompanying notes are an integral part of this statement.

State Investment Fund

Notes to Financial Statements

Notes to the Financial Statements

1. Description of Funds

The State Investment Fund (SIF) pools the cash of the State of Wisconsin and its agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP) into a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. Only State of Wisconsin agencies are required to invest their operating cash in the SIF. In the State's Comprehensive Annual Financial Report (CAFR), the SIF is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." Shares of the SIF belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund. The staff of the State of Wisconsin Investment Board (SWIB) manages the SIF with oversight by the Board of Trustees as authorized in Wisconsin Statutes 25.14 and 25.17. The SWIB is not registered with the SEC as an investment company.

Wisconsin Statutes 25.17(3)(b), (ba), (bd), and (dg) enumerate the various types of securities in which the SIF can be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin and bankers acceptances. The Board of Trustees may specifically approve other prudent legal investments.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the SIF are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB).

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting.

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Interest income is accrued as earned.

C. Comparative Information

The financial statements include certain prior year comparative information, but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the State Investment Fund's prior year financial statements, from which the comparative information was derived, available at www.swib.state.wi.us.

D. Valuation of Securities

For financial statement purposes, the carrying value of securities depends on asset class and maturity date. Per GASB No. 31, Repurchase Agreements and non-negotiable Certificates of Deposit are carried at cost because they are nonparticipating contracts that do not capture interest rate changes in their value.

Also per GASB No. 31, all short-term debt

investments with remaining maturities of up to ninety days (certain U.S. Government/Agency securities & Bankers Acceptances) are carried at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer.

Finally, per SWIB valuation policy, all short-term investments with remaining maturities of over ninety days (certain U.S. Government/Agency securities) are also carried at amortized cost, provided it approximates estimated fair value. Because quoted market prices for SIF securities are often not available, at month end BNY Mellon, as SWIB's custodial bank, compiles fair values from third party pricing services which use matrix pricing models to estimate a security's fair value.

The table entitled **Summary of Information by Investment Classification** contains summarized SIF information by asset class, and discloses that carrying cost does approximate estimated fair value within 0.0089% as of June 30, 2014.

E. Management Operating Expenses

Management Operating Expenses are SWIB's investment and administrative costs that are allocated to the SIF participants.

F. State Working Bank Charges

State Working Bank Charges represent charges for various state banking services such as lockbox, ePay, and depository services. These expenses are allocated to SIF participants based on their proportionate usage of banking services and, accordingly, reduce the participant's share of the Net Investment Income.

3. SIF Investment Income and Pool Shares

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, the SIF distributes income to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method does not distribute to participants any unrealized gains or losses generated by the pool's investments. Since amortized cost approximates estimated fair value, for financial statement purposes there is no unrealized gain or loss to report in the equity section of the Statement of Net Position as "Undistributed Unrealized Gains (Losses).

Summary of Information by Investment Classification

June 30, 2014

| Investment Type | Yield % | Maturity Dates | Carrying Value | Estimated Fair Value |
|---|-------------|---------------------|-------------------------|-------------------------|
| Repurchase Agreements | 0.13 | 07/01/14 | \$ 699,000,000 | \$ 699,000,000 |
| Government & Agencies | 0.06 - 0.48 | 07/01/14 - 05/01/15 | 6,936,055,185 | 6,936,746,275 |
| Certificates of Deposit | 0.15 - 1.00 | 07/15/14 - 12/15/14 | 52,750,000 | 52,750,000 |
| Banker's Acceptances | 0.20 - 0.21 | 07/07/14 - 09/04/14 | 34,451,142 | 34,451,142 |
| Total Investments | | | <u>\$ 7,722,256,327</u> | <u>\$ 7,722,947,417</u> |
| Ratio of Estimated Fair Value to Carrying Value | | | | 100.0089% |

State Investment Fund

Notes to Financial Statements

SIF pool shares are bought and redeemed at \$1.00 based on the amortized cost of the investments in the SIF. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares.

