

SWIB STATE OF WISCONSIN
INVESTMENT BOARD

Goals for
INVESTING IN WISCONSIN
Fiscal Years 2021-2025



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Introduction

With more than \$126 billion in total assets as of June 30, 2020, the State of Wisconsin Investment Board (SWIB) is an independent state agency responsible for managing assets of the fully funded Wisconsin Retirement System (WRS), the State Investment Fund (SIF), and several separately managed funds. Sophisticated investment management strategies, forward-looking technologies, and strong internal asset management make SWIB a leading investment organization. As a premier money manager, SWIB brings a disciplined, prudent, and innovative approach to market opportunities. It consistently generates reasonable long-term investment returns and meets challenges in a constantly evolving investment landscape.

SWIB's fundamental responsibility is to generate strong investment returns and maintain the fiduciary duty it owes to the trust funds under management. However, SWIB welcomes opportunities that have the double benefit of being both a good investment for the trust funds and good for Wisconsin's economy. For decades, SWIB has been making investments in Wisconsin and will continue to try and do so in the future. As of June 30, 2020, SWIB had investments of nearly \$25 billion in companies with at least 20 employees located in the state. Of that amount, approximately \$722 million is invested in companies either headquartered in Wisconsin or with 30 percent or more of their operations based in Wisconsin.

SWIB has two dedicated portfolios that focus on Wisconsin. The Wisconsin Private Debt Portfolio dates back to the 1960s. About 80 percent of loans in this portfolio have been to companies that are headquartered in, have operations in, or intend to invest proceeds in Wisconsin. The Wisconsin Venture Capital Portfolio launched in 1999 investing in early stage funds and companies. SWIB's annual Wisconsin investments average approximately 10 percent of the institutional opportunities in the state. For more information about these two portfolios, please listen to SWIB's November 21, 2020 podcast at <https://www.swib.state.wi.us/podcasts>.

With the coronavirus dominating the news in 2020, one particular early stage investment SWIB made years ago is worth revisiting today. SWIB was part of a group of investors that participated in the first institutional financing of the company FluGen in 2015. SWIB recognized the significance of the work being done by this Madison-based vaccine company led by a leading virologist. FluGen, along with Bharat Biotech and University of Wisconsin researchers, is one of the companies developing and testing vaccines to fight COVID-19. SWIB made new investments in FluGen in both Fiscal Year 2019 and Fiscal Year 2020.

SWIB's impact on Wisconsin goes beyond just investments. SWIB brings venture capitalists from around the country to Wisconsin so they can learn more about the state's start-up community and networks. SWIB is a sponsor of several venture capital events and programs such as the Wisconsin Early Stage Symposium, BioForward's Annual Meeting, and the Greater Madison Area Chamber of Commerce Pressure Chamber event. SWIB staff also works to connect small businesses with financing options and available business support services.

SWIB has for decades been a key cog in the engine that is Wisconsin's economy. SWIB is pleased to present its plans for the years ahead in *Goals for Investing in Wisconsin, Fiscal Years 2021-2025*.

Background

SWIB is required by state statutes to report biennially to the Governor and Legislature on a five-year plan for making investments in Wisconsin and to respond to comments solicited from the Wisconsin Economic Development Corporation (WEDC) on ways to support and grow Wisconsin's economy. For purposes of this report, the definition of Wisconsin companies means companies domiciled in the state or with a significant presence of 30 percent or more of its operations in Wisconsin.

Wisconsin investments are held primarily in the Wisconsin Retirement System (WRS) trust funds, which totaled over \$112 billion or 89 percent of SWIB's assets under management as of June 30, 2020. The WRS is the 9th largest U.S. public pension fund and 25th largest public or private pension fund worldwide. Additional investments in Wisconsin are mostly in the State Investment Fund (SIF) and other separately managed funds. The SIF is a pool of cash balances of various state and local government units and the WRS cash that is managed by SWIB.

Investment decisions begin with SWIB's Board of Trustees and the asset allocation process. Trustees set the mix of assets for each fund and investment guidelines for each portfolio. Asset

allocation and guidelines are online at www.swib.state.wi.us. Within these parameters, staff make investment decisions. Based on the current asset allocation mix, Wisconsin investments fall in the following asset classes:

- **Private markets** including real estate, private equity, venture capital, private debt, hedge funds, and external public managers, which includes traditional and alternative investment strategies.
- **Public equities** where SWIB purchases shares of stocks in companies.
- **Public fixed income** including publicly traded bonds and certificates of deposit.

This report includes investments in public markets (stocks and bonds) in portfolios actively managed primarily by SWIB staff, some investments delegated to external managers, as well as internally managed index portfolios. In addition, the report includes holdings in private markets (real estate, venture capital, private equity, and business loans) that are held in SWIB's name. Investments in externally managed index funds or other publicly traded funds, in which SWIB's monies are commingled with other investors, are not included in the actual or projected amounts in this report. In those situations, SWIB holds a share of the fund, not individual companies.

Committed to Wisconsin

SWIB has made a significant commitment to Wisconsin businesses. As of June 30, 2020, SWIB had total holdings of nearly \$25 billion in companies with 20 or more employees in Wisconsin. (See Appendix A).

