
2024 Retirement Funds ANNUAL REPORT

SWIB STATE OF WISCONSIN
INVESTMENT BOARD



Table of Contents

INTRODUCTION.....	2
Executive Director/Chief Investment Officer Message	3
Agency Overview	4
Agency Management.....	6
Board of Trustees	7
FINANCIAL SECTION	8
Independent Auditor’s Report.....	9
Management Discussion and Analysis.....	12
Financial Statements	19
Notes to the Financial Statements	21
AGENCY INFORMATION.....	55



INTRODUCTION

Executive Director/Chief Investment Officer Message

Each year, as we reflect on the performance of the Wisconsin Retirement System (WRS) trust funds, two questions consistently come up. The first is: how did the trust funds perform? I am pleased to report that in 2024, our disciplined investment strategy enabled us to navigate persistent inflation, geopolitical uncertainties, and continued market volatility to generate positive returns. These results mean that retirees will see an annuity increase, while contribution rates for employees and employers remain stable.



The second question I am often asked is: what do I expect in the year ahead? While I cannot predict the future with certainty, I can say with confidence that the WRS remains well positioned to meet its obligations, no matter what economic challenges arise. Our long-term, diversified investment approach—along with prudent stewardship and strong governance—ensures that we can continue delivering the retirement security our participants rely on.

We are incredibly fortunate to be part of a pension system that is built for stability and long-term growth. The WRS remains one of the few fully funded public pension plans in the country, ensuring that we can keep our promises to participants today and in the future. With over 692,000 individuals relying on the WRS for their retirement security, our commitment to them remains unwavering.

We remain committed to continuous improvement and innovation to sustain one of the most resilient public pension funds in the country. We are focused on enhancing our operations and technology infrastructure to optimize performance and increase active return. Additionally, we are dedicated to recruiting top talent with the skills and experience necessary to support SWIB's mission. Our commitment to innovation and excellence ensures that we remain a leader in pension fund management.

A handwritten signature in black ink that reads "Edwin Denson". The signature is written in a cursive, flowing style.

Edwin Denson
Executive Director/Chief Investment Officer

Agency Overview

In addition to the WRS trust funds, SWIB serves the state by investing the assets of the State Investment Fund, University of Wisconsin System Trust Funds, Injured Patients and Families Compensation Fund, State Life Insurance Trust Fund, and the Wisconsin Historical Society Trust Fund.

SWIB was created under Section 15.76 of the Wisconsin Statutes and its duties to invest these funds are provided in Chapter 25 of the Wisconsin Statutes. SWIB is a fiduciary and is governed by the “prudent investor” standard, which requires it to use the diligence, skill, and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund. The law also requires SWIB to make investment decisions and conduct its operations solely to fulfill the purpose of the funds under management.

Strong Governance

SWIB is governed by a nine-person, independent Board of Trustees. Trustees appoint the executive director and set the governing policies for SWIB. The executive director/chief investment officer (ED/CIO) oversees the staff, develops, and recommends agency and investment policies for Board adoption, and ensures adherence to state law and policies. The ED/CIO serves as chair of the Investment Committee. The Investment Committee provides oversight of SWIB’s investments and reports to and makes recommendations to the Trustees.

Experienced Staff

SWIB’s investments are managed by its own professional staff and by outside management firms. SWIB’s staff consists of 298 authorized positions (as of Dec. 31, 2024) and includes portfolio managers, investment analysts, and traders who are responsible for daily investment decisions made within the parameters of the investment policy, as well as highly trained professionals with legal, technical, accounting, and operational expertise. Approximately 71% of SWIB investment management staff hold a graduate degree or higher.

Internal Management

Having a strong internal management program provides a significant financial benefit to the WRS. SWIB’s Board of Trustees has committed to internal, active management. According to CEM Benchmarking, an independent provider of objective cost benchmarking for public pension plans, SWIB does more internal management of assets than other US pension plans. SWIB’s cost for internal active management is considerably lower than the cost of external active management. In addition to cost savings, SWIB’s active management has created billions in value added compared to a simple passively constructed portfolio.

Growing a Strong Future

Historically, markets tend to be cyclical with periods of strong performance and periods of decline. Because SWIB is a long-term investor, it can be more patient than many other investors. However, it must also be responsible and committed to a thoughtful investment strategy that can weather both positive and negative market conditions. SWIB’s investment strategy is designed to provide moderate downside protection from dramatic market downturns, while still earning reasonable returns in other market conditions.

According to Callan Associates, Inc., a firm that provides independent research, education, decision support, and advice to public pension plans and other institutional investors, the Core Fund’s asset allocation adjusted gross investment last returns as of December 31, 2024 performed above the median of peer US pension plans over the last one-, three-, five-, and ten-year periods.

More information may be found in SWIB's Goals, Strategies & Performance Report: swib.state.wi.us/publications.

MISSION

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

VISION

SWIB will be an innovative, agile, integrated organization that optimizes investment returns while managing risk and cost over the long term.

VALUES

Values are the fundamental beliefs of our organization. They are guiding principles that explain our desired behaviors in the workplace and ensure we are on the right path. We believe in these values and will uphold them.

People - We believe people are the core of SWIB's mission. We value our people beyond their work, and encourage intellectual curiosity, transparency, candor, and respect. We're passionate about recruiting, developing, and retaining our talent. We respect, appreciate, and accept all SWIB employees and are committed to cultivating and preserving a diverse and inclusive workplace.

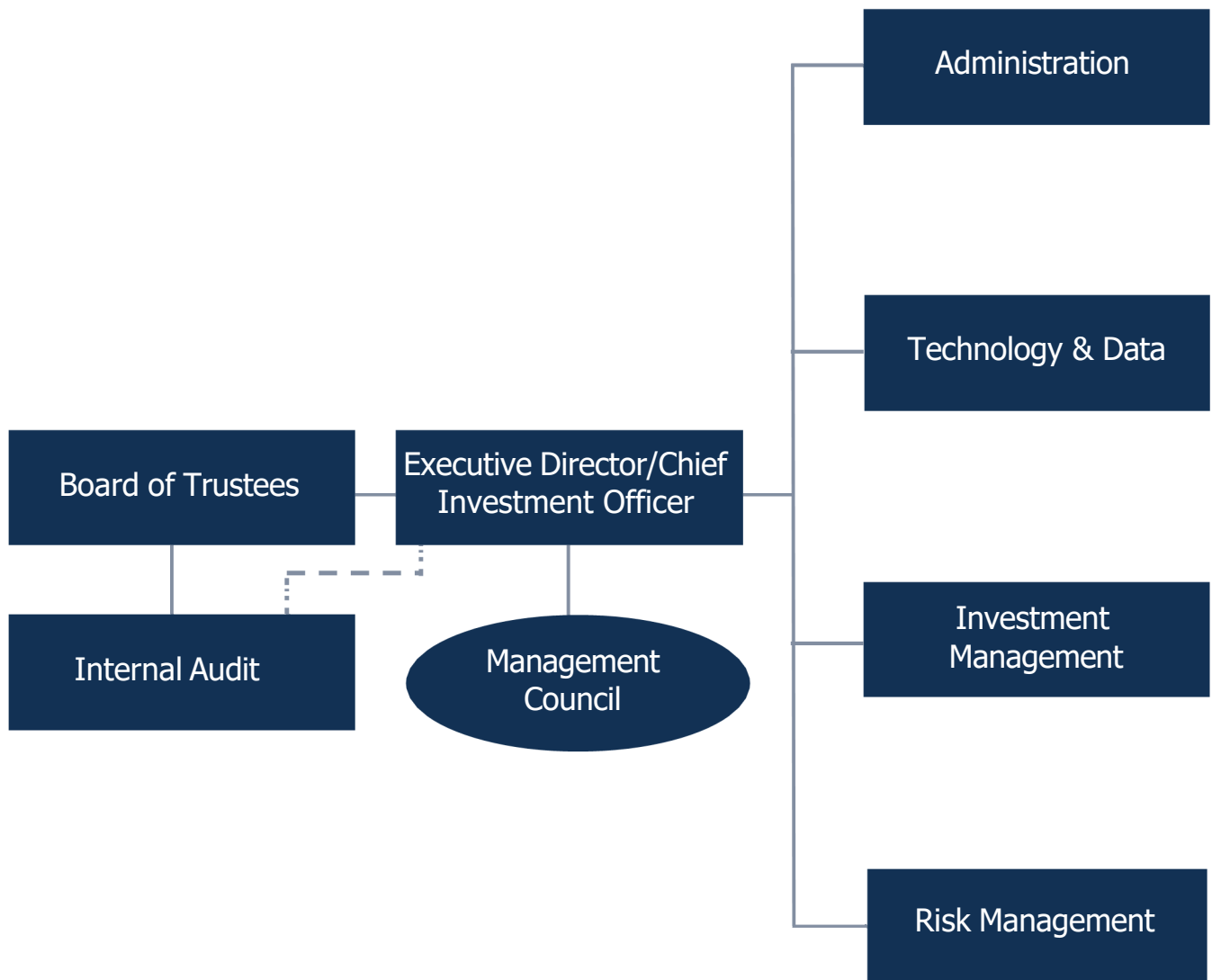
Excellence - We strive to exceed expectations and take pride in the quality of our work. We are motivated to continually improve and expand our viewpoints. We are results focused and process driven.

Integrity - We hold ourselves to the highest ethical standards in meeting our fiduciary duty. We maintain our internal and external relationships on a solid foundation of trust, dependability, accountability, and openness.

Innovation - We believe innovation is critical to SWIB's success and requires each person to have a genuine interest in creativity, prudently embrace change, and challenge the norm.

Collaboration - We operate as one team, seeking ways to contribute our individual talents toward achieving our shared mission. We value diverse ideas and recognize that thoughtful collaboration requires commitment, openness, preparation, and hard work.

Agency Management



Board of Trustees

The Board of Trustees is responsible for setting long-term investment policies, asset allocation, benchmarks, and fund level risk and monitoring investment performance. The Board is comprised of the following, per Section 15.76 of the Wisconsin Statutes (Board as of Dec. 31, 2024. See swib.state.wi.us for current Board):

- Six public members appointed by the Governor and confirmed by the State Senate including four with at least 10 years investment experience, and one with at least 10 years financial experience and who works for a local government in the Local Government Investment Pool
- Educator participant in the Wisconsin Retirement System (WRS) appointed by the Teachers Retirement Board
- Non-educator participant in the WRS appointed by the Wisconsin Retirement Board
- Secretary of the Department of Administration or designee

Public Members*

1. Clyde Tinnen, Board Chair, Corporate Partner, Foley & Lardner LLP, Milwaukee
2. Tom Merfeld, Board Vice Chair, Retired Chief Risk Officer and Chief Financial Officer, CUNA Mutual Group
3. Esther Ancel, Emeritus Professor of Finance, UW-Milwaukee
4. Jeff DeAngelis, Former Chief Investment Officer, Northwestern Mutual Wealth Management Company, Former President, Mason Street Advisors
5. Barb Bolens, Director of the Nicholas Center for Corporate Finance and Investment Banking, UW-Madison
6. Robert Scott, Director of Finance and Administration, City of Brookfield

WRS Participant Members*

1. Dave Schalow, Educator, Professor of Business, UW-Stevens Point
2. John Voelker, Non-educator, Department Secretary, Employee Trust Funds

Department of Administration

1. Kathy Blumenfeld, Department Secretary

* Appointed Board members serve six-year terms.



Clyde Tinnen



Tom Merfeld



Esther Ancel



Jeff DeAngelis



Barb Bolens



Robert Scott



Dave Schalow



John Voelker



Kathy Blumenfeld



FINANCIAL SECTION



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

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees, and
Mr. Edwin Denson, Executive Director/Chief Investment Officer
State of Wisconsin Investment Board

Report on the Audit of the Financial Statements

Opinions

We have audited the Statement of Net Investment Position and the Statement of Changes in Net Investment Position and the related notes for the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund (Retirement Funds) of the State of Wisconsin, administered by the State of Wisconsin Investment Board (SWIB), as of and for the year ended December 31, 2024.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Retirement Funds as of December 31, 2024, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SWIB and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphases of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the investment activity of the Retirement Funds and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of December 31, 2024, the changes in its financial position, or where applicable, its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

As described in Note 2C to the financial statements, the financial statements include investments that do not have readily ascertainable market prices. Some of these investments are valued based on a variety of third-party pricing methods and others, such as private fund investments, are reported based on net asset value. Because of the inherent uncertainty of valuation, these estimated values may differ from the values that could be realized in a secondary market transaction or the amount ultimately realized.

Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance. Therefore, reasonable assurance is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we exercised professional judgment and maintained professional skepticism throughout the audit. We also identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, and designed and performed audit procedures responsive to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

In addition, we obtained an understanding of internal control relevant to the audit in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SWIB's internal control. Accordingly, no such opinion is expressed. We also evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates and related disclosures made by management, and evaluated the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis found on pages 12 through 18 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB) that considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic,

or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures consisted of inquiries of management about the methods of preparing the information and comparing 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. 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 express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in SWIB's *2024 Retirement Funds Annual Report*. The other information comprises the Introduction section on pages 2 through 7 and the Agency Information on page 55, but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or provide any other form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2025, and published in report 25-10, on our consideration of SWIB's internal control over financial reporting; our testing of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is solely 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 effectiveness of SWIB's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used in considering SWIB's internal control over financial reporting and compliance. Report 25-10 is available on our website at www.legis.wisconsin.gov/lab.

LEGISLATIVE AUDIT BUREAU



May 30, 2025

Management Discussion and Analysis

The Retirement Funds' management discussion and analysis of the financial activities for the calendar year ended December 31, 2024 is presented as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year while also comparing several of the current year's activities and results against the prior year.