4. Deposit and Investment Risk

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. For the SIF, evaluations of levels of diversification, nominal risk exposures including sector, maturity, and interest rate exposures, and risk/return plots form the core of the monitoring process. In addition, the portfolio is reviewed daily for compliance with investment guidelines. At least quarterly, comprehensive reporting is presented to SWIB's Investment Committee and the Board of Trustees.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the SIF. The Board established SIF investment guidelines with maximum exposure limits by security type based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). As of June 30, 2014, these credit ratings and aggregate exposures by investment type are found in the table entitled **Credit Quality Distribution for Securities**.

B. Custodial Credit Risk

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. SWIB does not have a deposit policy specifically for custodial credit risk. As of

June 30, 2014, the SIF held Certificates of Deposit (CD) with a value of \$27,750,000 invested pursuant to the Wisconsin Certificate of Deposit Program (administered by Bankers' Bank) established in July 1987. Investment guidelines provide that to be accepted into this program, banks must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits.

The Federal Deposit Insurance Corporation (FDIC) insures the pro rata share of Certificates of Deposit held by the LGIP up to \$250,000, and the State of Wisconsin appropriation for losses on public deposits protects a depositing municipality up to \$400,000 if the local governing body has designated the LGIP as a public depository. Approximately \$27,750,000 is insured through FDIC insurance and the State of Wisconsin appropriation for losses on public deposits. The actual coverage of these deposits can fluctuate daily based on the allocable share of participants' accounts.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. Treasury or Agency securities. As of June 30, 2014 the SIF has more than five percent of its investments in FHLB (29.8%), FHLMC (29.7%), FNMA (30.0%), and Repurchase Agreement collateral (9.1%) consisting of various securities issued by these same three U.S. Agencies. Since the Repurchase Agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each night.

Credit Quality Distribution for Securities

As of June 30, 2014

| Investment Type | Rating | Carrying Value | % |
|--|--------|-------------------------|--------------|
| Repurchase Agreements (Collateral): | | | |
| U.S. Government Debt & Agencies | AA | \$ 699,000,000 | 9.1 |
| U.S. Treasury Note | AA+ | 24,995,837 | 0.3 |
| Government Sponsored Entity U.S. Agency: | | | |
| Federal Home Loan Bank (FHLB) | A-1+ | 2,164,783,500 | 28.0 |
| Federal Home Loan Bank (FHLB) | AA+ | 137,501,455 | 1.8 |
| Federal Home Loan Mortgage Corp (FHLMC) | A-1+ | 2,272,177,377 | 29.4 |
| Federal Home Loan Mortgage Corp (FHLMC) | AA+ | 24,508,364 | 0.3 |
| Federal National Mortgage Association (FNMA) | A-1+ | 2,174,690,868 | 28.2 |
| Federal National Mortgage Association (FNMA) | AA+ | 137,397,784 | 1.8 |
| Certificates of Deposit: | | | |
| Bank of Montreal Chicago | A-1 | 25,000,000 | 0.3 |
| Non-Negotiable (Wisconsin CD Program) | NR | 27,750,000 | 0.4 |
| Banker's Acceptances | A-1+ | 34,451,142 | 0.4 |
| Total Investments | | <u>\$ 7,722,256,327</u> | <u>100.0</u> |

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The SIF uses the Weighted Average Maturity (WAM) method to analyze interest rate risk and investment guidelines mandate that the WAM for the entire portfolio will not exceed one year.

WAM can be used as a measure of sensitivity to interest rate changes and markets changes. Generally, the longer the maturity, the greater the

sensitivity to such changes. WAM is based on the dollar-weighted average length of time until principal payments must be paid. Depending on the types of securities held in a fund, certain maturity shortening devices (e.g., interest rate resets, call options, and demand features) are taken into account when calculating the WAM.

SIF WAM summary by investment type is found in the table entitled **Weighted Average Maturities (WAM) for Securities**.