Since the last reporting period in 2018, SWIB made new investments totaling \$102.6 million in FY 2019 (See Appendix C) and \$183.0 million in FY 2020 (See Appendix B) in Wisconsin companies that are either headquartered or have 30 percent or more of their operations in the state. The annual details for the four years ending June 30, 2020 and an estimated amount for the year ending June 30, 2021 can be found in the chart **Annual New Wisconsin Investments**. The estimated amount for the year ending June 30, 2021 was calculated based on the average amounts invested in the previous four years.

As shown in the chart, SWIB expects new investments in Wisconsin companies will be within the previously projected range for FY 2017 to FY 2021. Projections for new investments in Wisconsin companies for

Annual New Wisconsin Investments Five-Year Period (In millions)	
Fiscal Year	Investment Amount
2017	\$ 183.7
2018	160.7
2019	102.6
2020	183.0
2021 (estimate)	157.5
Five-Year Total	\$ 787.5
Prior Projection FY 2017-2021	\$325 to \$1,610

the next five years range from \$425 million to nearly \$2 billion. Projected investment amounts are based on recent historical trends and future expectations, but actual results depend on many factors including changes in the investment markets and asset allocation. The chart **Projected New Wisconsin Investments FY 2021 through FY 2025** outlines projected investments by asset class.

Projected New Wisconsin Investments FY 2021-FY 2025 (In millions)		
	Projected 1-Year Range	Projected 5-Year Range
Public Fixed Income	\$30 - \$250	\$150 - \$1,000
Public Equities	\$40 - \$140	\$200 - \$700
Private Markets		
Private Debt	\$5 - \$25	\$25 - \$125
Private Equity/Venture Capital	\$10 - \$20	\$50 - \$100
Real Estate	\$0	\$0 - \$10
Total	\$85 - \$435	\$425 - \$1,935

WRS Private Debt Portfolio

The WRS' Wisconsin Private Debt Portfolio provides financing for company operations both inside and outside of the state. While its fiduciary duty is owed to the trust funds of the WRS, SWIB has found ways to invest meaningful capital directly into companies that not only provide market rate returns, but also lead to enhanced economic activity throughout the state.

Approximately 80 percent of the Private Debt Portfolio is invested in Wisconsin opportunities. As of June 30, 2020, the portfolio held loans to 39 borrowers headquartered or having operations in Wisconsin totaling over \$400 million. The average outstanding balance for borrowers was about \$10 million. SWIB entered into eight new transactions in each of FY 2019 and 2020.

Trusted Partner Since 1960

Since the 1960s, SWIB has helped hundreds of companies with over \$2.3 billion in loans. SWIB was an early leader focusing on in-state investments, later adding an internally managed private debt portfolio dedicated to investing in Wisconsin businesses in the 1980s.

The portfolio's mandate is to make long-term, fixed-rate investments in companies through private transactions and maintain an average investment grade quality credit rating. It allows SWIB to fill a specific need by making this type of direct financing available especially to companies unable to get the attention of large investors. SWIB often collaborates with the company's

banks and other institutional investors, providing long-term loans that complement the bank's short-term financing, but does not compete with the bank to provide other financial services. Loans are highly customized and include senior loans as small as \$5 million and subordinated loans as small as \$3 million. Loans typically mature in five to fifteen years and feature a fixed interest rate for the life of the loan. Most loans are secured with real estate or other collateral.

Typically, staff works directly with companies to analyze information and negotiate loans. An investment banker or broker hired by the borrower may assist. Most Wisconsin borrowers do not have an independent credit rating, so SWIB prepares the underwriting and credit analysis and then proposes and



negotiates a suitable financing structure.

The Wisconsin Private Debt Portfolio also offers mezzanine financing, which entails a higher level of risk because loans are subordinated to the company's bank or other senior debt financing. To compensate, expected returns for these investments range from 14 percent to 16 percent. Investments consist of a loan, and in some instances, some equity holding with the loan maturing in five years and earning interest only through its life.

Seeking New Opportunities

In 2016, SWIB's private debt program expanded. SWIB's Board of Trustees approved guideline changes to the Wisconsin Private Debt Portfolio that expanded the investment region from Wisconsin, Illinois, Iowa and Michigan to include Indiana, Ohio, and Pennsylvania. Changes also removed the percentage restrictions on investments in companies outside Wisconsin and transferred the loans not made in the state into a new portfolio called the Non-Wisconsin Private Debt Portfolio. The changes allow SWIB to better compete in a region where SWIB is seeing more opportunities and that should mean continued consistent portfolio

performance. In 2020, given the overall success of the portfolio, the investable region was again expanded to include all 50 U.S. states.

SWIB's core investment strategy for the portfolio has not changed. SWIB welcomes new investment opportunities that fit the Wisconsin Private Debt Portfolio's guidelines. Staff actively seeks new investment possibilities by marketing this financing resource to Wisconsin businesses and collaborating with financial institutions. If an investment opportunity does not fit with the portfolio's criteria, staff works to identify other potential sources of funding and frequently makes referrals on behalf of the borrower to the Wisconsin Economic Development Corporation (WEDC), commercial banks, private equity groups, or other capital sources. The actual amount of loans in which SWIB will invest ultimately depends upon investment opportunities, general market conditions, and resources.