Overview of Basic Financial Statements

The State of Wisconsin Investment Board (SWIB) is responsible for managing the assets of the Wisconsin Retirement System (WRS). The Core Retirement Investment Trust Fund (Core Fund) and Variable Retirement Investment Trust Fund (Variable Fund; collectively, the Retirement Funds) represent the assets of the WRS. Following this section are the financial statements and notes which reflect only the investment activity of the Retirement Funds. Retirement reserves, contribution revenue, and benefit expense are specifically excluded from presentation in these statements, although contribution revenue and benefit expenses are reflected in "Net Disbursements" in the Statement of Changes in Net Investment Position. The Wisconsin Department of Employee Trust Funds (ETF) prepares an Annual Comprehensive Financial Report, which can be found on their website: etf.wi.gov.

The **Statement of Net Investment Position** provides information on the financial position of the Retirement Funds as of December 31, 2024. It reflects the investment assets available for payment of future benefits and any liabilities related to the investments.

The **Statement of Changes in Net Investment Position** presents the results of the investing activities for the year ending December 31, 2024.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data presented in the financial statements. The notes provide more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

The financial statements and related notes are prepared in accordance with Governmental Accounting Standards Board (GASB) Pronouncements.

Retirement Funds

More than 692,000 people participate in the WRS, including current and former employees of Wisconsin's state agencies, most local governments, and school districts in Wisconsin. Contributions made to the WRS by these employees, and their employers, are invested by SWIB to finance retirement and other benefits.

The Retirement Funds had a combined Net Investment Position of \$139.4 billion as of December 31, 2024. Time-weighted annualized investment returns for the Retirement Funds as of December 31, 2024 are presented in the table entitled **WRS Time-Weighted Annualized Returns**.

Management Discussion and Analysis

WRS Time-Weighted Annualized Returns As of December 31, 2024				
	Net of All Fees and Costs		Net of External Manager Fees	
	One Year	Five Years	Ten Years	Twenty Years
Core Fund	8.5%	7.2%	7.4%	6.9%
Benchmark	7.4%	6.5%	6.9%	6.6%
Variable Fund	18.7%	10.9%	10.4%	8.7%
Benchmark	18.3%	11.1%	10.4%	8.7%

Core Retirement Investment Trust Fund

The larger of the two trust funds comprising the WRS is the Core Fund. The Core Fund had a Net Investment Position of \$128.3 billion as of December 31, 2024. All WRS members have at least half, and most have all, of their pension contributions invested in the Core Fund. It is a diversified, balanced fund invested for the long-term needs of the WRS. Diversification helps stabilize the effects of market changes. The investment objective of this trust fund is to meet or exceed an annual average nominal return of 6.8% over the long-term. This return target is set by ETF with input from external consultants using several factors including market returns, estimated wage growth, and other actuarial assumptions.

Condensed Core Fund financial information for the calendar years ending December 31, 2024 and December 31, 2023 is included in the table entitled **Core Fund Condensed Financial Information**.

Management Discussion and Analysis

Core Fund Condensed Financial Information (In Thousands)				
	2024	2023	\$ Change	% Change
Cash & Cash Equivalents	\$ 3,210,313	\$ 4,266,691	\$ (1,056,378)	(25)
Receivables	9,215,999	6,819,531	2,396,468	35
Invested Securities Lending Collateral	3,463,673	2,089,476	1,374,197	66
Prepaid Expenses	30,491	28,359	2,132	8
Capital Assets, Net	71,725	72,738	(1,013)	(1)
Investments	161,697,671	148,531,900	13,165,771	9
Total Investment Assets	\$ 177,689,872	\$ 161,808,695	\$ 15,881,177	10
Payables & Other Liabilities	\$ 9,772,893	\$ 7,557,640	\$ 2,215,253	29
Securities Lending Collateral Liability	12,027,673	7,450,476	4,577,197	61
Short Sales	7,774,772	5,751,063	2,023,709	35
Obligations Under Reverse Repurchase Agreements	19,794,050	18,524,619	1,269,431	7
Total Investment Liabilities	\$ 49,369,388	\$ 39,283,798	\$ 10,085,590	26
Net Investment Position Held in Trust	\$ 128,320,484	\$ 122,524,897	\$ 5,795,587	5
Investment Income (Loss)	\$ 12,755,996	\$ 14,707,424	\$ (1,951,428)	(13)
Investment Expense	(2,445,305)	(1,986,401)	(458,904)	23
Net Investment Income (Loss)	\$ 10,310,691	\$ 12,721,023	\$ (2,410,332)	(19)
Net Disbursements - Department of Employee Trust Funds	\$ (4,515,104)	\$ (4,631,815)	\$ 116,711	(3)
Net Increase (Decrease) in Net Investment Position Held in Trust	\$ 5,795,587	\$ 8,089,208	\$ (2,293,621)	(28)

The financial statements reflect the investment activity of the Core Fund as well as changes in cash balances due to net disbursements managed by ETF. Net disbursements include, but are not limited to, benefit payments, contribution receipts, transfers to/from the Variable Fund, and administrative expenses.

Cash and Cash Equivalents (C&CE) decreased by \$1.1 billion, or 25%, during 2024. Several factors can impact cash and cash equivalents, including rebalancing the Core Fund's asset allocation and changes in investment strategies at year-end. Also, securitized cash positions and synthetic exposure accounts used to manage liquidity and leverage can change significantly during a given period. These investment strategies require adequate levels of margin to meet risk mitigation requirements.

The **Receivables** balance increased by \$2.4 billion, or 35%, during 2024. The timing and settlement of securities transactions are the largest contributors to changes in the Receivables balance. Approximately 82% of the Receivables balance at year-end related to To Be Announced (TBA) securities. TBA securities are derivative contracts that consist of mortgage-backed securities (MBS) issued by the Government National Mortgage Association, a government entity, and by government-sponsored enterprises, such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corp. The term TBA is derived from the fact that the actual MBS that will be delivered to fulfill a TBA contract is not designated at the time the trade is made. Instead, the specific pool of mortgages making up the MBS is announced 48 hours prior to the established trade settlement date. Eligibility rules and standards for MBS pools deliverable into TBA contracts ensure that delivered MBS pools are fungible. Sold TBA contracts create a receivable on the Statement of Net Investment Position as payment for TBA securities is not made until the settlement date.

Management Discussion and Analysis

Invested Securities Lending Collateral increased by \$1.4 billion, or 66%, during 2024. The balance consists of cash received as collateral for securities lending transactions, which is reduced by cash released to SWIB. As of December 31, 2024, SWIB's securities lending agents released \$8.6 billion in cash from the Invested Securities Lending Collateral pool to SWIB. This cash, plus Invested Securities Lending Collateral, equals the Securities Lending Collateral Liability as of December 31, 2024. The cash released to SWIB provides liquidity for other investment strategies.

Securities Lending Collateral Liability increased by \$4.6 billion, or 61%, during the year. This was driven by an increase in lending activities primarily used to support Core Fund liquidity needs. Investment policies permit the use of both cash and treasury securities as collateral to support short positions.

Prepaid Expenses increased by \$2.1 million, or 8%, during 2024. This change is not representative of a change in total expenses, but rather reflects a difference in timing for the billing and payment of Core Fund internal operating expenses in 2024, as compared to the prior year.

Capital Assets, Net decreased by \$1.0 million, or 1%, during 2024. Additional information on capital assets, including leases and subscription-based information technology arrangements (SBITA), is included in Note 3.

Investments increased by \$13.2 billion, or 9%, during the year. Strong investment returns contributed to the increase in market value. Most asset classes generated positive returns during 2024 as shown in the table entitled **Time Weighted Annualized Asset Class Returns Net of External Management Fees** below.

Core Fund Time Weighted Annualized Asset Class Returns Net of External Management Fees		
Asset Class	2024	2023
Public Equities	17.4%	21.7%
Fixed Income	3.9%	8.9%
Inflation Sensitive*	1.8%	3.9%
Real Estate	(3.2%)	(7.1%)
Private Equity/Debt	7.4%	6.4%
*Some asset classes may be categorized differently than they are within the financial statements.		

Payables & Other Liabilities increased by \$2.2 billion, or 29%, during 2024. The largest contributor to this change was an increase in the balance for investment purchases payable, which is dependent upon the timing and settlement of pending purchase transactions. Investment purchases payable primarily relate to SWIB's use of TBA securities, which accounted for 89% of the total balance as of December 31, 2024. Purchased TBA securities create a payable on the Statement of Net Investment Position as payment for TBA securities is not made until the settlement date.

Short Sales increased by \$2.0 billion, or 35%, during 2024. A short sale transaction is created when a security that is not owned by the portfolio is sold in anticipation of purchasing the security at a different price in the future. Equity short sales accounted for 58% of the 2024 balance while fixed income short sales accounted for the remaining 42%.

Obligations Under Reverse Repurchase Agreements increased by \$1.3 billion, or 7%, during 2024. Reverse repurchase agreements represent the simultaneous sale and agreement to repurchase specific

Management Discussion and Analysis

assets for a pre-determined price, plus interest, at a future date. The proceeds from these agreements are invested in Treasury Inflation Protected Securities (TIPS). During 2024, SWIB increased its participation in reverse repurchase agreements, providing access to low-cost financing needed to maintain SWIB's strategic allocation targets.

During 2024, the Core Fund **Investment Income** was \$12.8 billion compared to investment income of \$14.7 billion in 2023. Investment values increased across most asset classes during 2024. Asset class returns for calendar years 2024 and 2023 are presented in the above table entitled **Core Fund Time Weighted Annualized Asset Class Returns**.

SWIB invests in external legal entities managed by external investment managers to gain exposure to select investment strategies. In exchange for their investment management services, the external managers charge a fee within the entity they manage. These fees are typically assessed as a percentage of SWIB's commitment to, or investment in, the external entity. The fees assessed to these external entities are recorded as a fee within the external entity and are thus included in the Net Increase (Decrease) in the Fair Value of Investments within the Statement of Changes in Net Investment Position. Accordingly, these fees are reported as supplemental information in the table entitled **Schedule of WRS External Management Fees**.

In addition to investment in external legal entities, SWIB engages select external managers to manage capital on behalf of SWIB within SWIB-custodied accounts. Fees paid to these managers are reflected as Investment Expense in the Statement of Changes in Net Investment Position. These fees are combined with the external fees relating to external legal entities in the table entitled **Schedule of WRS External Management Fees**.

Schedule of WRS External Management Fees ¹ (In Thousands)				
	2024	2023	% Change	
Private Equity ²	\$ 477,744	\$ 408,522	17	
Current Return ²	81,097	51,894	56	
Venture Capital ²	47,583	(29,767)	260	
Hedge Funds ³	365,837	273,594	34	
Real Estate ²	85,879	18,491	364	
External Investment Management ⁴	151,411	104,660	45	
Total Fees ⁵	<u>\$ 1,209,551</u>	<u>\$ 827,394</u>	46	
¹ Includes base and performance fees.				
² Reported as Private Fund Investments in the Statement of Net Investment Position.				
³ Reported as Multi Asset and Other on the Statement of Net Investment Position.				
⁴ Includes fees in external legal entities as well as SWIB-custodied accounts. Fees paid for SWIB-custodied accounts are reported within the Statement of Changes in Net Investment Position and totaled \$36.1 million in 2024 and \$29.0 million in 2023.				
⁵ Includes \$16.2 million and \$8.5 million for management of Variable Fund accounts in 2024 and 2023, respectively.				

Management Discussion and Analysis

Investment Expense includes transaction-related expenses, certain external management fees, and expenses tied to Core Fund operations. More detailed expense categories are presented on the **Statement of Changes in Net Investment Position**. Transaction-related expenses are reflected in Investment Operating Expense and Securities Lending Fees. These expenses often relate to the execution of specific investment transactions like short sales. As an example, the dividends a shorted security must pay are reflected as dividend expense.

Two transaction related expense types—commissions and trade execution fees—are excluded from Investment Operating Expense and are instead included in Net Increase (Decrease) in the Fair Value of Investments on the **Statement of Changes in Net Investment Position**.

External investment management fees include base fees and performance fees paid to external managers when they are managing assets on SWIB's behalf within SWIB-custodied accounts. Administrative-related expenses are included in Internal Operating Expenses. Professional Services Expenses include legal fees, research and data services, and investment consulting fees.

The Core Fund incurred \$2.4 billion in Investment Expense during 2024, representing an increase of \$459 million, or 23%, from the prior year. As noted, Investment Expense comprises several individual expense accounts on the financial statements.

Investment Operating Expense accounted for \$1.7 billion, or 71%, of the Core Fund's total investment expenses for the year-ended December 31, 2024. This represents an increase of \$203.2 million versus the prior year. Within Investment Operating Expense, interest expense paid to counterparties increased \$243.7 million, or 18% year-over-year, as short-term interest rates remained relatively high during 2024. This resulted in higher interest paid on reverse repurchase agreements and other cash financing costs, including the securities lending cash release. Securities lending fees increased by \$240.4 million, or 81% from the prior year primarily due to an increase in securities lending activity and higher securities lending borrower rebates paid, which are driven by interest rates. Alternatively, sustained higher interest rates benefitted SWIB during 2024 as they drove increases to the yield from interest-bearing assets throughout the year. Modestly offsetting the interest-driven expense increases was a reduction to dividend expense of approximately \$32.6 million year-over-year.

Variable Retirement Investment Trust Fund

Active employees participating in the WRS have the option of allocating half of their pension fund contributions to the Variable Fund, which almost entirely consists of global equity investments.

Approximately 13% of WRS members participate in the Variable Fund, which had a Net Investment Position of \$11.1 billion as of December 31, 2024. By law, the Variable Fund invests in equity securities and provides participants the potential for higher returns while bearing greater risk. The investment objective of the Variable Fund is to meet or exceed broad equity market indices over a full market cycle.