State Investment Fund

Notes to Financial Statements

Weighted Average Maturities (WAM) for Securities

June 30, 2014

| Investment Type | Carrying Value | WAM (Days) |
|--|-------------------------|------------|
| Repurchase Agreements | \$ 699,000,000 | 1 |
| Government & Agencies | 6,936,055,185 | 97 |
| Certificates of Deposit | 52,750,000 | 83 |
| Banker's Acceptances | 34,451,142 | 42 |
| Total Investments | <u>\$ 7,722,256,327</u> | |
| Portfolio Weighted Average Maturity (Days) | | <u>88</u> |

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SIF guidelines allow the investment in U.S. dollar denominated issues only.

5. Related Party Transactions

Wisconsin Statutes Chapter 20.002 (11) provides for the short-term temporary reallocation of surplus moneys between statutory funds, provided that the borrowing fund anticipates receiving future revenues to pay back the temporary loan. For Fiscal Year 2014, Chapter 20.002 (11) (b) 2 provides that General Fund borrowings may not exceed 9% of defined revenues (estimated borrowing cap of \$1.348 billion). Chapter 20.002 (11) (b) 3 permits an additional temporary allocation not to exceed 3% of defined revenues for a period of up to 30 days (estimated total borrowing cap of \$1.797 billion). Further, Chapter 20.002 (11) (b) 1 limits the total amount of any temporary

Inter-Fund Loans

June 30, 2014

| Fund | Loan Amount |
|-------------------------------|-----------------------|
| Medical Assistance Trust Fund | \$ 201,663,000 |
| Environmental Fund | 7,789,000 |
| Democracy Trust Fund | <u>1,000</u> |
| Total Loans | <u>\$ 209,453,000</u> |

reallocations to a fund other than the General Fund to \$400 million. The borrowing fund is charged interest on the inter-fund loan at the SIF monthly interest rate. As of June 30, 2014 the amount of inter-fund borrowings between statutory funds invested in the SIF is listed in the table entitled **Inter-Fund Loans**.



State Investment Fund
Schedule of Investments
Fiscal Year Ended June 30, 2014

REPURCHASE AGREEMENTS

| SECURITY NAME | TYPE | YIELD or RATE | MATURITY DATE | RATING | CARRYING VALUE |
|--|-------------|--------------------------|--------------------------|---------------|-----------------------|
| DAIWA TRIPARTY..... | REPO | 0.13 | 07/01/14 | NR | 237,000,000 |
| MITSUBISHI TRIPARTY..... | REPO | 0.13 | 07/01/14 | NR | 210,000,000 |
| JEFFERIES TRIPARTY..... | REPO | 0.13 | 07/01/14 | NR | 252,000,000 |
| TOTAL REPURCHASE AGREEMENTS | | | | | 699,000,000 |

