

INVESTMENT BOARD

GOVERNOR'S BUDGET RECOMMENDATIONS

| Source of Funds | FY07 Adjusted Base | FY08 Recommended | % Change Over FY07 | FY09 Recommended | % Change Over FY08 |
|-----------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
| PR-O | 22,474,700 | 22,474,700 | 0.0 | 22,474,700 | 0.0 |
| TOTAL | 22,474,700 | 22,474,700 | 0.0 | 22,474,700 | 0.0 |

FULL-TIME EQUIVALENT POSITION SUMMARY

| Source of Funds | FY07 Adjusted Base | FY08 Recommended | FTE Change From FY07 | FY09 Recommended | FTE Change From FY08 |
|-----------------|-----------------------|---------------------|-------------------------|---------------------|-------------------------|
| PR-O | 104.50 | 104.50 | 0.00 | 104.50 | 0.00 |
| TOTAL | 104.50 | 104.50 | 0.00 | 104.50 | 0.00 |

AGENCY DESCRIPTION

As of June 30, 2006, the board managed over \$81.5 billion in assets. The trust funds of the Wisconsin Retirement System comprise nearly 94 percent of the funds under management. With assets over \$76.4 billion, the Wisconsin Retirement System is currently the 9th largest public pension fund in the United States and the 25th 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 Teacher 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.

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. The investment objective for the small funds is to meet annual fund cash flow requirements, as established by their governing boards.

PERFORMANCE MEASURES

Note: Performance measures have been modified to refine the measures.

2005 AND 2006 GOALS AND ACTUALS

| Prog. No. | Performance Measure | Goal 2005 | Actual 2005 | Goal 2006 | Actual 2006 |
|-----------|------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------------------------------------------|-------------------|-----------------------------------------------------------------------------------------------------------------------------|
| 1. | Core retirement fund returns average at least 7.8% annually over the long term. (Rate established by the WRS actuary.) | In excess of 7.8% | Exceeded goal. Ten-year return was 9.2%. | In excess of 7.8% | Exceeded goal. Ten-year return was 9%. |
| 1. | Core and variable retirement fund returns exceed investment performance benchmarks. | Exceed | Exceeded one-, five- and ten-year investment benchmarks | Exceed | Core Fund exceeded one-, five- and ten-year investment benchmarks. Variable Fund exceeded one-year and ten-year benchmarks. |

| Prog. No. | Performance Measure | Goal 2005 | Actual 2005 | Goal 2006 | Actual 2006 |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Core retirement fund returns exceed peer group median on an absolute and risk adjusted basis. ^{1, 2} | Above the median | Met goal. One-year return ranked in top 22%, five-year in top 29% and ten-year in top 40% of peer group as of December 31, 2004. ¹ Five-year risk adjusted return ranked first in the peer group as of December 31, 2004. ² | Above the median | Met goal. One-year ranked in top 38%, five-year and ten-year in top 24% of peer group as of December 31, 2005. ¹ Five-year risk adjusted return ranked second in peer group as of December 31, 2005. ² |
| 1. | Total costs to manage the core retirement fund are comparable to costs of other public pension funds of similar size and asset mix. (Total costs include agency operations plus fees paid to outside suppliers.) | Total costs are comparable to the median cost of the peer group | Nearly met goal. CY 2004 cost was 24.4 basis points (24.4 cents per \$100 managed) compared to typical costs of 23.6 basis points. ³ | At or below the median peer group cost for similar services | Nearly met goal. CY 2005 cost was 23.6 basis points (23.6 cents per \$100 managed) compared to typical costs of 22.2 basis points. ³ |
| 1. | State investment fund returns exceed investment performance benchmarks. | Exceed | Exceeded five- and ten-year investment benchmarks | Exceed | Exceeded one-, five- and ten-year investment benchmarks |
| 1. | State investment fund returns exceed the median of comparable money market mutual funds. ⁴ | Above the median | Exceeded goal. The fund return ranked first out of 225 government funds and 33rd compared to 1,276 taxable funds as of December 31, 2004. ⁴ | Above the median | Exceeded goal. The fund return ranked first out of 217 government funds and 18th compared to 1,255 taxable funds as of December 31, 2005. ⁴ |

| Prog. No. | Performance Measure | Goal 2005 | Actual 2005 | Goal 2006 | Actual 2006 |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|-----------------------------------------|-------------|
| 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 these funds | Met goal | Meet the cash flow needs of these funds | Met goal |

Note: Based on fiscal year, except where noted.