Condensed Variable Fund financial information for the calendar years ended December 31, 2024 and December 31, 2023 is included in the table entitled **Variable Fund Condensed Financial Information**.

Management Discussion and Analysis

Variable Fund Condensed Financial Information (In Thousands)				
	2024	2023	\$ Change	% Change
Cash & Cash Equivalents	\$ 279,860	\$ 287,284	\$ (7,424)	(3)
Receivables	18,484	36,871	(18,387)	(50)
Invested Securities Lending Collateral	219,980	190,346	29,634	16
Prepaid Expenses	243	8	235	2,938
Investments	10,919,476	9,563,749	1,355,727	14
Total Investment Assets	\$ 11,438,043	\$ 10,078,258	\$ 1,359,785	13
Payables & Other Liabilities	\$ 54,382	\$ 5,643	\$ 48,739	864
Securities Lending Collateral Liability	219,980	190,346	29,634	16
Short Sales	73,380	55,257	18,123	33
Total Investment Liabilities	\$ 347,742	\$ 251,246	\$ 96,496	38
Net Investment Position Held in Trust	\$ 11,090,301	\$ 9,827,012	\$ 1,263,289	13
Investment Income (Loss)	\$ 1,801,728	\$ 1,833,090	\$ (31,362)	(2)
Investment Expense	(20,843)	(18,814)	(2,029)	11
Net Investment Income (Loss)	\$ 1,780,885	\$ 1,814,276	\$ (33,391)	(2)
Net Disbursements - Department of Employee Trust Funds	\$ (517,596)	\$ (423,736)	\$ (93,860)	22
Net Increase in Net Investment Position Held in Trust	\$ 1,263,289	\$ 1,390,540	\$ (127,251)	(9)

Variable Fund **Cash and Cash Equivalents** decreased slightly by \$7.4 million, or 3%, during 2024. Routine rebalancing activities fluctuate throughout the year and can impact cash balances at a point in time.

Receivables decreased by \$18.4 million, or 50%, and **Payables & Other Liabilities** increased by \$48.7 million, or 864%, during 2024. These changes were driven by pending investment sales and purchases at year-end. The changes were due to normal investment activity, which can fluctuate during the year depending upon market conditions, asset transitions, rebalancing activity, and trade opportunities.

Invested Securities Lending Collateral and **Securities Lending Collateral Liability** represent cash collateral held for securities lending transactions. The \$29.6 million, or 16%, increase in these accounts as of December 31, 2024 was driven by increased securities lending activity.

In 2024, the Variable Fund **Investment Income** was \$1.8 billion compared to similar investment income of \$1.8 billion in 2023, which aligned with continued strong equity market returns during 2024. The Variable Fund has an asset allocation target of 70% domestic equities and 30% international equities. As a result, its performance highly correlates with broader equity market trends. As with the Core Fund, SWIB implemented a long-term approach to investing Variable Fund assets. As of December 31, 2024, the Variable Fund's 20-year annualized net of external management fees return approximated 8.7%.

Investment Expense increased by \$2.0 million, or 11%, during 2024. Increases in dividend expense, internal administrative costs and higher securities lending costs were largely offset by a reduction in management fees.

Financial Statements

Statement of Net Investment Position

As of December 31, 2024

(In Thousands)

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Investment Assets		
Cash and Cash Equivalents	\$ 3,210,313	\$ 279,860
Receivables:		
Interest & Dividends	626,304	17,729
Securities Lending Income	3,667	648
Investment Sales	8,586,028	107
Invested Securities Lending Collateral	3,463,673	219,980
Prepaid Expenses	30,491	243
Capital Assets	71,725	-
Investments (at fair value):		
Equities	52,883,859	10,922,168
Fixed Income	60,929,197	-
Private Fund Investments	36,387,238	-
Multi Asset and Other	9,836,015	-
Preferred Securities	435,142	4,772
Convertible Securities	1,275	-
To Be Announced Securities	1,219,426	-
Foreign Currency Contracts	(5,664)	(569)
Option Contracts	1,551	-
Futures Contracts	65,655	(6,895)
Swaps	(56,023)	-
Total Investment Assets	\$ 177,689,872	\$ 11,438,043
Investment Liabilities		
Payable for Investments Purchased	\$ 9,513,367	\$ 51,084
Obligations Under Reverse Repurchase Agreements	19,794,050	-
Short Sales	7,774,772	73,379
Collateral Due to Counterparty	21,622	-
Accounts Payable	148,681	3,167
Other Liabilities	89,223	132
Securities Lending Collateral Liability	12,027,673	219,980
Total Investment Liabilities	\$ 49,369,388	\$ 347,742
Net Investment Position Held in Trust	\$ 128,320,484	\$ 11,090,301
The accompanying notes are an integral part of this statement		

Financial Statements

Statement of Changes in Net Investment Position For the Calendar Year Ended December 31, 2024 (In Thousands)

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Additions		
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	\$ 9,644,021	\$ 1,631,036
Investment Operating Income	2,535,915	151,688
Securities Lending Income	576,060	19,003
Less		
Investment Operating Expense	1,728,735	1,394
Internal Operating Expense	106,893	4,451
Custodial, Bank Fees & Operating Services	6,909	580
Professional Services Expenses	29,715	1,452
External Investment Management Fees	35,455	612
Securities Lending Fees	537,598	12,353
Net Investment Income (Loss)	\$ 10,310,691	\$ 1,780,885
Deductions		
Net Disbursements - Department of Employee Trust Funds	\$ (4,515,104)	\$ (517,596)
Net Increase (Decrease) in Net Investment Position Held in Trust	\$ 5,795,587	\$ 1,263,289
Net Investment Position Held in Trust:		
Beginning of Year	\$ 122,524,897	\$ 9,827,012
End of Year	\$ 128,320,484	\$ 11,090,301
The accompanying notes are an integral part of this statement		

Notes to the Financial Statements

1. Description of Funds

The Wisconsin Legislature created the State of Wisconsin Investment Board (SWIB) for the sole purpose of providing professional investment management for the funds entrusted to it, including the assets of the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund). The Core Fund and the Variable Fund, collectively the Retirement Funds, represent the investment assets of the WRS. The Board of Trustees for SWIB is responsible for the overall professional investment management of the assets of the Wisconsin Retirement System (WRS).

The statements presented herein solely reflect the investment activity of the Retirement Funds. Excluded from presentation in these statements are, for example, retirement reserves, contribution revenue, and benefit expense. The statements are not intended to present the financial activity for the State of Wisconsin as a whole. The notes and related tables included in this section are presented for the Retirement Funds as a whole, unless specified.

Investment related expenses are charged directly to the Retirement Funds and funded through investment earnings, employer and employee contributions. Investment expenses are listed on the Statement of Changes in Net Investment Position. Transaction-related expenses, including commissions, trade execution fees, and fees for certain externally managed funds, are excluded from investment expense and included in the Net Increase (Decrease) in the Fair Value of Investments on the Statement of Changes in Net Investment Position. Generally, these expenses are not readily separable from either the asset acquisition or monetization, or they are included in the net asset value of an investment.

A. Core Retirement Investment Trust Fund

The Core Fund is managed by SWIB with oversight by a Board of Trustees as authorized in Section 25.15 and 25.17 of the Wisconsin Statutes. The Core Fund and SWIB are not registered with the Securities and Exchange Commission (SEC) as an investment company. The investments of the Core Fund consist of a diversified portfolio of securities. SWIB is required to make investment management decisions for the Retirement Funds solely for the benefit of the members of the WRS. Section 25.182 of the Wisconsin Statutes authorizes SWIB to manage the Core Fund in accordance with the prudent investor standard of responsibility. This standard is described in Section 25.15(2) of the Wisconsin Statutes, which requires that SWIB manage the Retirement Funds with the diligence, skill, and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

The Core Fund consists primarily of assets invested for the WRS. The WRS is administered by the Department of Employee Trust Funds (ETF) in accordance with Chapter 40 of the Wisconsin Statutes. All WRS contributions are invested in this trust fund unless participants have elected to have one-half of their contributions invested in the Variable Fund. In addition to the retirement contributions, the assets of various other benefit programs are invested in the Core Fund. Information regarding the other programs invested in the Core Fund can be found in the Annual Comprehensive Financial Report, prepared by ETF, and located on its website: etf.wi.gov.

Notes to the Financial Statements

B. Variable Retirement Investment Trust Fund

The Variable Fund is managed by SWIB with oversight by a Board of Trustees as authorized by Section 25.15 and 25.17 of the Wisconsin Statutes. The Variable Fund and SWIB are not registered with the SEC as an investment company. Section 25.17(5) of the Wisconsin Statutes states that assets of the Variable Fund shall be invested primarily in equity securities that shall include common stocks, real estate, or other recognized forms of equities whether or not subject to indebtedness, including securities convertible into common stocks and securities of corporations in the venture capital stage. Subject to Section 25.17(5), SWIB may invest the Variable Fund in any manner consistent with the prudent investor standard of responsibility in Section 25.15(2) of the Wisconsin Statutes, which requires that SWIB manage the trust funds with the diligence, skill, and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

The Variable Fund consists primarily of the assets invested for the WRS. In addition, there are two other retirement/benefit plans invested in the Variable Fund. Additional information regarding the Variable Fund can also be found in the Annual Comprehensive Financial Report, prepared by ETF, and located on its website: etf.wi.gov.

Participation in the Variable Fund is at the option of the employee. Participants can elect to invest one-half of their retirement contributions and matching amounts of employer contributions to this fund, and have the remainder invested in the Core Fund. Individual participants in the Variable Fund have a one-time option to terminate their Variable Fund participation and transfer their account to the Core Fund.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements are prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

B. Measurement Focus and Basis of Accounting

The financial 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. Securities transactions and the related gains and losses are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

C. Valuation of Securities

The investments of the Retirement Funds are reported in the Statement of Net Investment Position at fair value as prescribed by GASB and per Section 25.17(14) of the Wisconsin Statutes. Unrealized gains and losses are reflected in the Statement of Changes in Net Investment Position as Net Increase (Decrease) in the Fair Value of Investments.

The fair value of the Retirement Funds' assets is obtained or estimated in accordance with a pricing hierarchy established by SWIB's custodian, Bank of New York. As prescribed by the hierarchy, a variety of independent pricing sources are used to price assets based on type, class, or issue.

When a portfolio includes securities or instruments for which the custodial bank does not receive fair value information from its vendor pricing sources, a variety of third-party pricing methods are used, including appraisals, pricing models, third-party pricing services and other methods deemed acceptable by industry standards.

Notes to the Financial Statements

The Cash and Cash Equivalents category reported on the Statement of Net Investment Position consists of short-term investments which are used to meet the liquidity requirements of the Retirement Funds. Cash and Cash Equivalents held by the Retirement Funds can include cash on deposit, foreign currencies, cash posted as collateral to counterparties, repurchase agreements, certificates of deposit, time deposits, US Treasury Bills, short-term investment funds, and other US or foreign liquid financial instruments with maturities that are generally less than three months. Cash and Cash Equivalents are reported at fair value or cost, which approximates fair value.

Exchange-traded securities such as equities, preferred stock, certain derivatives, and exchange-traded funds are generally valued at the official closing price (usually the last trade price).

Privately held debt, which is included as Fixed Income investments on the Statement of Net Investment Position, is priced using approaches that value each holding based on the best available information using the following hierarchy of pricing sources:

1. Custodian-supplied prices for assets that can be priced in accordance with the pricing hierarchy established by SWIB's custodian.
2. Prices provided by a third party with expertise in the debt markets.

For private market investments where no readily ascertainable market value exists, including limited partnerships and real estate pooled funds, fair value is estimated based on the net asset values provided by the general partner. Due to the reporting timing of private market investment managers, reported fair values as of December 31, 2024 are generally based on actual September 30, 2024 reporting, which has been adjusted to reflect cash flows occurring from the most recent statement date through December 31, 2024. The reported fair value is considered an estimate that may differ from the value that could be realized in a secondary market transaction, or the amount ultimately realized. The financial statements of the limited partnerships and real estate pooled funds are audited by independent auditors annually.

Certain portfolios invest in privately held companies alongside a strategic partner, such as a fund manager or sponsor. These co-investments are valued by SWIB's strategic partners, who often employ independent valuation agents and use a variety of methodologies including reviews of subsequent financing rounds, discounted cash flow analyses, cash flow multiples analyses, reviews of market comparable sales or metrics, and reviews of third-party appraisals. In certain cases, SWIB may also use estimates from third-party pricing services that have expertise in valuing these asset types.

Real estate investments owned by SWIB in limited liability companies are valued by independent appraisers every three years. In years when appraisals are not performed, properties are informally appraised by the asset advisor. Each year audited financial statements are prepared for each property.

SWIB employs portfolio strategies which comprise investments across multiple asset classes. The Multi-Asset & Other category on the Statement of Net Investment Position consists primarily of hedge funds and, to a lesser extent, other investments. SWIB values hedge funds based on monthly statements or estimated returns received from each of the hedge fund's administrators.

A third-party administrator's responsibility is to independently account for the hedge fund's activity and calculate the net asset value of the fund. Generally, hedge fund administrators' price financial instruments traded in active markets based on quoted market prices or binding dealer quotations. For certain over the counter (OTC) instruments, fair value is determined based on valuation models used by the administrator or independent valuation agent. Annually, the financial statements prepared by the administrator are audited by independent auditors.

Notes to the Financial Statements

Derivative financial instruments are marked to market daily, with valuation changes recognized in income during the period the instruments are held and when the instrument is sold or expires. The nature and use of derivative instruments are discussed in Note 6.

A limited number of securities are carried at cost. Certain non-public or closely held investments are not reported at fair value but are carried at cost as no independent price quotes are available to estimate fair value for these securities.

D. Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported herein. Due to the inherent uncertainty involved, actual results could differ from those estimates.

3. Capital Assets

Capital assets are reported net of depreciation and amortization within the Statement of Net Investment Position. SWIB maintains tangible capital assets and intangible right-to-use assets.

Capital Assets – Capital assets are tangible items that are included within the Statement of Net Investment Position. They are recorded at cost, which includes the purchase price or construction cost, plus any costs necessary to place the asset into use. Capital assets do not meet the definition of an investment under GASB Statement No. 72, *Fair Value Measurement and Applications*. SWIB adopted a capitalization threshold, which it uses to identify whether items purchased by SWIB are classified as capital assets or operating expenses. Leasehold improvements, furniture, and equipment with a cost greater than \$1 million (separately or in aggregate) and a useful life of more than one-year are recorded as capital assets and depreciated using the straight-line method based on the estimated useful life of the asset. Normal maintenance and repair costs that do not materially add to the value or extend the life of a capital asset are expensed as incurred.

Useful lives of currently held capital assets vary from five to fifteen years, depending on the type of asset, in accordance with GAAP guidance. Depreciation expense is recognized on the Statement of Changes in Net Investment Position. Depreciation timeline ranges for capital assets are listed in the table below.

Capital Asset Useful Lives (Currently Held)	
Description	Years
IT Equipment and Perpetual Computer Software	5
Equipment and Furniture	7
Leasehold Improvements	15

Right-To-Use Assets – Right-to-use assets are intangible and are recorded and presented according to GASB Statement 87, *Leases*, and GASB Statement 96, *Subscription-Based Information Technology Arrangements* (SBITA). A SBITA is a contract that conveys control of the right to use another party's information technology software, alone or in combination with capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The standards for reporting SBITAs under GASB 96 are based on the standards established for leases in GASB 87.

Right-to-use assets resulting from applicable contracts that are considered non-cancelable, and with a cumulative cost greater than \$1 million and one year in term are included in the Capital Asset Account Balances table below and in net capital assets on Statement of Net Investment Position. The corresponding

Notes to the Financial Statements

lease and subscription liabilities are included within Accounts Payable on the Statement of Net Investment Position and are measured at the present value of expected payments over the contract terms.

Leases and SBITA contracts are amortized using the effective interest rate method (amortizes at the same rate as the liability reduction). Interest expense is recognized ratably over the contract term using an incremental borrowing rate. Capitalized implementation costs associated with right-to-use assets are recorded at cost once placed into service and amortized using the straight-line method over the contract term or estimated useful life of the asset. Implementation costs for work in progress right-to-use assets not yet placed into service are recorded separately as work in progress amounts in the **Capital Asset Account Balances** table below.

Capital Asset Account Balances As of December 31, 2024 (In Thousands)								
	Work-In-Progress (Not Depreciated)	IT Equipment	Furniture & Fixtures	Leasehold Improvements	Intangible Right-to-Use Leases	Intangible Right-to-Use Implementation	Intangible Right-to-Use Subscriptions	Total
Cost:								
Balances at Dec. 31, 2023	\$ 6,522	\$ 1,910	\$ 2,759	\$ 10,256	\$ 31,200	\$ -	\$ 28,491	\$ 81,137
Increase	7,467	-	-	35	-	12,760	-	20,262
Decrease	(12,760)	-	-	-	-	-	-	(12,760)
Balances at Dec. 31, 2024	\$ 1,229	\$ 1,910	\$ 2,759	\$ 10,291	\$ 31,200	\$ 12,760	\$ 28,491	\$ 88,639
Less Accumulated Depreciation and Amortization:								
Balances at Dec. 31, 2023		\$ 244	\$ 262	\$ 455	\$ 1,023	\$ -	\$ 6,416	\$ 8,399
Depreciation and Amortization		382	394	687	1,499	209	5,343	8,515
Disposals		-	-	-	-	-	-	-
Balances at Dec. 31, 2024		\$ 626	\$ 656	\$ 1,142	\$ 2,522	\$ 209	\$ 11,758	\$ 16,914
Net Capital Assets at Dec. 31, 2024	\$ 1,229	\$ 1,283	\$ 2,103	\$ 9,149	\$ 28,678	\$ 12,551	\$ 16,733	\$ 71,725

The outstanding lease liability as of December 31, 2024, was \$28.7 million. Total future minimum lease payments under the lease agreements are as follows:

Future Minimum Lease Payments As of December 31, 2024 (In Thousands)		
Year Ended	Principal	Interest
2025	\$ 1,582	\$ 947
2026	1,668	894
2027	1,757	839
2028	1,873	781
2029	1,969	719
2030-2034	11,477	2,553
2035-2037	8,352	560
Total	\$ 28,678	\$ 7,293

Notes to the Financial Statements

The outstanding subscription liability as of December 31, 2024, was \$16.7 million. Total future minimum subscription payments under the subscription agreements listed below.

Future Minimum SBITA Payments As of December 31, 2024 (In Thousands)			
Year Ended	Principal		Interest
2025	\$	3,845	\$ 447
2026		3,503	344
2027		3,731	250
2028		2,740	151
2029		2,914	78
Total	\$	16,733	\$ 1,270

4. Deposit and Investment Risk

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SWIB. Fixed income credit risk investment guidelines outline the minimum ratings required at the time of purchase by individual portfolios, or groups of portfolios, based on the investment strategy of each portfolio. In addition, some fixed income portfolios are required to always carry a minimum weighted average rating. Information regarding SWIB's credit risk related to derivative instruments is found in Note 6.

The table entitled **Credit Quality Distribution** displays the lowest credit rating assigned by nationally recognized statistical rating organizations on debt securities held by the Retirement Funds as of December 31, 2024. Included in this table are fixed income securities, including certain short-term securities, classified as cash equivalents on the Statement of Net Investment Position. Also included are interest rate sensitive investments held in the Retirement Funds' securities lending collateral reinvestment pools, which are managed by SWIB's securities lending program. See Note 7 for additional information regarding the securities lending program.

Credit Quality Distribution As of December 31, 2024 (In Thousands)		
Rating	Fair Value	% of Total
AAA/Aaa	\$ 628,942	0.9
AA/Aa	35,226,282	52.7
A	2,443,186	3.7
BBB/Baa	5,113,243	7.6
BB/Ba	4,367,860	6.5
B	5,608,265	8.4
CCC/Caa or below	632,242	0.9
Not Rated	6,389,295	9.5
Commingled Fixed Income Funds	6,513,238	9.8
Total	\$ 66,922,553	100.0

Notes to the Financial Statements

The table also includes SWIB's investment in commingled fixed income funds which are not rated. Although the funds themselves are not assigned ratings, external management investment guidelines govern minimum credit quality standards for the investments within each portfolio. These standards are determined based on the investment objectives and risk parameters of each fund.

SWIB held \$19.8 billion in reverse repurchase agreements as of December 31, 2024. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase the securities in the future at the same price plus a stated rate of interest. The market value of the securities underlying reverse repurchase agreements exceeds the cash received, providing the counterparty a margin against a decline in the market value of the securities. If the counterparty defaults on their obligation to sell these securities back to SWIB or provide cash of equal value, SWIB could suffer an economic loss equal to the difference between the market value of the underlying securities plus accrued interest and the agreement obligation, including accrued interest.

Counterparty credit risk is mitigated by an intermediary for cleared reverse repurchase agreements. For these types of investments, a clearinghouse interposes itself as counterparty to all trades, extending a guarantee that trades will be settled as originally intended and ensuring performance and margin requirements are imposed. The requirements are established with the intent to cover nearly all expected price changes based on market risk.

SWIB also enters into uncleared reverse repurchase agreements with various counterparties and such transactions are governed by Master Repurchase Agreements (MRA). MRAs are negotiated contracts and contain terms in which SWIB seeks to minimize counterparty credit risk. SWIB also controls credit exposures by limiting trades with any one counterparty to stipulated amounts. The counterparty credit exposure is managed through the transfer of margin, in the form of cash or securities, between SWIB and the counterparty.

The Retirement Funds' counterparty credit exposure for uncleared reverse repurchase agreements as of December 31, 2024 is summarized in the table entitled **Reverse Repurchase Agreements Subject to Counterparty Credit Risk**.

Reverse Repurchase Agreements Subject to Counterparty Credit Risk			
As of December 31, 2024			
(In Thousands)			
Fair Value of Collateral Held by Counterparty		\$	16,447,328
Less:			
Cash Due to Counterparty	\$	16,246,456	
Collateral and Interest Due to Counterparty		37,729	
Total Due to Counterparty			\$ 16,284,185
Net Counterparty Credit Exposure			\$ 163,143

The cash proceeds from reverse repurchase agreements are reinvested by the Retirement Funds. The maturities of the purchases made with the proceeds of reverse repurchase agreements are not necessarily matched to the maturities of the agreements. The agreed-upon yields earned by the counterparty for the reverse repurchase agreements held were between 4.4% and 4.9% as of December 31, 2024. The cash due to counterparties resulting from reverse repurchase agreements is reported as Obligations Under Reverse

Notes to the Financial Statements

Repurchase Agreements and the interest due to counterparties is included in Other Liabilities on the Statement of Net Investment Position.

B. Custodial Credit Risk

SWIB's custodial credit risk policy addresses the primary risks associated with safekeeping and custody. It requires that SWIB's custodial institution be selected through a competitive bid process and that the institution be designated a Systemically Important Financial Institution by the US Federal Reserve. The policy also requires that SWIB be reflected as beneficial owner on all securities entrusted to the custodian and that SWIB have access to safekeeping and custody accounts. The custodian is also required to carry insurance covering errors and omissions and must provide SWIB with an annual report on internal controls, prepared in accordance with the Statement on Standards for Attestation Engagements. In addition, SWIB management has established a system of controls for the oversight of services and related processes performed by the custodian. SWIB's current custodial bank was selected in accordance with these guidelines and meets all the requirements stipulated in the custodial credit risk policy.

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. Cash deposits totaled \$630.0 million as of December 31, 2024. Of the total, \$425.5 million was collateralized by securities borrowed. Deposits totaling \$148.2 million, were uninsured and uncollateralized. These uninsured deposits represent the US dollar equivalent of balances held in foreign currencies in SWIB's custodian's nominee name, cash posted as collateral for derivative transactions, and cash collateral posted in excess of the market value of securities borrowed by SWIB for short sales.

Investments — Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, SWIB will not be able to recover the value of investments that are in the possession of an outside party. The Retirement Funds held repurchase agreements totaling \$3.1 billion as of December 31, 2024. These repurchase agreements were tri-party agreements held in a short-term cash management portfolio managed by SWIB's custodian. The underlying securities for these agreements were held by the tri-party agent, not in SWIB's name.

The Core Trust Fund holds committed repos with a major equity derivative clearing organization (counterparty) for an agreed upon commitment amount, from which the counterparty can fully or partially draw upon at their discretion during the commitment period. A separate account is established at the asset custodian in SWIB's name to hold the available cash and the collateral from the counterparty if any of the commitment amount is drawn. For the undrawn commitment amount, the counterparty pays SWIB a commitment fee. Any cash amounts drawn are structured as repo transactions where SWIB receives a fee and US Treasuries as collateral with a margin percentage greater than 100%. Draws are limited to a maximum of 30 days, and accordingly the term of each repo transaction is also limited to 30 days. The counterparty is rated AA and is a Systematically Important Financial Market Utility. Collateral is marked to market daily. A separate financial services company acts as SWIB's agent and provides indemnification in the event of the counterparty's default.

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. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict issuer concentrations in any one company or to a certain percentage of the portfolio's market value. The Retirement Funds did not hold any investments with a single issuer, exclusive of investments issued or explicitly guaranteed by the US government, representing 5% or more of the Retirement Funds' value as of December 31, 2024.

Notes to the Financial Statements

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SWIB uses several methods to manage interest rate risk. Fixed income instruments held by the Retirement Funds include investments with variable rate securities, stepped rate securities, securities with no coupon, such as discount notes, and coupons that range between 0.0% and 13.8% as of December 31, 2024.

SWIB analyzes long and intermediate term portfolios' interest rate risk using various duration calculations. Modified duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. The calculation is based on the weighted average of the present values for all cash flows. Some investments are analyzed using an option-adjusted duration calculation, which is similar to the modified duration method. Option-adjusted duration incorporates the duration shortening effect of any embedded call provisions in the securities. Duration statistics are weighted by the dollar value of the position to compute an average duration for each investment type.

Short-term portfolios' interest rate risk is analyzed using the weighted average maturity to next reset. Weighted average maturity is the maturity of each position in a portfolio weighted by the dollar value of the position to compute an average maturity for the portfolio as a whole. This measure indicates a portfolio's sensitivity to interest rate changes: a longer weighted average maturity implies greater volatility in response to interest rate changes.

SWIB's investment guidelines related to interest rate risk vary by portfolio. Fixed income portfolios generally require management within a range above or below the benchmark's duration, while others have certain limits on weighted average maturity.

The **Interest Rate Sensitivity by Investment Type** table presents the aggregated interest rate exposure for the Retirement Funds' assets as of December 31, 2024. Weighted average maturity, where reset dates are assumed to be the effective maturity date for the security, is presented for repurchase agreements and short-term pooled investments. Longer-term instruments held by the Retirement Funds are presented using modified duration, as this measure more accurately states the interest rate sensitivity of these investments. This duration measure is calculated using reset dates for some floating rate instruments, such as term loans. Information about the interest rate sensitivity of derivative contracts is included in Note 6.