GOVERNMENTS AND AGENCIES

| SECURITY NAME | TYPE | YIELD or RATE | MATURITY DATE | RATING | CARRYING VALUE |
|----------------------|-------------|--------------------------|--------------------------|---------------|-----------------------|
| US T-NOTE 0.25%..... | NOTE | 0.30 | 10/31/14 | AA+ | 24,995,837 |
| FHLB..... | DN | 0.08 | 07/02/14 | A-1+ | 22,699,950 |
| FHLB..... | DN | 0.09 | 07/02/14 | A-1+ | 1,479,996 |
| FHLB..... | DN | 0.12 | 07/02/14 | A-1+ | 7,999,973 |
| FHLB..... | DN | 0.10 | 07/18/14 | A-1+ | 24,478,902 |
| FHLB..... | DN | 0.10 | 07/18/14 | A-1+ | 6,912,674 |
| FHLB..... | DN | 0.16 | 07/25/14 | A-1+ | 9,898,977 |
| FHLB..... | DN | 0.07 | 08/01/14 | A-1+ | 8,549,485 |
| FHLB..... | DN | 0.09 | 08/01/14 | A-1+ | 1,709,867 |
| FHLB..... | DN | 0.10 | 08/01/14 | A-1+ | 26,777,694 |
| FHLB..... | DN | 0.09 | 08/06/14 | A-1+ | 6,899,379 |
| FHLB..... | DN | 0.11 | 08/06/14 | A-1+ | 59,993,220 |
| FHLB..... | DN | 0.13 | 08/06/14 | A-1+ | 132,183,475 |
| FHLB..... | DN | 0.12 | 08/06/14 | A-1+ | 199,977,000 |
| FHLB..... | DN | 0.13 | 08/08/14 | A-1+ | 68,090,898 |
| FHLB..... | DN | 0.08 | 08/15/14 | A-1+ | 35,963,403 |
| FHLB..... | DN | 0.09 | 08/29/14 | A-1+ | 107,338,165 |
| FHLB..... | DN | 0.10 | 09/10/14 | A-1+ | 39,992,506 |
| FHLB..... | DN | 0.15 | 09/11/14 | A-1+ | 31,215,633 |
| FHLB..... | DN | 0.10 | 09/12/14 | A-1+ | 32,923,656 |
| FHLB..... | DN | 0.10 | 09/12/14 | A-1+ | 19,996,026 |
| FHLB..... | DN | 0.14 | 09/16/14 | A-1+ | 4,998,503 |
| FHLB..... | DN | 0.08 | 09/19/14 | A-1+ | 6,908,772 |
| FHLB..... | DN | 0.14 | 09/19/14 | A-1+ | 49,984,444 |
| FHLB..... | DN | 0.07 | 09/22/14 | A-1+ | 31,360,300 |
| FHLB..... | DN | 0.09 | 09/26/14 | A-1+ | 19,995,892 |
| FHLB..... | DN | 0.08 | 10/01/14 | A-1+ | 61,988,117 |
| FHLB..... | DN | 0.08 | 10/10/14 | A-1+ | 401,254,552 |
| FHLB..... | DN | 0.08 | 10/15/14 | A-1+ | 15,496,463 |
| FHLB..... | DN | 0.08 | 10/17/14 | A-1+ | 291,931,672 |
| FHLB..... | DN | 0.08 | 10/24/14 | A-1+ | 11,397,087 |
| FHLB..... | DN | 0.08 | 11/05/14 | A-1+ | 23,443,589 |
| FHLB..... | DN | 0.08 | 11/07/14 | A-1+ | 65,981,503 |
| FHLB..... | DN | 0.09 | 11/14/14 | A-1+ | 85,166,643 |
| FHLB..... | DN | 0.09 | 12/12/14 | A-1+ | 74,969,250 |
| FHLB..... | DN | 0.12 | 05/01/15 | A-1+ | 74,927,167 |
| FHLB..... | DN | 0.12 | 05/01/15 | A-1+ | 99,898,667 |
| FHLB 0.125%..... | NOTE | 0.12 | 08/22/14 | AA+ | 23,500,298 |
| FHLB 0.17%..... | NOTE | 0.12 | 08/26/14 | AA+ | 14,001,157 |
| FHLB 0.21%..... | NOTE | 0.21 | 02/26/15 | AA+ | 50,000,000 |
| FHLB 0.21%..... | NOTE | 0.21 | 02/26/15 | AA+ | 50,000,000 |
| FHLMC..... | DN | 0.09 | 07/01/14 | A-1+ | 1,898,000 |