Looking to the future, from FY 2021 to 2025, SWIB projects new Wisconsin Private Debt Portfolio loans will range from \$25 million to \$125 million.

One *Whey* SWIB's Private Debt Program Helps Wisconsin

When Wisconsin Whey Protein was looking for help to fund new equipment and productivity improvements at its state-of-the-art facility, the company started looking for a partner that could offer a creative financing solution. The company connected with SWIB and the partnership that was formed allowed a fast growing company and one of the country's premier investment managers to work together on a project that created local jobs, pumped millions of dollars back into the local economy, and benefited the over 652,000 members of the fully funded Wisconsin Retirement System (WRS).

Founded in 2012 in Turtle Lake, Wisconsin Whey Protein has become one of the state's largest single-site cheese and whey manufacturing facilities. Making a pound of cheese generates about nine pounds of whey, the watery part of milk left after it has been curdled and strained. Wisconsin Whey Protein's advanced technology helps wring out additional value from whey. The company makes whey protein isolates and nutraceutical grade lactose found in beverages, sports nutrition bars, and infant formula.

Because of continued success and growth of the markets it served domestically and internationally, Wisconsin Whey Protein found itself needing to expand its production facilities. Through SWIB's Private Debt Program, SWIB presented Wisconsin Whey Protein with a creative financing solution that helped the company increase capacity and improve productivity in Darlington, while also meeting its primary objective of proving to be a good investment for the WRS.

Businesses participating in SWIB's Private Debt Program are primarily headquartered or operating in Wisconsin or have plans to invest in our state. The investment in Wisconsin Whey Protein is just one example of how SWIB's Private Debt Program benefits the entire state in multiple ways, first

by generating good risk-adjusted returns for the WRS, but also by supporting Wisconsin's economy. Companies of all sizes interested in learning how SWIB's Private Debt Program could help them write their own success stories, should contact SWIB Portfolio Manager Chris Prestigiaco at Chris.Prestigiaco@swib.state.wi.us.



Venture Capital Portfolio

SWIB's primary objective for investing in early stage start-up companies through its Wisconsin Venture Capital Portfolio is to generate good investment returns for the beneficiaries of the WRS on a risk-adjusted basis. A secondary benefit, many times, comes from potential jobs these investments can create.

While investment returns and regional economic enhancement are important, just as important with many of these investment opportunities is how the technologies created at the start-up companies can change the lives of people. According to a report from the Wisconsin Technology Council, SWIB is Wisconsin's largest investor in the venture capital asset class.

Targeting Venture Capital Investments

Private equity consists of equity securities in companies not publicly traded on a stock exchange. These investments carry higher risks than publicly traded investments but offer the potential for a higher rate of return. Venture capital is one form of private equity investment. The Wisconsin Venture Capital Portfolio, which began in 1999, targets venture capital investments in Wisconsin. In 2016, the Non-Wisconsin Venture Capital Portfolio was created to target investments on a global basis in limited partnership or other fund vehicles, through strategic partnerships, or as co-investments in venture-backed companies.

Active funds allocated to the Wisconsin Venture Capital Portfolio are committed to 12 venture capital funds as of June 30, 2020. The portfolio also has active direct investments in nine Wisconsin venture stage companies. As of June 30, 2020, the Wisconsin Venture Capital Portfolio had over \$300 million committed/ invested in funds and directly into companies.

The portfolio capitalizes on the imbalance between the high amount of research and development in the Wisconsin region, entrepreneurial talent, low cost to operate a business within the state, and relatively low amount of venture capital dollars seeking investments here.

SWIB believes it can make money on this imbalance because



venture capital investing requires time-intensive and hands-on attention to each company. The high costs can be prohibitive for long-distance investments giving an advantage to local investors with established connections to the research conducted here and business leaders with the skills to build companies that can commercialize this research. The lack of competition gives local investors the opportunity to invest at attractive valuations and select the best opportunities.

From the onset of the venture capital initiative, SWIB has made several direct investments in Wisconsin-based companies. SWIB has invested in over 20 companies directly since inception of the portfolio.

Getting the Word Out About Wisconsin

SWIB has built strong relationships with many top-tier venture capital funds. In addition to venture capital investments, SWIB introduces coastal managers to investment opportunities in Wisconsin. Over the long term, these types of meetings and introductions should make more funding available to state businesses seeking venture capital funds.

SWIB participates in a number of events to support the local early-stage and venture capital community. An example of this is SWIB's sponsorship and participation in the Greater Madison Area Chamber of Commerce Pressure Chamber start-up pitch competition. The event, which is part of the Forward Festival, an eight-day celebration of entrepreneurship and innovation in Madison, is a contest in which emerging companies pitch their ideas in front of a panel of regional

investors, business executives, and a live audience. The winning company joins a group of start-ups on a trip to the Silicon Valley in California to meet with prominent venture capital firms. SWIB is part of the Madison delegation on the trip that includes state economic development partners and Chamber leaders.

SWIB has participated in the past in events such as the Wisconsin Early Stage Symposium and BioForward's Annual Meeting, sponsoring the Wisconsin Angel Network eVestor Newsletter and gener8tor's Launch Day event, and hosting and sponsoring speaker luncheons.