Notes to the Financial Statements

Interest Rate Sensitivity by Investment Type ¹			
As of December 31, 2024			
(In Thousands)			
Investment Type	Fair Value	Weighted Average Duration (Years)	Weighted Average Maturity (Days)
U.S. Treasury Inflation Protected Securities	\$ 24,151,220	6.4	
Corporate Bonds & Private Placements	15,902,414	5.4	
Corporate Bonds & Private Placements	16,872	N/A ²	
U.S. Treasury Securities	8,572,145	7.2	
Leveraged Loans	3,134,839	N/A ³	
Repurchase Agreements	3,055,709		86
Asset Backed Securities	1,724,456	2.2	
Asset Backed Securities	52,678	N/A ²	
U.S. Government Agencies	1,988,204	5.8	
Foreign Government/Agency Bonds	1,343,987	6.7	
Foreign Government/Agency Bonds	8,665	N/A ²	
Municipal Bonds	176,224	7.4	
Commingled Funds			
Short Term Cash Management	2,903,902		11
Emerging Market Fixed Income	1,909,070	5.5	
US Fixed Income	1,645,251	1.6	
US Fixed Income	45,000	N/A ²	
Exchange Traded	291,917	5.3	
Total	<u>\$ 66,922,553</u>		

¹ Excludes derivatives. See Note 6 for information about the interest rate sensitivity of derivative instruments.

² Duration statistic unavailable.

³ Leverage Loans have limited exposure to interest rate risk as they are floating rate instruments that typically reset monthly. SWIB monitors interest rate risk through several mechanisms, including tracking reference rates, monitoring spread changes and assessing the impact of interest rate fluctuations on the borrower's financial health/credit profile.

SWIB invests in securities with contractual cash flows, such as asset-backed securities, leveraged loans, and US government agencies. These types of structured product investments may be highly sensitive to interest rate changes as they may be subject to early payment in a period of declining interest rates. The resulting changes in timing, or possible reduction in expected total cash flows, affect the fair value of these securities.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. It includes the risk that currencies in which a portfolio's investments are denominated, and currencies in which a portfolio has taken on a long or short active position, will decline or appreciate in value relative to the US Dollar. Foreign currency exchange rates may fluctuate significantly for various reasons, including the forces of supply and demand in the foreign exchange markets, actual or perceived changes in interest rates, intervention by US or foreign governments or central banks, currency controls, or political developments in the US or abroad.

SWIB's policies include general and, in some cases portfolio specific, foreign currency risk management guidelines. The guidelines address foreign currency management activities permitted based on investment

Notes to the Financial Statements

mandates, risk tolerances, and objectives. SWIB may also employ discretionary currency overlay strategies when currency market conditions suggest such strategies are warranted. Additional information related to the management of foreign currencies through the use of derivative instruments is discussed in Note 6.

The table entitled **Currency Exposures by Investment Type** presents the Retirement Fund investments which were exposed to foreign currency risk as of December 31, 2024.

Currency Exposures by Investment Type^{1,2} December 31, 2024 (In Thousands)									
Currency	Cash & Cash Equivalents	Equities	Fixed Income	Private Fund Investments	Preferred Securities	Futures Contracts	Equity Short Sales³	Swaps	Total⁴
Australia Dollar	\$ (758)	\$ 538,005	\$ 962	\$ -	\$ -	\$ (189)	\$ (18,149)	\$ -	\$ 519,871
Brazil Real	-	14,371	-	-	-	-	-	(371)	14,000
Canada Dollar	19,051	1,256,270	1,097	-	-	(2,356)	(59,666)	-	1,214,396
Chile Peso	-	-	-	-	-	-	-	1	1
Colombian Peso	-	-	-	-	-	-	-	118	118
Czech Republic Koruna	992	-	-	-	-	-	-	(563)	429
Denmark Krone	226	287,006	-	1,655	-	-	(36,875)	-	252,012
Euro Member Countries	(8)	3,535,816	107,902	2,289,723	38,901	800	(439,480)	(1,965)	5,531,689
Hong Kong Dollar	(318)	228,289	-	-	-	571	(3,229)	-	225,313
Hungary Forint	195	-	-	-	-	-	-	97	292
India Rupee	537	172,737	-	-	-	-	-	(59)	173,215
Indonesia Rupiah	-	14,305	-	-	-	-	-	-	14,305
Israel Shekel	307	25,855	-	-	-	-	-	-	26,162
Japan Yen	4,282	2,713,383	-	-	10	(110)	(222,190)	-	2,495,375
Malaysia Ringgit	-	968	-	-	-	-	-	-	968
Mexico Peso	(434)	25,124	-	-	-	-	-	(29)	24,661
New Zealand Dollar	182	10,808	-	-	-	-	-	-	10,990
Norway Krone	266	62,446	-	-	11,887	-	(5,901)	-	68,698
Philippines Peso	-	17,957	-	-	-	-	-	-	17,957
Poland Zloty	(2,340)	-	-	-	-	-	-	441	(1,899)
Singapore Dollar	901	167,905	-	-	-	5	(2,435)	-	166,376
South Africa Rand	96	34,489	-	-	-	-	-	(130)	34,455
South Korea Won	-	104,303	-	-	-	-	-	304	104,607
Sweden Krona	508	314,166	-	-	-	75	(81,653)	-	233,096
Switzerland Franc	110	826,528	-	-	-	-	(112,267)	-	714,371
Taiwan New Dollar	1	162,537	-	-	-	-	-	-	162,538
Thailand Baht	-	497	-	-	-	-	-	-	497
United Kingdom Pound	269	1,502,409	2,658	416,446	-	(311)	(83,604)	-	1,837,867
Total⁴	\$ 24,065	\$ 12,016,174	\$ 112,619	\$ 2,707,824	\$ 50,798	\$ (1,515)	\$ (1,065,449)	\$ (2,156)	\$ 13,842,360

¹ Commingled funds (including limited partnerships and other pooled vehicles) represent investments where the Retirement Funds own only a portion of the overall fund. While the overall fund may be denominated in U.S. Dollars, the underlying investments may be exposed to foreign currency risk in various currencies. Commingled funds are shown in the denomination used by the fund for financial reporting.

² Investment types holding instruments denominated only in U.S. Dollars are not included in the above table. At calendar year-end, these include: Convertible Securities, Fixed Income Short Sales, Multi Asset and Other, To Be Announced Securities, Option Contracts, and Obligations Under Reverse Repurchase Agreements.

³ Short sales are reported as liabilities on the Statement of Net Investment Position. They are included in the above table because they have exposure to foreign currency risk.

⁴ Values may not add due to rounding.

5. Fair Value of Investments

Fair value measurements of the investments held by the WRS are categorized by the hierarchy established by GAAP. The hierarchy, which has three levels, is based on the valuation inputs used to measure the fair value of the investment.

Level 1 – Investments reflect unadjusted quoted prices in active markets for identical assets.

Level 2 – Investments reflect prices that are based on inputs that are either directly or indirectly observable for an asset (including quoted prices for similar assets), which may include inputs in markets

Notes to the Financial Statements

that are not considered to be active.

Level 3 – Investments reflect prices based upon valuation techniques in which significant inputs or significant value drivers are unobservable.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to fair value. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and does not represent the investment's overall risk.

Commingled investments are not categorized under the fair value hierarchy but are disclosed within this note as investments measured at net asset value (NAV).

A. Fair Value Measurements

The fair value measurements of investments as of December 31, 2024 are found in the table entitled **Investments by Fair Value Level**.

Securities classified as Level 1 are generally valued at the official closing price (usually the last trade price). Such investments generally include exchange traded securities such as equities, preferred stock, certain derivative instruments, and exchange traded funds. US Treasury Bills and only the most recently issued US Treasury Notes and Bonds are classified as Level 1, as available pricing for these securities is similarly reliable to exchange traded securities.

Securities classified as Level 2 are valued using observable inputs provided by third-party pricing services generally using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations that are based on yields, maturities, call features, and ratings. Matrix pricing is used to value securities based on their relationship to benchmark market prices for securities with similar interest rates, maturities, and credit ratings. Pricing in this level may also include market approaches that incorporate benchmark interest rates. Debt securities comprise the majority of the Level 2 investments as they are generally traded using a dealer market, with lower trading volumes than Level 1 securities. OTC derivative instruments, such as swaps, TBAs, and foreign exchange contracts, are also included in Level 2 because they are priced using a market approach that considers benchmark interest rates and foreign exchange rates.

Level 3 investments are generally valued using significant inputs that are unobservable to the marketplace. This may occur if an investment is illiquid, or its value is based on estimates. Asset backed securities included in Level 3 represent private placements that are valued at purchase price when third-party valuations are unavailable. Equities, convertibles, and preferred securities included in the Level 3 hierarchy are generally privately held securities valued using valuation models such as price multiples incorporating comparable public companies, discounted cash flows, and milestone valuation models. In some instances of privately held preferred securities, fair value is determined based on recent financing rounds. Bank loans, which are included in corporate bonds and private placements within the Level 3 category, are priced by vendors using proprietary models which may incorporate unobservable inputs. Cash equivalents included in Level 3 represent securities priced at cost. Typically, due to their short-term nature, cost approximates fair value for these investments. Other factors such as infrequent trading, an inactive market, or adjusted quoted prices may also result in Level 3 measurements.

Notes to the Financial Statements

Investments by Fair Value Level As of December 31, 2024 (In Thousands)				
Asset Type	Fair Value			Total
	Level 1	Level 2	Level 3	
Cash Equivalents				
Money Market Funds	\$ 400,034	\$ -	\$ -	\$ 400,034
Total Cash Equivalents	\$ 400,034	\$ -	\$ -	\$ 400,034
Equities				
Domestic	\$ 37,875,180	\$ -	\$ 108,721	\$ 37,983,901
International	12,001,626	7	14,543	12,016,176
Total Equities	\$ 49,876,806	\$ 7	\$ 123,264	\$ 50,000,077
Fixed Income				
Asset Backed Securities	\$ -	\$ 1,664,948	\$ 112,186	\$ 1,777,134
Corporate Bonds & Private Placements	-	15,761,966	123,576	15,885,542
Exchange Traded Funds	291,917	-	-	291,917
Foreign Government/Agency Bonds	-	1,352,652	-	1,352,652
Leveraged Loans	-	2,710,365	424,474	3,134,839
Municipal Bonds	-	176,224	-	176,224
U.S. Government Agencies	-	1,988,204	-	1,988,204
U.S. Treasury Inflation Protected Securities	-	24,151,220	-	24,151,220
U.S. Treasury Securities	96,652	8,475,493	-	8,572,145
Total Fixed Income	\$ 388,569	\$ 56,281,072	\$ 660,236	\$ 57,329,877
Multi Asset and Other	\$ 321,502	\$ -	\$ -	\$ 321,502
Preferred Securities				
Domestic	\$ -	\$ 17,236	\$ 356,646	\$ 373,882
International	38,912	15,233	11,887	66,032
Total Preferred Securities	\$ 38,912	\$ 32,469	\$ 368,533	\$ 439,914
Convertibles	\$ -	\$ -	\$ 1,275	\$ 1,275
Derivative Instruments				
Foreign Exchange Contracts	\$ -	\$ (6,233)	\$ -	\$ (6,233)
Futures	58,760	-	-	58,760
Options	1,309	242	-	1,551
Swaps	-	(55,665)	(358)	(56,023)
To Be Announced Securities	-	1,219,426	-	1,219,426
Total Derivatives	\$ 60,069	\$ 1,157,770	\$ (358)	\$ 1,217,481
Short Sales	\$ (4,563,419)	\$ (3,284,547)	\$ (185)	\$ (7,848,151)
Total	\$ 46,522,473	\$ 54,186,771	\$ 1,152,765	\$ 101,862,009

B. Investments Measured at NAV

The fair value of certain investments including cash funds, fixed income funds, equity funds, private fund investments, equity limited partnerships, hedge funds, and other externally managed investments are based on the investments' net asset value (NAV) per share (or its equivalent), provided by the investment manager. The December 31, 2024 investments valued using NAV are shown in the table entitled **Investments Measured at NAV**.

Notes to the Financial Statements

Investments Measured at NAV As of December 31, 2024 (In Thousands)				
Investments Measured at NAV	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period⁸
Cash and Cash Equivalents ¹	\$ 2,903,902	\$ -	Daily	Same Day
Fixed Income ²	1,674,226	-	Daily, Monthly	5-30 days
Fixed Income Limited Partnerships ³	1,925,095	205,000	Monthly, N/A	5-45 days
Private Fund Investments ⁴	36,387,238	13,684,202	N/A	N/A
Equities ⁵	9,067,987	-	Daily, Monthly, Quarterly	1-50 days
Equity Limited Partnerships ⁶	4,737,962	-	Daily, Monthly	1-30 days
Hedge Funds ⁷	9,514,513	1,055,920	Various (Note 5D)	Various (Note 5D)
Total	\$ 66,210,923	\$ 14,945,122		
¹ This category consists of short term cash funds with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The short-term cash funds have daily liquidity with same day notice.				
² This category includes fixed income managers which can invest across the credit quality spectrum, in varying geographies. The external asset managers require a redemption notice period of between 5 to 30 days, and the funds have daily and monthly liquidity. As of December 31, 2024, there is one full redemption sale planned in 2025. The anticipated sale price of the fund is not expected to be materially different than the NAV as of December 31, 2024.				
³ The Fixed Income Limited Partnership funds invest in leveraged loans and emerging markets. These funds require a redemption notice period of between 5 to 45 days and assets can be redeemed monthly for all except one fund, which is illiquid and cannot be resold or redeemed.				
⁴ Private Fund Investments include direct, co-investments, limited liability corporations (LLC) or limited partnerships (LP) with existing SWIB general partners, direct secondary investments, and fund of funds. These investments are illiquid and are generally not resold or redeemed. Distributions from each fund are received as the underlying investments are liquidated or over the life of the investment. The table entitled Limited Partnerships - Estimated Remaining Life provides an estimate of the period over which the underlying assets are expected to be liquidated. Unfunded commitments represent the amount of capital reasonably likely to be called by the fund manager. Unfunded commitments for older funds in the liquidation stage are not included in the table above as the likelihood of additional capital being called by these funds is remote. As of December 31, 2024, there are two partial and two full redemption sales planned in 2025 on the secondary market. The anticipated sale prices of these funds is not expected to be materially different than the NAV as of December 31, 2024.				
⁵ This category includes long-only equity managers with various fundamental, quantitative, and other approaches spanning various styles, geographies and market cap weights. These long-only manager investments can be redeemed either daily, monthly, or quarterly with between 1 and 50 business days notice. One investment is subject to a fund level redemption gate.				
⁶ Equity Limited Partnership funds invest in US and global equity. The external asset managers require a redemption notice period of between 1 and 30 days and can be redeemed daily and monthly. These investments represent open-ended funds that are readily redeemable.				
⁷ Hedge Fund investments are private investment funds that seek to produce positive absolute returns using a broad range of strategies. In certain instances, Hedge Fund investments are closed-end funds, whereby participants receive distributions over the life of the fund. The estimated remaining life for closed-end funds can be up to 10 years. Additional information relating to Hedge Funds can be found in Note 5(D).				
⁸ Redemption terms described for NAV investments reflect contractual agreements and assume withdrawals are made without adverse market impact and under normal market conditions.				