GOVERNMENTS AND AGENCIES

| SECURITY NAME | TYPE | YIELD or RATE | MATURITY DATE | RATING | CARRYING VALUE |
|------------------|------|------------------|------------------|--------|----------------|
| FHLMC..... | DN | 0.11 | 07/01/14 | A-1+ | 2,085,000 |
| FHLMC..... | DN | 0.11 | 07/07/14 | A-1+ | 54,998,992 |
| FHLMC..... | DN | 0.17 | 07/07/14 | A-1+ | 28,301,198 |
| FHLMC..... | DN | 0.10 | 07/28/14 | A-1+ | 14,694,953 |
| FHLMC..... | DN | 0.10 | 08/01/14 | A-1+ | 999,914 |
| FHLMC..... | DN | 0.19 | 08/01/14 | A-1+ | 249,959,097 |
| FHLMC..... | DN | 0.11 | 08/11/14 | A-1+ | 129,615,760 |
| FHLMC..... | DN | 0.10 | 08/18/14 | A-1+ | 6,499,177 |
| FHLMC..... | DN | 0.16 | 08/18/14 | A-1+ | 137,971,480 |
| FHLMC..... | DN | 0.08 | 08/19/14 | A-1+ | 3,999,592 |
| FHLMC..... | DN | 0.06 | 09/02/14 | A-1+ | 24,997,375 |
| FHLMC..... | DN | 0.09 | 09/02/14 | A-1+ | 35,401,423 |
| FHLMC..... | DN | 0.09 | 09/03/14 | A-1+ | 17,997,120 |
| FHLMC..... | DN | 0.06 | 09/04/14 | A-1+ | 42,195,428 |
| FHLMC..... | DN | 0.10 | 09/08/14 | A-1+ | 1,602,708 |
| FHLMC..... | DN | 0.09 | 09/15/14 | A-1+ | 47,220,026 |
| FHLMC..... | DN | 0.08 | 09/22/14 | A-1+ | 36,993,176 |
| FHLMC..... | DN | 0.14 | 10/01/14 | A-1+ | 199,928,444 |
| FHLMC..... | DN | 0.10 | 10/06/14 | A-1+ | 2,999,192 |
| FHLMC..... | DN | 0.19 | 10/06/14 | A-1+ | 94,726,480 |
| FHLMC..... | DN | 0.20 | 10/14/14 | A-1+ | 199,883,042 |
| FHLMC..... | DN | 0.07 | 10/20/14 | A-1+ | 121,332,929 |
| FHLMC..... | DN | 0.10 | 10/22/14 | A-1+ | 49,984,306 |
| FHLMC..... | DN | 0.07 | 10/24/14 | A-1+ | 6,798,479 |
| FHLMC..... | DN | 0.09 | 10/24/14 | A-1+ | 1,950,439 |
| FHLMC..... | DN | 0.10 | 10/24/14 | A-1+ | 24,992,014 |
| FHLMC..... | DN | 0.06 | 11/03/14 | A-1+ | 48,889,473 |
| FHLMC..... | DN | 0.07 | 11/03/14 | A-1+ | 24,994,149 |
| FHLMC..... | DN | 0.09 | 11/03/14 | A-1+ | 1,899,439 |
| FHLMC..... | DN | 0.08 | 11/04/14 | A-1+ | 19,994,750 |
| FHLMC..... | DN | 0.09 | 11/04/14 | A-1+ | 6,106,183 |
| FHLMC..... | DN | 0.09 | 11/12/14 | A-1+ | 129,958,869 |
| FHLMC..... | DN | 0.08 | 11/17/14 | A-1+ | 59,381,652 |
| FHLMC..... | DN | 0.09 | 12/01/14 | A-1+ | 79,969,400 |
| FHLMC..... | DN | 0.09 | 12/03/14 | A-1+ | 2,998,838 |
| FHLMC..... | DN | 0.09 | 12/08/14 | A-1+ | 49,980,556 |
| FHLMC..... | DN | 0.09 | 12/08/14 | A-1+ | 113,304,660 |
| FHLMC..... | DN | 0.08 | 12/10/14 | A-1+ | 29,989,876 |
| FHLMC..... | DN | 0.09 | 12/15/14 | A-1+ | 73,219,418 |
| FHLMC..... | DN | 0.10 | 12/15/14 | A-1+ | 6,036,339 |
| FHLMC..... | DN | 0.09 | 12/15/14 | A-1+ | 24,189,897 |
| FHLMC..... | DN | 0.18 | 12/15/14 | A-1+ | 19,545,666 |
| FHLMC..... | DN | 0.10 | 01/06/15 | A-1+ | 16,991,521 |
| FHLMC..... | DN | 0.10 | 02/04/15 | A-1+ | 1,199,273 |
| FHLMC..... | DN | 0.10 | 02/09/15 | A-1+ | 2,998,142 |
| FHLMC..... | DN | 0.15 | 02/09/15 | A-1+ | 3,996,283 |
| FHLMC..... | DN | 0.10 | 02/13/15 | A-1+ | 1,499,054 |
| FHLMC..... | DN | 0.10 | 03/17/15 | A-1+ | 15,008,195 |
| FHLMC 0.75%..... | NOTE | 0.12 | 11/25/14 | AA+ | 24,508,364 |
| FNMA..... | DN | 0.13 | 07/01/14 | A-1+ | 25,000,000 |
| FNMA..... | DN | 0.11 | 07/02/14 | A-1+ | 60,799,814 |
| FNMA..... | DN | 0.10 | 07/14/14 | A-1+ | 29,458,936 |