Increasing Opportunities

Over the past 20 years, SWIB has allocated over \$400 million to its Wisconsin Venture Capital Portfolio. This represents approximately 20 percent of SWIB's total venture capital commitments. As investments mature, SWIB expects to redeploy funds as new opportunities arise. SWIB expects the percentage invested in Wisconsin to increase in the future. From FY 2021 until FY 2025, SWIB projects new Wisconsin private equity/venture capital investments will range from \$50 million to \$100 million.

Finding the support of investors is not always an easy hurdle to clear for many startup companies in the Midwest. In 2014, SWIB, along with the Wisconsin Alumni Research Foundation (WARF), launched its own fund, 4490 Ventures, to take advantage of the lack of capital in Wisconsin by targeting early stage information technology companies.

Other Wisconsin Investments

Real Estate

SWIB's downtown Madison office building, which is owned by the WRS, has increased in value significantly since its purchase from the state in 2004. With SWIB planning to move to the Madison Yards development in 2022, SWIB will begin the process of selling its current building. SWIB expects the WRS will benefit from the eventual sale.

Nearly all other real estate investments are made through funds and partnerships rather than through direct investments. From FY 2021 until FY 2025, SWIB projects new Wisconsin real estate investments of up to \$10 million.

Public Equities

Staff will continue to research and consider public equity investments in quality Wisconsin companies that offer value to the WRS. Staff will explore opportunities among initial public offerings and secondary stock offerings of Wisconsin companies. In addition, staff will research small Wisconsin companies that Wall

Street analysts normally do not follow. Actual investments depend on investment strategies, market conditions, available opportunities and portfolio size. From FY 2021 until FY 2025, SWIB projects new Wisconsin public equity investments will range from \$200 million to \$700 million.

Public Fixed Income

SWIB's public fixed income group invests in government and corporate bonds for the WRS, SIF and separately managed funds. The portfolios invest primarily in high to medium quality public fixed income instruments that offer commensurate returns. Managers continue to review any public offering by a Wisconsin company to see if it meets the portfolio's investment criteria. Other investments include commercial paper of Wisconsin corporations and deposits in Wisconsin financial institutions. From FY 2021 until FY 2025, SWIB projects new Wisconsin public fixed income investments will range from \$150 million to \$1 billion.

Wisconsin Economic Development Corporation Suggestions & SWIB's Response



September 30, 2020

David Villa
Executive Director/Chief Investment Officer
State of Wisconsin Investment Board
121 E. Wilson St.
Madison, WI 53703

Mr. Villa:

In accordance with Wisconsin Statute 238.26, the Wisconsin Economic Development Corporation (WEDC) respectfully submits to the State of Wisconsin Investment Board (SWIB) this report outlining the types of investments in business that will have the greatest likelihood of enhancing economic development in Wisconsin.

Wisconsin Tomorrow

As instructed by Act 185, the Wisconsin Economic Development Corporation prepared the *Wisconsin Tomorrow* report outlining the economic impact of the COVID-19 public health crisis and the plan for response. WEDC partnered with numerous public agencies and private sector partners to identify the challenges precipitated by the COVID-19 pandemic. The issues and opportunities articulated in the report are broad and form the basis of WEDC's recommendations to SWIB. These recommendations should not be taken as direction; rather, they are offered to establish common ground and understanding for how we, as a state, emerge and recover from the current crisis. Looking forward, while we are currently rooted in the challenges of an unprecedented pandemic, the observations in *Wisconsin Tomorrow* will carry beyond the COVID-19 crisis and establish a path to future opportunities in a "next normal."

People and Communities

There is very little, if anything, untouched by the COVID-19 pandemic. Industries have been disrupted, schools have moved to virtual instruction, millions of employees are working from home, parents struggle to find and provide childcare, businesses have closed, health care systems are stressed, arts and entertainment venues have shuttered, and governments face revenue shortfalls.

Unemployment numbers went from record lows prior to the pandemic to rates nearly quadrupling over a period of weeks. While many jobs have returned, many Wisconsin residents remain out of work, particularly those in lower-skill and lower-wage occupations creating a compound impact on those less able to weather economic storms.

Many businesses closed temporarily or had to make significant operations adjustments to remain open and serving customers. Businesses remaining open face challenges with keeping employees and customers safe and rapidly changing customer behavior. Expansion plans were put on hold, and





businesses and creditors on all sides tried to conserve cash by delaying payments while trying to collect what they could.

No region of Wisconsin has been spared from COVID-19, though the impacts and effects are not uniform. The northern regions face significant challenges brought by the reduction in tourism through the peak season. Western regions wrestle with closures of universities and large employers that ripple through the service sector. Rural manufacturers and food producers in southwest Wisconsin face tightening profit margins. The densely populated Milwaukee and Madison regions see significant impacts on service and recreation related to reduced consumer confidence. Major employers in south central Wisconsin have been forced to institute layoffs or temporary closures. Manufacturing businesses in eastern Wisconsin needed to find cost savings in manufacturing as supply chains were pressured.