Notes to the Financial Statements

C. Private Fund Investments

Private Fund Investments include private equity and real estate.

Private equity limited partnerships included the following investment strategies as of December 31, 2024:

Leveraged Buyout – This strategy acquires the controlling interest of a private company using a significant amount of borrowed capital (leverage).

Distressed Debt – This strategy can invest in public and private companies undergoing financial distress, a turnaround in business operations, or which are believed to be undervalued because of a discrete extraordinary event.

Growth Equity – This strategy is an investment opportunity in relatively mature companies that are going through a transformational event in their lifecycle with potential for significant growth.

Venture Capital – This strategy invests in companies with potential for significant growth (generally small to early stage emerging firms).

Private Debt – This strategy includes any debt held by or extended to privately-held companies. The debt securities can be senior debt, mezzanine debt, and structured capital but commonly involve non-bank institutions making loans to private companies or buying those loans on the secondary market.

Secondaries – This strategy provides a market for investors to sell or purchase positions in private markets funds.

Real Estate limited partnerships generally consisted of the following investment strategies as of December 31, 2024:

Core – Core investments are expected to deliver a significant percentage of their return from income and should experience lower volatility than Opportunistic and Value investments due to lower leverage, higher occupancy, and asset location.

Value – Value investments typically have significant near-term leasing, repositioning, and/or renovation risk. This strategy is expected to have modest initial operating revenues with potential for substantial income growth and will likely encounter greater volatility than Core strategies, but lower volatility than Opportunistic strategies.

Opportunistic – Opportunistic investments usually have significant development, lease-up, financial restructuring, and/or liquidity risk with little or no initial operating income. This strategy typically uses the highest leverage, is expected to achieve most of its return from future capital gains and is likely to encounter greater volatility than Core and Value strategies.

Private equity and real estate limited partnerships are generally structured to provide distributions to participants of the fund as the holdings of the partnership are liquidated over time. The table entitled **Limited Partnerships-Estimated Remaining Life** illustrates the distribution of estimated remaining liquidation periods for the limited partnership holdings as of December 31, 2024.

Notes to the Financial Statements

Limited Partnerships - Estimated Remaining Life As of December 31, 2024 (In Thousands)					
Limited Partnership Type	< 5 Years	5 - 10 Years	> 10 Years	N/A²	Total
Private Fund Investments ¹	\$ 10,825,486	\$ 21,217,305	\$ 2,471,167	\$ 1,873,280	\$ 36,387,238
Equity Limited Partnerships	-	-	-	4,737,962	4,737,962
Fixed Income Limited Partnerships	-	-	45,000	1,880,095	1,925,095
Total	\$ 10,825,486	\$ 21,217,305	\$ 2,516,167	\$ 8,491,337	\$ 43,050,295

¹ Estimated remaining life represents subjective estimates, assuming normal market conditions.

² N/A investments represent open-ended funds that are readily redeemable.

D. Hedge Funds

Hedge Fund investments are private investment funds that seek to produce absolute returns using a broad range of strategies. The Retirement Funds participated in the following Hedge Fund strategies as of December 31, 2024:

Relative Value – This strategy seeks to take advantage of price differentials by buying and selling different yet related securities. Relative value strategies include fixed income arbitrage, insurance linked, quantitative strategies, merger arbitrage, convertible arbitrage, and volatility-related investments.

Credit – This strategy includes long/short and event driven investment strategies to various fixed-income instruments including bank loans, corporate, government bonds, distressed debt, and securitized credit.

Equity Long-Short – This strategy invests both long and short in publicly-traded stocks and related securities. These managers vary in their use of short selling and leverage.

Tactical Trading – This strategy invests globally in indices, commodities, interest rate instruments, and currencies and, as needed, their derivatives as a result of relative value or directional forecasts from a systematic or discretionary approach.

Event-Driven – This strategy seeks to gain an advantage from pricing inefficiencies that may occur before or after a corporate action or related event, such as a merger, spinoff, earnings call, bankruptcy, or restructuring.

Multi Strategy – This strategy seeks to maximize risk-adjusted returns by investing in a variety of underlying investment strategies. They often employ flexibility in terms of capital, aiming to allocate dynamically to the best opportunities and shifting resources to where they are most needed.

Specialty Finance – This strategy invests in a broad collection of lending strategies which typically have private, customized structures with short duration and asset backed collateral.

Special Opportunities and Co-investments – This strategy seeks to invest in special situations, which may include co-investments or interests in the equity or revenues of external investment managers.

When redeeming Hedge Fund investments, the agreements governing the investment often require advanced notice and may restrict the timing of withdrawals. The table entitled **Hedge Fund Redemption Timing** depicts redemption terms, independent of other contractual restrictions like lock-up periods as discussed below, for SWIB's Hedge Fund investments as of December 31, 2024.

Notes to the Financial Statements

Hedge Fund Redemption Timing As of December 31, 2024 (In Thousands)		
Redemption Frequency	Redemption Notice Period (days)	Fair Value
Daily	1	\$ 305,644
Monthly	30 - 92	3,163,613
Quarterly ¹	30 - 180	3,172,054
Semi-Annual	60 - 180	1,126,003
Annual	90	5,075
Other ²	N/A	1,742,124
Total		\$ 9,514,513

¹ This category includes funds that are in the process of being fully redeemed, with final distribution expected in 2025.

² This category includes illiquid funds that are redeemable at the managers' discretion as well as funds that are structured as limited partnerships, whereby withdrawals are not permitted, but the participants receive distributions over the life of the fund.

Hedge Fund agreements can also include lock-up periods, which restrict investors from redeeming their investment during a specified time frame. Lock-up periods help portfolio managers mitigate liquidity risks. Lock-ups can be hard, where redemptions are not permitted for a specified time period, or soft, where redemptions are permitted provided the investor pays a penalty. In certain instances, a fund may have both hard and soft lock-up restrictions. In addition, in certain investments, Hedge Fund managers may be allowed to institute a rolling lock-up. A fund with a rolling lock-up period requires investors to commit to an initial lock-up period, and, if the investor does not submit a redemption notice within a set time prior to expiration of the lock-up, the lock-up is reset. The table entitled **Hedge Fund Lock-Ups** reflects the lock-up terms for the Hedge Fund investments held on December 31, 2024.

Hedge Fund Lock-Ups As of December 31, 2024 (In Thousands)			
Hedge Fund Lock Type	Initial Duration of Lock (years)	Year of Lock Expiration	Fair Value
Hard Lock	1 - 2	2025 - 2026	\$ 344,921
Rolling Lock	2.5	2025	291,178
None ¹	N/A	N/A	7,136,290
Other ²	N/A	N/A	1,742,124
Total			\$ 9,514,513

¹ This category includes funds that are in the process of being fully redeemed, with final distribution expected in 2025.

² This category includes illiquid funds that are redeemable at the managers' discretion as well as funds that are structured as limited partnerships, whereby withdrawals are not permitted, but the participants receive distributions over the life of the fund.

Notes to the Financial Statements

Similar to lock-ups, Hedge Fund agreements also commonly incorporate gating restrictions. An investor level gate limits redemption on a particular redemption date to a specified percentage of the investor's account value, while a fund level gate may limit total investor withdrawals on a particular redemption date to a percentage of aggregated fund level (or master fund level) net asset value. In certain instances, funds can have both investor and fund level gates in place. Such funds are reflected in the investor level category. The table entitled **Hedge Fund Gates** summarizes the Hedge Fund gates in place as of December 31, 2024.

Hedge Fund Gates As of December 31, 2024 (In Thousands)		
Hedge Fund Gate Type	Gate Range	Fair Value
Investor Level ¹	3.8% -50.0%	\$ 4,405,472
Fund Level ¹	8.3%	453,262
None ¹	N/A	2,913,655
Other ^{1,2}	N/A	1,742,124
Total		\$ 9,514,513
¹ These categories include funds that are in the process of being fully redeemed, with final distribution expected in 2025.		
² This category includes illiquid funds that are redeemable at the managers' discretion as well as funds that are structured as limited partnerships, whereby withdrawals are not permitted, but the participants receive distributions over the life of the fund.		

6. Derivative Instruments

A derivative instrument, as defined by GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, is a financial instrument or other contract that has the following characteristics:

- *Settlement factors* – It has (1) one or more reference rates and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements and, in some cases, whether or not a settlement is required.
- *Leverage* – It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- *Net settlement* – Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Derivative instruments may be used to implement investment strategies for the Retirement Funds. All derivative instruments are subjected to risk analysis and monitoring processes at the portfolio, asset class, and fund levels. Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been approved by the Board. Where derivative instruments are permitted, guidelines stipulate allowable types and the manner in which they can be used.

Gains and losses for all derivative instruments are reported in the Statement of Changes in Net Investment Position as Net Increase (Decrease) in the Fair Value of Investments.

SWIB invests in derivative instruments directly and indirectly through commingled or pooled investment

Notes to the Financial Statements

vehicles. Information relating to investments held in commingled funds is not separately disclosed in the financial statements or the accompanying notes, consistent with GASB reporting requirements.

A derivative instrument can take the form of an individually negotiated contract between the Retirement Funds and a specific counterparty. These types of negotiated positions are known as OTC contracts and can be structured as either uncleared or cleared.

Uncleared OTC contracts are non-standardized, bilateral contracts that do not include the use of a centralized intermediary, such as a clearinghouse. Uncleared OTC transactions are subject to regulatory requirements with respect to data reporting and recordkeeping, trading relationship documentation, business conduct standards, portfolio reconciliation, and margin collection and posting. For these transactions, master netting agreements and credit support annexes governing the credit relationship and collateral exchange between two parties are put in place to mitigate counterparty credit risk.

Cleared OTC contracts offer additional protections to trade participants. These types of transactions employ the use of an intermediary between counterparties. The intermediary, known as a clearinghouse, serves to facilitate trading and mitigate risks. While not completely standardized, these contracts involve a high degree of standardization. Once cleared, the clearinghouse steps in as the counterparty to all trades. Regulatory bodies govern the tools and procedures for risk mitigation such as margin requirements and daily mark-to-market.

In addition to trading OTC, derivative contracts can also be transacted on established exchanges. These contracts are called exchange-traded and are completely standardized. Like cleared OTC contracts, the clearinghouse is an intermediary to the trade, reducing risks and standardizing the exchange of margin. The table entitled **Derivative Contract Types** summarizes the differences between OTC and exchange-traded contracts.

Collateral postings are commonplace for derivative contracts and vary based on the type of contract traded. SWIB posted approximately \$224.9 million in cash and \$1.1 billion in securities as collateral for derivative positions as of December 31, 2024. More information regarding collateral requirements is included below.

Notes to the Financial Statements

Derivative Contract Types		
Uncleared (OTC)	Cleared (OTC)	Exchange Traded
Trades negotiated over-the-counter	Trades negotiated over-the-counter	Trades executed on organized exchanges
Customized trade terms are agreed upon by counterparties	Trades limited to standardized terms	Trades limited to standardized terms
Traded bilaterally between counterparties	Trades are submitted through a clearinghouse, which is counterparty	Trades are booked with exchange's clearinghouse, which is counterparty
Margin (collateral) often exchanged but subject to negotiation between counterparties	Mandatory margin requirements	Mandatory margin requirements
Common example: Forward Contracts	Common example: Credit Default Swaps	Common example: Futures Contracts

A. *Uncleared OTC Derivative Instruments*

Inherent in the use of uncleared OTC derivative instruments, the Retirement Funds may be exposed to counterparty credit risk. Counterparty credit risk is the risk that a derivative instrument counterparty may fail to meet its payment obligations under the terms of the derivative contract. SWIB seeks to mitigate this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. Additionally, policies have been established which seek to implement master netting arrangements with counterparties that permit the closeout and netting of transactions with the same counterparty upon the occurrence of certain events, such as payment default, rating downgrade, bankruptcy, illegality, or force majeure. Agreements may also require daily collateral postings to further mitigate credit risk.

The table entitled **OTC Derivative Instruments Subject to Counterparty Credit Risk**, summarizes, by credit rating, the Retirement Funds' exposure to counterparty credit risk relating to uncleared OTC contracts as of December 31, 2024, without respect to any collateral or netting agreement.