GOVERNMENTS AND AGENCIES

| SECURITY NAME | TYPE | YIELD or RATE | MATURITY DATE | RATING | CARRYING VALUE |
|--|------|------------------|------------------|--------|----------------------|
| FNMA..... | DN | 0.12 | 07/14/14 | A-1+ | 2,499,896 |
| FNMA..... | DN | 0.08 | 07/23/14 | A-1+ | 31,581,486 |
| FNMA..... | DN | 0.10 | 07/23/14 | A-1+ | 49,997,097 |
| FNMA..... | DN | 0.09 | 07/30/14 | A-1+ | 83,965,980 |
| FNMA..... | DN | 0.11 | 08/13/14 | A-1+ | 21,997,109 |
| FNMA..... | DN | 0.12 | 08/15/14 | A-1+ | 3,260,511 |
| FNMA..... | DN | 0.17 | 08/18/14 | A-1+ | 99,977,333 |
| FNMA..... | DN | 0.17 | 08/19/14 | A-1+ | 99,976,862 |
| FNMA..... | DN | 0.09 | 08/25/14 | A-1+ | 32,995,715 |
| FNMA..... | DN | 0.09 | 08/25/14 | A-1+ | 35,495,119 |
| FNMA..... | DN | 0.09 | 08/27/14 | A-1+ | 24,996,635 |
| FNMA..... | DN | 0.17 | 09/02/14 | A-1+ | 99,970,250 |
| FNMA..... | DN | 0.09 | 09/03/14 | A-1+ | 22,313,429 |
| FNMA..... | DN | 0.09 | 09/10/14 | A-1+ | 22,483,009 |
| FNMA..... | DN | 0.10 | 09/10/14 | A-1+ | 21,662,940 |
| FNMA..... | DN | 0.12 | 09/15/14 | A-1+ | 179,954,400 |
| FNMA..... | DN | 0.09 | 09/17/14 | A-1+ | 59,988,300 |
| FNMA..... | DN | 0.11 | 09/22/14 | A-1+ | 6,269,482 |
| FNMA..... | DN | 0.08 | 09/24/14 | A-1+ | 59,988,667 |
| FNMA..... | DN | 0.10 | 09/24/14 | A-1+ | 2,174,512 |
| FNMA..... | DN | 0.06 | 10/01/14 | A-1+ | 42,093,545 |
| FNMA..... | DN | 0.08 | 10/01/14 | A-1+ | 60,217,456 |
| FNMA..... | DN | 0.06 | 10/06/14 | A-1+ | 189,969,283 |
| FNMA..... | DN | 0.10 | 10/27/14 | A-1+ | 2,999,017 |
| FNMA..... | DN | 0.08 | 11/03/14 | A-1+ | 99,973,958 |
| FNMA..... | DN | 0.09 | 11/03/14 | A-1+ | 9,777,114 |
| FNMA..... | DN | 0.08 | 11/12/14 | A-1+ | 24,993,020 |
| FNMA..... | DN | 0.08 | 11/17/14 | A-1+ | 93,721,042 |
| FNMA..... | DN | 0.08 | 11/19/14 | A-1+ | 20,069,710 |
| FNMA..... | DN | 0.13 | 11/25/14 | A-1+ | 74,960,187 |
| FNMA..... | DN | 0.07 | 12/01/14 | A-1+ | 74,977,688 |
| FNMA..... | DN | 0.08 | 12/01/14 | A-1+ | 319,891,200 |
| FNMA..... | DN | 0.09 | 12/01/14 | A-1+ | 2,200,156 |
| FNMA..... | DN | 0.09 | 12/10/14 | A-1+ | 32,062,010 |
| FNMA..... | DN | 0.09 | 12/24/14 | A-1+ | 49,978,000 |
| FNMA 1.30%..... | NOTE | 0.13 | 11/17/14 | AA+ | 10,044,502 |
| FNMA 0.75%..... | NOTE | 0.16 | 12/19/14 | AA+ | 77,353,282 |
| FNMA FLOAT..... | NOTE | 0.48 | 11/21/14 | AA+ | 50,000,000 |
| TOTAL GOVERNMENT AND AGENCIES | | | | | 6,936,055,185 |