Economic Equality

COVID-19 has exacerbated the economic challenges faced by ethnic minorities and rural communities. Businesses owned by people of color tend to be smaller and are thus less able to survive economic hardships. These businesses also tend to be in industries that have proven vulnerable to the current pandemic.

Rural communities also face unique and compounding challenges. In addition to the direct impacts on businesses, employees and residents, the lack of widespread broadband access has hampered the ability to translate activities and operations to a virtual environment.

Major Industries

Agriculture is a \$104 billion industry in Wisconsin and employs over 435,000 employees. This cornerstone of the economy is an integral part of the state's identity and our cultural fabric. To support this critical sector, the State of Wisconsin provided \$50 million in direct payments to farmers. WEDC has also established the Office of Rural Prosperity, and while this office is not expressly focused on agricultural issues, the two topics are intrinsically linked.

The construction industry employs over 122,000 people in Wisconsin and includes a wide span of project types: residential remodels, major commercial developments, institutional projects, road construction, utilities and more. Characterizing the impact of COVID-19 on the construction industry is challenging due to the diversity of industry subsectors and long development timelines for projects.

The Wisconsin forest products industry generated over \$24 billion in revenue in 2017 and employed over 63,000 workers. While forest products are incorporated into almost every aspect of our lives, the industry nonetheless faces volatility and challenges. The paper industry has historically been one of the state's economic pillars, and is facing shifting market conditions pressuring producers and the underlying supply chain. Rural Wisconsin is disproportionately impacted by changes in the forest products industry, as many manufacturers are located close to the forests that supply their necessary raw materials.





Manufacturing provides nearly 20% of state GDP and includes 9,400 companies. While this sector remains strong and stable, manufacturers have known for many years that they face an aging workforce and the need to modernize in order to increase productivity and efficiency. The industry has also faced challenges in finding and training sufficient workforce to capitalize on the available opportunities. The manufacturing sector retains significant strength and economic potential that must be leveraged to spur economic restart and recovery.

Retail and services have been hit hard by the pandemic. As challenging as business can be when faced with economic headwinds, the difficulties facing the retail, restaurant and any other sectors reliant on face-to-face interaction are compounded when consumers cannot be out and about. The retail sector provides much of our community fabric, especially in our downtowns, yet is also an important user of commercial space and provider of local employment and proprietor income.

It almost goes without saying that tourism, an industry reliant on people leaving home and traveling, has been impacted by COVID-19. Wisconsin, like many vacation destinations, has communities that are almost entirely reliant on the tourism economy. Couple the general slowdown in activity with fact that the pandemic spanned the peak travel season of spring and summer, and the businesses and communities that depend on tourism are facing even longer path to recovery. Tourism also includes the business travel, conventions, meetings and dinners many employees are missing as they work from home. It is not just the recreation economy that is impacted, but also urban centers and the high-end hotels and restaurants that entice the business traveler.

Looking ahead, Wisconsin has the potential to capitalize on the strengths of bedrock industries, but also to capitalize on the growth potential of established and emerging technology sectors. The biotech; water; energy, power and controls; software and data processing; and other innovation sectors have the potential to bring growth opportunities that help Wisconsin not just emerge from the current economic downturn but capitalize on new opportunities and thrive.

The Path Forward

While the impact of COVID-19 is all too easy to see, Wisconsin's ability to recover and move beyond the economic crisis is tied to several key thematic areas: returning to work, access to broadband technology, and innovation.

Returning to work is an outcome of recovery, yet also fundamental to achieving it. We must work collectively as an economic system, including the public, private and academic sectors, to ensure that people have the opportunities and skills to enjoy full employment and prosperity.

Broadband has emerged as perhaps the most consistently cited issue people are facing during the pandemic. While residents in urban areas may be inconvenienced by conducting their daily affairs online instead of in person, for many in rural areas the option to "go virtual" simply does not exist. These connectivity limitations exacerbate the already challenging economic conditions many of these communities faced before the pandemic and create significant challenges to restart and recovery. There is also the lurking danger of longer-lasting impacts for businesses and students that are unable to keep



up with their peers who have better access to communication infrastructure. If significant numbers of people and businesses are unable to compete, communities may be set back, or perhaps more boldly put, left behind.

Innovation is critical to emerging from the pandemic and returning to a thriving, vibrant economy. New business formation has long been recognized as a primary source of job growth and economic potential. These new businesses not only create new economic opportunity, they bring new technologies and solutions to market that can solve problems and provide societal benefits. But new businesses are not the only source of innovation. We must also look to our established industries and corporate leaders as sources of innovation and potential.

SWIB's Opportunities

Returning to what role the Investment Board can play to support economic development, including in the immediate economic restart and longer-term recovery, it is not SWIB's responsibility to solve the current economic crisis. Clearly any large institutional investor can play an important part in supporting our collective return to normalcy, but SWIB's fundamental responsibility is to the participants in the Wisconsin Retirement System (WRS) so the economic support must fit within SWIB's core mission and will likely be part of a "double bottom line" return. With that as the acknowledged backdrop, it is clear from the *Wisconsin Tomorrow* report that SWIB's existing activities have a great deal of overlap with the challenges facing Wisconsin's economy and with the opportunities to emerge and thrive.