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

²Peer group selected by the Legislative Audit Bureau.

³As reported by Cost Effectiveness Measurement, Inc.

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

2007, 2008 AND 2009 GOALS

| Prog. No. | Performance Measure | Goal 2007 | Goal 2008 | Goal 2009 |
|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| 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. ¹ | Return averages at least 7.8% annually over the long term | Return averages at least 7.8% annually over the long term | Return averages at least 7.8% annually over the long term |
| 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 | 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 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 | Core fund's net five-year investment return exceeds the peer group median on an absolute and risk adjusted basis | Core fund's net five-year investment return exceeds the peer group median on an absolute and risk adjusted basis |

| Prog. No. | Performance Measure | Goal 2007 | Goal 2008 | Goal 2009 |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| 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. ⁵ | 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.

¹As determined by the actuary in establishing the investment earnings rate.

²As reported by Cost Effectiveness Measurement, Inc.

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.

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

INVESTMENT BOARD

GOVERNOR'S BUDGET RECOMMENDATIONS

RECOMMENDATIONS

1. Operating Budget Authority and Administration

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

| | ACTUAL FY06 | ADJUSTED BASE FY07 | AGENCY REQUEST | | GOVERNOR'S RECOMMENDATION | |
|---------------------|----------------|--------------------------|----------------|------------|------------------------------|------------|
| | | | FY08 | FY09 | FY08 | FY09 |
| PROGRAM REVENUE (2) | \$19,054.3 | \$22,474.7 | \$22,474.7 | \$22,474.7 | \$22,474.7 | \$22,474.7 |
| State Operations | 19,054.3 | 22,474.7 | 22,474.7 | 22,474.7 | 22,474.7 | 22,474.7 |
| TOTALS-ANNUAL | 19,054.3 | 22,474.7 | 22,474.7 | 22,474.7 | 22,474.7 | 22,474.7 |
| State Operations | 19,054.3 | 22,474.7 | 22,474.7 | 22,474.7 | 22,474.7 | 22,474.7 |

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

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

| | ADJUSTED BASE FY07 | AGENCY REQUEST | | GOVERNOR'S RECOMMENDATION | |
|---------------------|--------------------------|----------------|--------|------------------------------|--------|
| | | FY08 | FY09 | FY08 | FY09 |
| PROGRAM REVENUE (2) | 104.50 | 104.50 | 104.50 | 104.50 | 104.50 |
| TOTALS-ANNUAL | 104.50 | 104.50 | 104.50 | 104.50 | 104.50 |

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

(4) All positions are State Operations unless otherwise specified

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

| | ACTUAL FY06 | ADJUSTED BASE FY07 | AGENCY REQUEST | | GOVERNOR'S RECOMMENDATION | |
|------------------------|----------------|--------------------------|----------------|------------|------------------------------|------------|
| | | | FY08 | FY09 | FY08 | FY09 |
| 1. Investment of funds | \$19,054.3 | \$22,474.7 | \$22,474.7 | \$22,474.7 | \$22,474.7 | \$22,474.7 |
| TOTALS | 19,054.3 | 22,474.7 | 22,474.7 | 22,474.7 | 22,474.7 | 22,474.7 |

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

| | ADJUSTED BASE FY07 | AGENCY REQUEST | | GOVERNOR'S RECOMMENDATION | |
|------------------------|--------------------------|----------------|--------|------------------------------|--------|
| | | FY08 | FY09 | FY08 | FY09 |
| 1. Investment of funds | 104.50 | 104.50 | 104.50 | 104.50 | 104.50 |
| TOTALS | 104.50 | 104.50 | 104.50 | 104.50 | 104.50 |

(4) All positions are State Operations unless otherwise specified

1. Operating Budget Authority and Administration

The Governor recommends: (a) adjusting the board's annual budget authorization from 2.75 to 3.25 basis points on assets under management; (b) revising the current statutory budget authority floor of \$20,352,800 PR to the amount certified by basis point determination in the last fiscal year of the previous biennium; and (c) assessing each fund under management for operating expenditures on September 1 of each year for the entire fiscal year.