CERTIFICATES OF DEPOSIT (CDs)

| SECURITY NAME | TYPE | YIELD or RATE | MATURITY DATE | RATING | CARRYING VALUE |
|-----------------------------------|-------------|--------------------------|--------------------------|---------------|-----------------------|
| BANK OF MONTREAL CHICAGO 0.15%... | CD | 0.15 | 08/18/14 | A-1 | 25,000,000 |
| WISC CD PROGRAM 0.20%..... | CD | 0.20 | 07/15/14 | NR | 1,500,000 |
| WISC CD PROGRAM 0.30%..... | CD | 0.30 | 07/15/14 | NR | 2,000,000 |
| WISC CD PROGRAM 0.20%..... | CD | 0.20 | 08/15/14 | NR | 3,000,000 |
| WISC CD PROGRAM 0.30%..... | CD | 0.30 | 08/15/14 | NR | 750,000 |
| WISC CD PROGRAM 0.20%..... | CD | 0.20 | 09/15/14 | NR | 4,500,000 |
| WISC CD PROGRAM 0.30%..... | CD | 0.30 | 09/15/14 | NR | 500,000 |
| WISC CD PROGRAM 0.30%..... | CD | 0.30 | 11/17/14 | NR | 1,500,000 |
| WISC CD PROGRAM 0.30%..... | CD | 0.30 | 12/15/14 | NR | 12,000,000 |
| WISC CD PROGRAM 1.00%..... | CD | 1.00 | 12/15/14 | NR | 2,000,000 |

TOTAL CERTIFICATES OF DEPOSIT..... 52,750,000

BANKERS ACCEPTANCE (BAs)

| SECURITY NAME | TYPE | YIELD or RATE | MATURITY DATE | RATING | CARRYING VALUE |
|----------------------|-------------|--------------------------|--------------------------|---------------|-----------------------|
| US BANK NA..... | DN | 0.20 | 07/07/14 | A-1+ | 1,999,933 |
| US BANK NA..... | DN | 0.20 | 07/07/14 | A-1+ | 9,999,667 |
| US BANK NA..... | DN | 0.20 | 08/18/14 | A-1+ | 499,867 |
| US BANK NA..... | DN | 0.20 | 08/18/14 | A-1+ | 499,867 |
| US BANK NA..... | DN | 0.20 | 08/18/14 | A-1+ | 5,457,583 |
| US BANK NA..... | DN | 0.20 | 09/02/14 | A-1+ | 9,996,500 |
| US BANK NA..... | DN | 0.21 | 09/04/14 | A-1+ | 5,997,725 |

TOTAL BANKER'S ACCEPTANCES 34,451,142

GRAND TOTAL STATE INVESTMENT FUND..... 7,722,256,327

Agency Information

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