Notes to the Financial Statements

OTC Derivative Instruments Subject to Counterparty Credit Risk As of December 31, 2024 (In Thousands)					
Counterparty Credit Rating	FX Receivables	Swap Receivables	TBA Receivables¹	Warrant Receivables^{1,2}	Total³
AA	\$ 1,515,320	\$ 2,587,727	\$ 356	\$ -	\$ 4,103,403
A	1,817,588	860,860	2,548	-	2,680,996
Not Rated	-	-	-	246	246
Total	\$ 3,332,908	\$ 3,448,587	\$ 2,904	\$ 246	\$ 6,784,645

¹ Exposure to counterparty credit risk for To Be Announced Securities and Warrants is limited to unrealized gains on open positions.

² Warrants issued by privately held companies are not rated by statistical credit rating organizations.

³ Aggregate amount of liabilities included in master netting arrangements was \$6.8 billion at December 31, 2024.

The aggregate fair value of receivables relating to uncleared OTC derivative contracts was \$6.8 billion as of December 31, 2024. This amount represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. This maximum exposure is reduced to \$82.1 million as of December 31, 2024 when counterparty collateral and master netting arrangements are considered. SWIB had credit exposure to 28 uncleared OTC counterparties as of December 31, 2024.

B. Cleared OTC and Exchange-Traded Derivatives

Counterparty credit risk is mitigated by an intermediary for cleared OTC and exchange-traded derivative contracts. For these types of derivative investments, a clearinghouse interposes itself as counterparty to all trades and extends a guarantee that trades will be settled as originally intended and to ensure performance and margin requirements are imposed. The requirements are established with the intent to cover nearly all expected price changes based on market risk. Margin payments are settled daily based upon the price movements of the contracts, thereby significantly reducing counterparty credit risk.

C. Foreign Currency Spot and Forward Contracts

Foreign Currency Spot and Forward contracts are uncleared OTC agreements between two parties to exchange designated currencies at a specific time in the future. No cash is exchanged when a foreign exchange spot or forward contract is initiated. Depending upon market movements, forward contracts may require collateral postings either to SWIB or to counterparties. Spot contracts are exempt from collateralization. For deliverable contracts, amounts due are paid or received on the contracted settlement date. In other instances (most often in emerging markets), contracts are established as non-deliverable forwards (NDFs). Unlike deliverable contracts, NDFs are only settled in US dollars.

Currency exposure management is permitted through the use of currency derivative instruments. Direct hedging of currency exposure back to the US dollar is permitted when consistent with the strategy of the portfolio. Cross-currency exposure management seeking to transfer out of an exposed currency and into a benchmark currency is also permitted. SWIB may employ discretionary currency overlay strategies when currency market conditions suggest such strategies are warranted.

Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract. Spot and forward contracts are valued daily with the changes in fair value included in Net Increase (Decrease) in Fair Value of Investments on the Statement of Changes in Net Investment Position. The net receivable or payable for spot and forward contracts is reflected as

Notes to the Financial Statements

Foreign Currency Contracts on the Statement of Net Investment Position. The tables entitled **Foreign Currency Spot and Forward Contracts** present the fair value of foreign currency spot and forward contract assets and liabilities held by the Retirement Funds as of December 31, 2024.

Foreign Currency Spot and Forward Contracts As of December 31, 2024 (In Thousands)			
Currency	Notional (Local Currency)	Fair Value (\$US)	Unrealized Gain/(Loss) (\$US)
Foreign Currency Contract Receivables			
Australia Dollar	121,687	\$ 75,350	\$ (2,443)
Brazil Real	516,353	82,995	(2,543)
Canada Dollar	142,671	99,263	(2,099)
Chile Peso	14,853,750	14,922	(78)
China Yuan Renminbi	38,002	5,185	(51)
Czech Republic Koruna	284,262	11,696	(362)
Denmark Krone	14,980	2,081	(32)
Egypt Pound	1,122,977	21,078	223
Euro Member Countries	177,035	183,684	(3,026)
Hong Kong Dollar	17,283	2,225	2
Hungary Forint	2,441,527	6,140	(387)
India Rupee	3,432,064	39,811	(409)
Indonesia Rupiah	645,094,000	39,627	(642)
Israel Shekel	390	107	-
Japan Yen	101,952,438	654,066	(13,526)
Mexico Peso	1,201,273	57,036	(1,581)
New Zealand Dollar	6,381	3,575	(45)
Norway Krone	3,764,993	331,441	(5,986)
Philippines Peso	949,897	16,248	95
Poland Zloty	67,231	16,253	(526)
Singapore Dollar	1,356	994	(15)
South Africa Rand	191,063	10,056	(551)
Sweden Krona	3,886,248	353,128	(5,391)
Switzerland Franc	32,511	35,896	(862)
Taiwan New Dollar	565,462	17,244	(214)
Thailand Baht	300,391	8,855	74
Turkey Lira	1,413,594	38,075	341
United Kingdom Pound	31,784	39,793	(342)
United States Dollar	1,166,087	1,166,087	-
Total Receivables		<u>\$ 3,332,911</u>	<u>\$ (40,376)</u>

Continued on next page

Notes to the Financial Statements

Foreign Currency Spot and Forward Contracts - <i>Continued</i> As of December 31, 2024 (In Thousands)			
Currency	Notional (Local Currency)	Fair Value (\$US)	Unrealized Gain/(Loss) (\$US)
Foreign Currency Contract Payables			
Australia Dollar	(79,059)	\$ (48,953)	\$ 1,105
Brazil Real	(17,343)	(2,791)	156
Canada Dollar	(43,947)	(30,564)	137
Chile Peso	(38,374,275)	(38,550)	502
China Yuan Renminbi	(381,691)	(52,562)	43
Czech Republic Koruna	(778,028)	(32,011)	1,403
Denmark Krone	(33,252)	(4,619)	55
Euro Member Countries	(1,038,015)	(1,077,449)	21,609
Hong Kong Dollar	(7,018)	(903)	-
Hungary Forint	(10,534,857)	(26,440)	617
Israel Shekel	(4,179)	(1,147)	(1)
Japan Yen	(19,404,949)	(124,001)	3,413
Korea (South) Won	(68,554,471)	(46,517)	1,481
New Zealand Dollar	(6,283)	(3,523)	99
Norway Krone	(162,626)	(14,319)	(5)
Peru Sol	(31,144)	(8,271)	82
Poland Zloty	(47,086)	(11,393)	182
Singapore Dollar	(33,470)	(24,608)	411
South Africa Rand	(364,496)	(19,183)	817
Sweden Krona	(544,983)	(49,362)	88
Switzerland Franc	(81,929)	(91,072)	1,401
Taiwan New Dollar	(1,367,957)	(41,717)	632
Thailand Baht	(809,753)	(23,869)	(102)
Turkey Lira	(72,262)	(2,024)	(5)
United Kingdom Pound	(13,420)	(16,807)	24
United States Dollar	(1,546,489)	(1,546,489)	-
Total Payables		\$ (3,339,144)	\$ 34,144
Net		\$ (6,233)	\$ (6,232)

Notes to the Financial Statements

D. Futures Contracts

A futures contract is an exchange-traded agreement to buy or sell a financial instrument, index, or commodity at an agreed upon price and specified date in the future.

The fair value of futures contracts represents the unrealized gain/(loss) on the contracts since trade inception and is reflected as Futures Contracts on the Statement of Net Investment Position. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded.

Gains and losses resulting from investments in futures contracts are included in the Net Increase (Decrease) in the Fair Value of Investments on the Statement of Changes in Net Investment Position. Futures contracts involve, to varying degrees, risk of loss in excess of the margin deposited with the clearinghouse. Losses may arise from future changes in the value of the underlying instrument.

Futures contracts may be entered into for purposes such as the following:

- To efficiently gain or adjust market exposures for rebalancing,
- To adjust sector, interest rate, or duration exposures, and
- To securitize cash or act as a substitute for cash market transactions.

The table entitled **Futures Contracts** presents the Retirement Funds investments in futures contracts as of December 31, 2024.

Futures Contracts As of December 31, 2024 (In Thousands)				
Futures Contract Description	Position	Expiration	Notional Amount	Fair Value¹
Commodity	Long	Jan 25 - Dec 25	\$ 364,938	\$ (4,327)
	Short	Jan 25 - Sep 25	(407,448)	37
Currency	Long	Jan 25	624	5
	Short	Jan 25 - Mar 25	(754,495)	25,276
Equity Index	Long	Jan 25 - Mar 25	1,316,089	(40,131)
	Short	Jan 25 - May 25	(2,931,854)	95,970
Fixed Income	Long	Mar 25	2,824,809	(33,441)
	Short	Mar 25	(1,709,103)	14,296
Interest Rate	Long	Feb 25 - Mar 26	1,439,284	320
	Short	Dec 25 - Mar 29	(962,168)	755
Total			\$ (819,324)	\$ 58,760

¹ Fair Value includes foreign currency gains/(losses).

The table entitled **Futures Contracts with Interest Rate Sensitivity** presents the interest rate sensitivity of fixed income futures contracts as of December 31, 2024. Duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. Duration statistics presented in this table are weighted by the notional value of each position to compute an average duration for the contract types held.

Notes to the Financial Statements

Futures Contracts with Interest Rate Sensitivity As of December 31, 2024 (In Thousands)				
Contract Type	Position	Notional Amount	Fair Value	Weighted Average Duration (years)
U.S. Treasury Notes	Long	\$ 2,200,558	\$ (12,173)	3.8
U.S. Treasury Notes	Short	(877,105)	3,294	3.6
U.S. Treasury Bonds	Long	533,615	(19,743)	14.3
U.S. Treasury Bonds	Short	(239,358)	7,161	15.7
Foreign Government Bonds	Long	90,637	(1,526)	7.8
Foreign Government Bonds	Short	(592,640)	3,841	7.9
Short-Term Interest Rate	Long	1,439,284	320	0.2
Short-Term Interest Rate	Short	(962,168)	755	0.3
Total		\$ 1,592,823	\$ (18,071)	

E. Options

An options contract gives the purchaser of the contract the right, but not the obligation, to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration date of the contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk, to the extent of the premium paid to enter into the contract.

Trust fund rebalancing policies and certain portfolio investment guidelines permit the use of exchange-traded and OTC options. Options can be used to improve market exposure efficiency, enhance expected returns, or provide market exposure hedges. Exchange rules require that the seller of short exchange traded option contracts cover these positions either by collateral deposits in the form of cash or by pledging, in escrow, the actual securities that would be transferred to the contract purchaser in the event the options contract was exercised. In the case of OTC options, investment guidelines mitigate counterparty credit risk by establishing minimum credit ratings and requiring master netting agreements with provisions for collateral exchanges.

The fair value of option contracts is based upon the closing market price of the contract and is reflected as Option Contracts on the Statement of Net Investment Position. Gains and losses as a result of investments in option contracts are included in the Net Increase (Decrease) in the Fair Value of Investments on the Statement of Changes in Net Investment Position. The table entitled **Option Contracts** presents the fair value of option contracts as of December 31, 2024.

Notes to the Financial Statements

Option Contracts As of December 31, 2024 (In Thousands)							
Description	Contract Type	Position	Exchange-Traded (EXCH) vs. OTC	Expiration	Notional	Fair Value	Unrealized Gain (Loss)
Equity	Call	Long	Exch	Jan 25 - Feb 25	\$ 338,893	\$ 109	\$ (1,500)
Equity	Call	Short	Exch	Jan 25 - Sep 25	(58,519)	(1,262)	422
Equity	Put	Long	Exch	May 25 - Sep 25	146,336	1,160	(1,173)
Equity	Put	Short	Exch	Jan 25 - Sep 25	(118,337)	(376)	421
Fixed Income	Call	Long	Exch	May 25	130,995	855	(1,060)
Futures	Call	Long	Exch	Mar 25	45,996	1,305	(775)
Futures	Call	Short	Exch	Mar 25	(45,996)	(240)	1,325
Total					<u>\$ 439,368</u>	<u>\$ 1,551</u>	<u>\$ (2,340)</u>

F. Swaps

Swaps are negotiated contractual agreements between two parties which can be either cleared or uncleared OTC investments. As is specified in SWIB's investment guidelines, swaps may be used as an alternative to physical securities when it is deemed advantageous for portfolio construction. In addition, swaps may be used to adjust asset class exposures for the Retirement Funds. Certain guideline limits and soft risk parameters for portfolios are applied to the aggregate exposures which includes both physical and synthetic securities. A synthetic security is a security or combination of securities that mirrors the properties of another reference security.

Throughout the calendar year, the Retirement Funds held positions in Total Return Swaps (TRS), Interest Rate Swaps (IRS), and Credit Default Swaps (CDS). The table entitled **Open Swap Positions** lists the open swap contracts held as of December 31, 2024.

Open CDS contracts represent cleared OTC positions where SWIB gains exposure to credit protection. Under the terms of the contract, SWIB receives or pays periodic payments and, in exchange, agrees to pay or receive a formula-driven amount to or from counterparties for losses incurred if stipulated credit events occur. CDS spreads are sensitive to credit spread and interest rate changes. The fair value of a CDS is determined using the closing price as reported by the applicable clearinghouse.

IRS positions represent cleared OTC contracts where fair value is determined using the closing price as reported by the applicable clearinghouse. IRS positions are sensitive to changes in interest rates. One stream of future interest payments is exchanged for another between counterparties. In most cases, interest rate swaps include the exchange of a fixed interest rate for a floating rate.

The open TRS contracts represent uncleared OTC positions where SWIB gains exposure to the return of the underlying index and, in exchange, agrees to pay or receive the stipulated rate benchmark, plus or minus a spread. The rate benchmark is based on the 1-day Fed Funds Rate set by the Federal Open Market Committee (FOMC), or the 1-day US Secured Overnight Financing Rate (SOFR) published by the Federal Reserve of New York and is sensitive to interest rate changes. The fair value of a TRS is based on the change in quoted market price of the underlying equity index and represents the unrealized gain/(loss) on the contracts since trade inception.