The most significant contribution to the Wisconsin economy that SWIB can make is to continue its long and responsible management of one of the only fully funded public pension systems in the nation and providing income to many thousands of beneficiaries, 80% of which is paid to Wisconsin residents. This personal income is spent in communities across the state and acts as a form of slow-burning stimulus spent at the local restaurants and retail businesses hit so hard by the pandemic.

The additional benefits to the plan design and fully funded nature include reducing future taxpayer liability, providing opportunity for future funding priorities such as education and transportation, and even a sense of certainty and good governance that many corporate decision-makers value as they weigh where to invest their resources. The stability of public pensions in Wisconsin is a key asset in challenging economic times when so many governments outside Wisconsin must include pension liabilities in their decision-making as they grapple with lost revenues and strained service budgets—an issue Wisconsin elected officials are able to largely sidestep.

Access to Capital

Wisconsin-based financial institutions, particularly small and locally owned community banks, require access to capital so they can continue to be the lifeblood of our businesses and communities in these challenging times. SWIB's Wisconsin CD Program is an important source of capital to these institutions. WEDC encourages SWIB to continue supporting Wisconsin financial institutions for the benefit of companies and citizens.





SWIB's other investments in Wisconsin provide an additional source of capital and financial stability. Investing in Wisconsin's public equities, public fixed income and real estate are important activities that support people, businesses and communities across the state. SWIB has a history of investing in health care, retail and infrastructure projects, including utilities and broadband—all areas that are directly related to the many challenges caused by COVID-19. Continuing to pursue quality investment in these key areas will be of great benefit to the state as we move forward.

Competitiveness and Productivity

SWIB's Private Debt Program is an important tool for businesses investing in technology and equipment to expand, stay competitive and advance new innovations. This valuable program can help keep Wisconsin at the leading edge of our core economic driver industries, particularly manufacturing and agriculture. SWIB's ability to support companies' modernization and expansion plans will help those companies providing new employment opportunities and economic stability lead Wisconsin's recovery from the current economic challenges caused by COVID-19.

The Private Debt Program is an important resource for companies in small or rural communities where local economies can rely on a few key employers. Strengthening companies in rural areas is critical if we are to support and preserve Wisconsin's unique communities, culture and quality of life. Continuing to build relationships with rural institutions will help to open access to opportunities for SWIB and for those companies in our smaller communities seeking additional sources of capital.

As WEDC is in frequent contact with businesses about their needs and expansion plans, we are interested in continuing to engage in cross-training opportunities for our staff, and to work with our local and regional partners to increase awareness and provide referrals for the Private Debt Program.

Startups and Venture Capital

New business formation is often cited as one of the key ingredients of a strong economy. Startups are often linked to innovation and offer the promise of economic and employment growth potential. Innovation-based businesses tend to create quality, high-wage jobs that support families and serve to attract highly skilled new residents.

SWIB is a critical component of Wisconsin's early-stage and venture capital ecosystem, providing capital and opening doors as a globally renowned institutional investor. SWIB's mission as an investor can continue to be leveraged to support Wisconsin's venture capital ecosystem. By investing in locally managed funds, SWIB can ensure the availability of local sources of capital for Wisconsin startups. By leveraging its connections to a broader pool of sophisticated investors, SWIB can help open doors to a network of resources to support Wisconsin businesses looking to bring ideas to a national and global markets. We encourage SWIB to continue to explore supporting venture capital focused on Wisconsin opportunities and making commitments when the risk and return profile is appropriate.

In addition to investing in existing funds, the partnership established with the Wisconsin Alumni Research Foundation leading to the creation of 4490 Ventures is a model that can bring new investors and partners



Melissa Hughes
Secretary and CEO

together, potentially leading to new sources of capital, increased investments and a path for growing companies.

Because of its noted size, strength and quality management, SWIB has a unique ability to draw attention to Wisconsin and the opportunities in the state. We offer to collaborate with SWIB on communicating the unique strengths and benefits of Wisconsin as SWIB engages with those inside and outside the state as part of its core investment activities. By continuing to work together, we can raise the state's profile with businesses, investors, lenders and potential employees as they search for new opportunities. SWIB is an excellent ambassador for Wisconsin, and we look forward to supporting and assisting you in showcasing and sharing our state's many strengths as we fulfill our respective missions.

Emergence

The initial and acute economic impacts of COVID-19 occurred in spring, but they have also persisted and even changed through summer. As schools look to restart, we do not yet know what the fall season will bring, but we must be prepared for the economic impacts to outlast the immediate health crisis. We must also be aware that the impacts of COVID-19 have not been uniform, and neither will our economic restart and recovery.

COVID-19 is not the only factor impacting Wisconsin's economy. There are a wide variety of well-known opportunities and challenges. The global pandemic, however, is the proverbial elephant in the room and has become linked to nearly every aspect of the economy so we cannot separate discussion of economic opportunity from COVID challenges—and there are indeed opportunities for investment and economic growth among those many formidable challenges. We must all remain diligent to identify those areas of our economy that are especially challenged by conditions outside of their control and look for creative and innovative ways that we can create and capitalize on opportunities that help all Wisconsinites thrive.

Melissa L. Hughes
Secretary & CEO



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December 31, 2020

Melissa Hughes, Secretary/CEO
Wisconsin Economic Development Corp.
201 W. Washington Ave.
Madison, WI 53703

Dear Ms. Hughes,

Thank you for sharing your thoughts and suggestions on how the State of Wisconsin Investment Board (SWIB) can continue its efforts to seek out investment opportunities in Wisconsin. We appreciate discussing ways SWIB can work with the Wisconsin Economic Development Corp. (WEDC). The impact of COVID-19 on Wisconsin's economy was understandably the focus of your letter to SWIB. In times of economic turmoil such as we have seen in 2020, the Wisconsin Retirement System (WRS) is a pillar of financial stability for the state. Over \$5 billion in WRS pension payments are distributed annually to over 200,000 retirees, more than 85 percent living in Wisconsin, who then spend those dollars on goods and services in their communities. Investment income earned by SWIB represents more than 75 percent of total funding for the WRS.

As you noted in your letter, SWIB's fundamental responsibility is to generate strong investment returns and maintain the fiduciary duty it owes to the trust funds under management, like the WRS. However, we welcome opportunities that have the double benefit of being both a good investment for the WRS trust funds *and* good for Wisconsin's economy. SWIB has been making such investments for decades and will continue to look for these opportunities to do so in the future.

SWIB makes investments in Wisconsin through real estate, public equities, public fixed income, and the Wisconsin Certificate of Deposit Program. Broadly, these investments reach nearly every corner of and industry in the state in some way.

More specifically, since the 1960s, over \$2.3 billion has been lent to Wisconsin businesses via SWIB's Wisconsin Private Debt Program. Often partnering with a company's bank, SWIB loans have helped Wisconsin companies get access to capital so they may restructure, expand, and create jobs. These businesses span the state and include everything from paper manufacturers, food producers, healthcare providers to financial institutions.

Your letter also discusses venture capital. SWIB's Wisconsin Venture Capital Portfolio was launched in 1999 and has since invested or committed over \$400 million to early stage funds and companies. Approximately 80 percent of those funds targeted investments in Wisconsin, and over 80 percent of the Wisconsin Venture Capital portfolio's direct company investments are in Wisconsin (based on capital invested.) SWIB's annual Wisconsin Venture Capital commitments/investments average approximately 10 percent of the institutional in-state opportunities. SWIB continues to be one of Wisconsin's largest investors in the venture capital asset class.

Circling back to the coronavirus, one particular early stage investment SWIB made years ago is worth revisiting today. SWIB was part of a group of investors that participated in the first institutional financing of the company FluGen in 2015. SWIB recognized the significance of the work being done by this Madison-based vaccine company led by a leading virologist. FluGen, along with Bharat Biotech and University of Wisconsin researchers, is one of the

companies developing and testing vaccines to fight COVID-19. SWIB made new investments in FluGen in both Fiscal Year 2019 and Fiscal Year 2020.

SWIB has developed relationships with venture capital funds not only in Wisconsin, but throughout the Midwest and on the coasts. Those relationships have allowed SWIB to introduce potential investors to business leaders and entrepreneurs from Wisconsin for more than a decade. The potential long-term result of helping make these connections is more funding being made available to state businesses seeking venture capital funds.

SWIB and WEDC have a strong history of collaboration and we look forward to future dialog as we continue to find ways within our fiduciary duty to partner with and invest in Wisconsin businesses. Thank you again for providing your recommendations to us.

Sincerely,

A handwritten signature in black ink, appearing to read "David Villa". The signature is fluid and cursive, with the first name "David" being more prominent than the last name "Villa".

David Villa
Executive Director/Chief Investment Officer

Appendix A

Total Wisconsin Investments by Asset Class June 30, 2020

Asset Class	Headquartered or Significant Presence ² in WI	Not Headquartered in WI - But 20+ WI Employees	Total Investment in WI
Private Equity/Private Debt	\$ 280,733,314	\$ 294,057,813	\$ 574,791,127
Fixed Income	34,091,958	4,653,187,492	4,687,279,450
Public Equities ³	352,621,574	16,595,666,728	16,948,288,302
Real Estate	12,419,938	61,372,834	73,792,772
Multi Asset	23,029,843	1,379,393,320	1,402,423,163
Short-Term Funds ¹	<u>19,445,000</u>	<u>1,051,901,857</u>	<u>1,071,346,857</u>
Total	\$ <u>722,341,627</u>	\$ <u>24,035,580,044</u>	\$ <u>24,757,921,671</u>

¹ Includes commercial paper, certificates of deposit, and bankers' acceptances valued at par.

² "Significant Presence" is defined as a company with 30% or more of their operation in Wisconsin.

³ Does not include liability exposure due to shorting.

Total Wisconsin Investments by Asset Class June 30, 2019

Asset Class	Headquartered or Significant Presence ² in WI	Not Headquartered in WI - But 20+ WI Employees	Total Investment in WI
Private Equity/Private Debt	\$ 232,118,105	\$ 309,429,199	\$ 541,547,304
Fixed Income	18,320,163	1,948,449,478	1,966,769,641
Public Equities ³	261,396,954	17,962,638,922	18,224,035,876
Real Estate	13,996,290	70,482,147	84,478,437
Multi Asset	6,860,555	1,094,247,051	1,101,107,606
Short-Term Funds ¹	<u>44,200,000</u>	<u>632,124,196</u>	<u>676,324,196</u>
Total	\$ <u>576,892,067</u>	\$ <u>22,017,370,993</u>	\$ <u>22,594,263,060</u>

¹ Includes commercial paper, certificates of deposit, and bankers' acceptances valued at par.

² "Significant Presence" is defined as a company with 30% or more of their operation in Wisconsin.

³ Does not include liability exposure due to shorting.

Appendix B

NEW INVESTMENTS IN WISCONSIN COMPANIES MADE IN FY 2020 (as of June 30, 2020)

<u>Asset Class</u>	<u>Amount</u>	<u>Location</u>
Public Equities		
Artisan Partners Asset Management	\$ 84,500	Milwaukee
Duluth Holdings	117,920	Belleville
Exact Sciences Corp.	3,471,514	Madison
Fiserv Inc.	91,209,392	Brookfield
Harley-Davidson Inc.	2,209,659	Milwaukee
Ingersoll Rand Inc.	39,269,271	Milwaukee
Johnson Outdoors	100,122	Racine
The Manitowoc Company Inc.	1,685,312	Manitowoc
The Marcus Corporation	33,175	Milwaukee
Marten Transport	35,224	Mondovi
Quad/Graphics	89,375	Sussex
Regal Beloit Corporation	186,777	Beloit
Rexnord Corp.	915,893	Milwaukee
Rockwell Automation Inc.	195,108	Milwaukee
Waterstone Financial Inc.	77,116	Wauwatosa
Total Public Equities	<u>\$ 139,680,358</u>	
Fixed Income		
Ascension Health	\$ 795,335	Various
Bemis Company Inc.	101,087	Neenah
Fiserv Inc.	2,356,879	Brookfield
Harley-Davidson Inc.	205,920	Milwaukee
Kohl's Corp.	6,850,205	Menomonee Falls
Oshkosh Corp.	839	Oshkosh
Physicians Realty	512,837	Milwaukee
Rockwell Automation Inc.	255,017	Milwaukee
Snap-On Inc.	199,603	Pleasant Prairie
Southwestern Public Service	225,570	Madison
State of Wisconsin	249,123	Madison
WEC Energy Group Inc.	54,737	Milwaukee
Wisconsin Electric Power	561,424	Milwaukee
Wisconsin Power & Light	501,288	Madison
Wisconsin Public Service	573,602	Green Bay
Bankers Bank	19,445,000	Statewide
Total Fixed Income	<u>\$ 32,888,466</u>	
Private Markets¹		
4490 Ventures LP	\$ 3,000,000	Madison
Baird Venture Partners	1,837,180	Milwaukee
Flugen Inc.	184,595	Madison
Madison Vaccines Inc.	185,302	Madison
Venture Investors Fund	5,174,245	Madison
Total Private Markets	<u>\$ 10,381,322</u>	
Grand Total	<u>\$ 182,950,146</u>	

¹ Includes private equity, private debt, venture capital, and real estate.

This report contains new investments with companies that are headquartered in Wisconsin and/or have a significant presence in Wisconsin.

Appendix C

NEW INVESTMENTS IN WISCONSIN COMPANIES MADE IN FY 2019 (as of June 30, 2019)

<u>Asset Class</u>	<u>Amount</u>	<u>Location</u>
Public Equities		
Exact Sciences Corp.	\$ 8,676,058	Madison
Fiserv Inc.	4,711,513	Brookfield
Gardner Denver Holdings Inc.	3,591,964	Milwaukee
Generac Holdings Inc.	1,940,010	Waukesha
The Manitowoc Company Inc.	1,047,103	Manitowoc
MGIC Investment Corp	664,424	Milwaukee
Physicians Realty Trust	6,367,170	Milwaukee
Plexus Corp.	1,584,746	Neenah
Regal Beloit Corp.	605,389	Beloit
Rexnord Corp.	3,300,024	Milwaukee
Schneider National Inc.	1,274,794	Green Bay
Snap-On Inc.	3,139,209	Pleasant Prairie
Spectrum Brands Holdings Inc.	41,242	Middleton
Total Equities	<u>\$ 36,943,646</u>	
Public Fixed Income		
Fiserv Inc.	\$1,526,817	Milwaukee
Wisconsin CD Program	44,200,000	Statewide
Total Fixed Income	<u>\$ 45,726,817</u>	
Private Markets¹		
4490 Ventures II LP	\$ 4,300,000	Madison
American Transmission Co. LLC	5,000,000	Waukesha
Flugen Inc.	240,000	Madison
Quad/Graphics Inc.	1,516,702	Sussex
Silatronic Inc.	14,143	Madison
Venture Investors	8,898,425	Madison
Total Private Markets	<u>\$ 19,969,270</u>	
Grand Total	<u>\$ 102,639,733</u>	

¹ Includes private equity, private debt, venture capital, and real estate.

This report contains new investments with companies that are headquartered in Wisconsin and/or have a significant presence in Wisconsin.

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