Notes to the Financial Statements

The fair value of CDS, IRS, and TRS is reflected as Swaps on the Statement of Net Investment Position. Gains and losses resulting from investments in swap contracts are included in the Net Increase (Decrease) in the Fair Value of Investments on the Statement of Changes in Net Investment Position. Any interest owed but not yet paid relating to swap contracts is reported within Other Liabilities on the Statement of Net Investment Position. Interest expense relating to swap contracts is reported as Investment Operating Expense on the Statement of Changes in Net Investment Position.

IRS and TRS contracts are highly sensitive to interest rate changes because they are based on fluctuating benchmark rates. As rates fluctuate, the total expected cash flows will fluctuate.

Notes to the Financial Statements

Open Swap Positions As of December 31, 2024 (In Thousands)					
Type	Maturity Date	Reference Rate	Notional Amount	Fair Value	Unrealized Gain/(Loss)
Credit Default	Dec-26	NA ¹	\$ 70,564	\$ 33	\$ 422
Credit Default	Dec-29	NA ¹	62,670	(1,950)	(352)
Credit Default	Dec-29	NA ²	116,211	(5,640)	490
Interest Rate	Jun-25	Receive Floating 6-Month CZK-PRIBOR, Pay Fixed 5.92%	5,663	(53)	(54)
Interest Rate	Jun-25	Receive Floating 6-Month PLN-WIBOR, Pay Fixed 6.02%	11,645	(3)	(19)
Interest Rate	Dec-25	Receive COP-IBR-OIS-Compound, Pay Fixed 9.7%	9,987	(112)	(112)
Interest Rate	Mar-26	Receive Floating 6-Month HUF-BUBOR, Pay Fixed 6.2%	5,172	22	43
Interest Rate	Sep-26	Receive COP-IBR-OIS-Compound, Pay Fixed 8.32%	9,313	10	10
Interest Rate	Jan-27	Pay Floating 1-Day BRL-CDI, Receive Fixed 10.04%	2,727	(268)	(268)
Interest Rate	Jan-27	Pay Floating 1-Day BRL-CDI, Receive Fixed 11.16%	88	(6)	(41)
Interest Rate	Jan-27	Receive Floating 1D BRL-CDI, Pay Fixed 12.68%	8,234	293	568
Interest Rate	Jan-27	Receive Floating 1-Day BRL-CDI, Pay Fixed 14.09%	2,758	64	64
Interest Rate	Jan-27	Receive Floating 1-Day BRL-CDI, Pay Fixed 14.6%	9,652	163	163
Interest Rate	Jun-27	Pay Floating 6-Month PLN-WIBOR, Receive Fixed 4.97%	3,206	(12)	240
Interest Rate	Sep-27	Pay Floating 3-Month ZAR-JIBAR, Receive Fixed 8.0%	11,996	178	222
Interest Rate	Sep-27	Receive Floating 3-Month KRW-CD, Pay Fixed 3.64%	6,385	(156)	(122)
Interest Rate	Sep-27	Receive Floating 3-Month ZAR-JIBAR, Pay Fixed 7.49%	22,405	(56)	(436)
Interest Rate	Sep-27	Receive Floating 6-Month PLN-WIBOR, Pay Fixed 5.49%	5,319	(53)	(53)
Interest Rate	Oct-27	Pay Floating 6-Month PLN-WIBOR, Receive Fixed 6.83%	2,406	105	105
Interest Rate	Oct-27	Pay Floating 6-Month PLN-WIBOR, Receive Fixed 7.9%	1,782	135	135
Interest Rate	Dec-27	Pay Floating 3-Month KRW-CD, Receive Fixed 4.2%	8,192	350	(117)
Interest Rate	Dec-27	Receive Floating 6-Month PLN-WIBOR, Pay Fixed 6.85%	121	(6)	157
Interest Rate	Mar-28	Pay Floating 3-Month KRW-CD, Receive Fixed 2.97%	4,008	32	32
Interest Rate	Jun-28	Receive Floating 3-Month ZAR-JIBAR, Pay Fixed 8.46%	1,634	(358)	(359)
Interest Rate	Dec-28	Pay Floating 3-Month KRW-CD, Receive Fixed 3.83%	3,088	130	94
Interest Rate	Jan-29	Pay Floating 1-Day BRL-CDI, Receive Fixed 11.86%	4,632	(379)	(379)
Interest Rate	Jan-29	Pay Floating 1-Day BRL-CDI, Receive Fixed 13.91%	6,466	(238)	(238)
Interest Rate	Jun-29	Pay Floating 6-Month PLN-WIBOR, Receive Fixed 4.81%	1,043	(8)	(8)
Interest Rate	Sep-29	Pay Floating 6-Month HUF-BUBOR, Receive Fixed 6.2%	2,470	(41)	(41)
Interest Rate	Dec-29	Pay MXN-TIE ON-OIS Compound, Receive Fixed 9.01%	4,027	(29)	(29)
Interest Rate	Dec-29	Pay Floating 3-Month ZAR-JIBAR, Receive Fixed 7.83%	5,403	20	20
Interest Rate	Dec-29	Pay Floating 6-Month CZK-PRIBOR, Receive Fixed 3.04%	18,188	(510)	(322)
Interest Rate	Dec-29	Pay INR-MIBOR-OIS Compound, Receive Fixed 5.99%	6,535	(59)	(59)
Interest Rate	Dec-29	Receive Floating 3-Month KRW-CD, Pay Fixed 2.89%	6,766	(52)	(52)
Interest Rate	Dec-29	Receive Floating 6-Month HUF-BUBOR, Pay Fixed 5.91%	3,901	117	100
Interest Rate	Mar-30	Pay Floating 6-Month HUF-BUBOR, Receive Fixed 6.29%	6,825	(98)	(114)
Interest Rate	Mar-30	Receive COP-IBR-OIS-Compound, Pay Fixed 8.1%	6,627	168	168
Interest Rate	Mar-30	Receive COP-IBR-OIS-Compound, Pay Fixed 8.13%	2,216	53	53
Interest Rate	Mar-30	Receive Floating 1-Day CLP-ICP, Pay Fixed 5.29%	4,059	1	1
Interest Rate	Mar-30	Receive Floating 6-Month PLN-WIBOR, Pay Fixed 4.65%	21,026	281	187
Interest Rate	Nov-32	Pay Floating 3-Month ZAR-JIBAR, Receive Fixed 9.16%	2,552	113	113
Interest Rate	Dec-33	Pay Floating 6-Month HUF-BUBOR, Receive Fixed 7.42%	2,478	98	98
Interest Rate	Dec-34	Pay Floating 3-Month ZAR-JIBAR, Receive Fixed 8.68%	4,667	(27)	(27)
Total Return	Jan-25	Receive 1-Day Fed Funds Plus Spread, Pay Equity Index Return	376,220	(9,701)	(9,701)
Total Return	Jan-25	Pay 1-Day Fed Funds Plus Spread, Receive Equity Index Return	(395,266)	(3,826)	(3,826)
Total Return	Jan-25	Receive 1-Day Fed Funds Plus Spread, Pay Equity Index Return	332,225	(5,829)	(5,829)
Total Return	Jan-25	Pay 1-Day US SOFR Plus Spread, Receive MBS Index Return	(50,985)	(171)	(171)
Total Return	Jan-25	Pay 1-Day US SOFR Plus Spread, Receive US Credit Index Return	(102,872)	(659)	(659)
Total Return	Feb-25	Receive 1-Day Fed Funds Plus Spread, Pay Equity Index Return	817,672	7,714	7,714
Total Return	Feb-25	Receive 1-Day Fed Funds Plus Spread, Pay Equity Index Return	(817,678)	(28,772)	(28,772)
Total Return	Apr-25	Pay 1-Day US SOFR Plus Spread, Receive MBS Index Return	(76,478)	(257)	(257)
Total Return	May-25	Pay 1-Day Fed Funds Plus Spread, Receive Equity Index Return	(206,467)	(2,742)	(2,742)
Total Return	May-25	Pay 1-Day US SOFR Plus Spread, Receive US Credit Index Return	(109,081)	(2,061)	(2,061)
Total Return	Jul-25	Pay 1-Day US SOFR Plus Spread, Receive MBS Index Return	(113,231)	(1,168)	(1,168)
Total Return	Oct-25	Pay 1-Day US SOFR Plus Spread, Receive MBS Index Return	(77,752)	(802)	(802)
Total			\$ 71,413	\$ (56,023)	\$ (47,993)

¹ SWIB sold credit protection in exchange for periodic payments

² SWIB bought credit protection in exchange for periodic payments

Notes to the Financial Statements

G. To Be Announced Securities

To be announced mortgage-backed (TBA) securities are uncleared OTC forward contracts consisting of mortgage-backed securities (MBS) issued by Government National Mortgage Association, a government entity, and by government-sponsored enterprises such as, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corp. The term TBA is derived from the fact that the actual MBS that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. Instead, the specific pool of mortgages comprising the MBS is announced 48 hours prior to the established trade settlement date. Eligibility rules and standards for MBS pools deliverable into TBA contracts ensure that delivered MBS pools are fungible. Payment for TBA securities is not made until the settlement date.

Certain portfolio investment guidelines allow for both long and short TBA positions. To mitigate counterparty credit risk, guidelines establish minimum credit ratings and require master netting agreements which include provisions for collateral exchanges.

TBAs, much like their underlying MBS securities, may be highly sensitive to interest rate changes. This is because the MBS pool on which these forward contracts are based can be subject to early payment in a period of declining interest rates. The price of TBAs can fluctuate as the marketplace predicts changes in timing, or possible reductions in expected cash flows, associated with a change in interest rates. The table entitled **TBA Contracts** includes the interest rate sensitivity of TBA contracts as of December 31, 2024.

Duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. Duration statistics presented in this table are weighted by the fair value of each position to compute an average duration for the contracts held.

TBA Contracts As of December 31, 2024 (In Thousands)				
Position	Contract Maturity	Fair Value	Unrealized Gain/(Loss)	Weighted Average Duration (Years)
Long	Jan 25 - Feb 25	\$ 3,304,849	\$ (11,147)	5.8
Short	Jan 25 - Feb 25	(2,085,423)	(2,700)	7.1
Total		<u>\$ 1,219,426</u>	<u>\$ (13,847)</u>	

The fair value of TBAs is reflected in the table entitled **TBA Contracts** and included in To Be Announced Securities on the Statement of Net Investment Position. The unrealized gain/(loss) associated with these contracts is included within the Net Increase (Decrease) in the Fair Value of Investments on the Statement of Changes in Net Investment Position.

H. Warrants

A warrant is a contract that entitles the holder to buy the underlying stock of the issuing company at a specified price. Warrants and options are similar in that the two instruments allow the holder special rights to buy securities. However, warrants differ from options in that they provide additional financing to the issuing company when exercised.

As of December 31, 2024, SWIB held warrant contracts valued at \$0.4 million. Warrants are included in the Equities section on the Statement of Net Investment Position. The associated unrealized loss of \$0.5 million

Notes to the Financial Statements

is included in the Net Increase (Decrease) in the Fair Value of Investments on the Statement of Change in Net Investment Position.

7. Securities Lending Transactions

Wisconsin Statutes and Board policies permit SWIB to use investments of the Retirement Funds to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities in exchange for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for identical securities in the future. SWIB utilizes agents to lend the Retirement Funds' directly held domestic and international securities.

When the Retirement Funds' securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral with the lending agent equal to at least 102% of the loaned securities' fair value, including interest accrued, as of the delivery date, if the securities and the collateral are denominated in the same currency. If securities are loaned against collateral denominated in a different currency, the borrower is required to place collateral with the lending agent totaling at least 105% of the loaned securities' fair value, including interest accrued, as of the delivery date. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level. Pledging or selling non-cash collateral securities cannot be done without a borrower default. On December 31, 2024, the fair value of the securities on loan to counterparties was approximately \$18.3 billion.

Cash collateral is reinvested by the lending agents in either a US dollar cash collateral pool or a pool denominated in Euros. These pools are administered in accordance with contractual investment guidelines which are designed to minimize the risk of principal loss and provide a modest rate of return. Investment guidelines limit credit and liquidity risk by restricting new investments to repurchase agreements collateralized with high quality US government, US government agencies, and sovereign debt securities. To further reduce credit risk, in addition to maintaining collateral greater than 100% of the loaned securities, SWIB's agents provide indemnification to SWIB against counterparty default. The earnings generated from the collateral investments or fees, plus or minus the rebates received from or paid to the dealers and less fees paid to agents, results in the net earnings from lending activities, which are then split on a percentage basis with the lending agent. Cash from the US dollar pool may be posted as collateral relating to short sale transactions and it earns the Overnight Bank Funding rate plus 10 basis points. See Note 8 for additional information relating to short sales.

As of December 31, 2024, a total of \$8.6 billion in cash was released from the invested securities lending collateral pool to SWIB. The cash released is used to provide liquidity for other SWIB investment strategies. The Securities Lending Collateral Liability is fully collateralized when the cash released is combined with the Invested Securities Lending Collateral.

As of December 31, 2024, the Retirement Funds had minimal credit risk exposure to borrowers as loans are collateralized in excess of 100%. In addition to the cash collateral reinvestment indemnification, the contracts with the lending agents require indemnification for the Retirement Funds if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. The Retirement Funds are also indemnified against losses resulting from violations of investment guidelines.

The majority of security loans are open-ended and can be terminated on demand by the Retirement Funds or the borrower. Maturities of investments made with cash collateral are not necessarily matched to the maturities of the securities loaned because most loans do not have a fixed maturity date. The risk that SWIB would be unable to return collateral to securities borrowers upon termination of the loan is mitigated by the highly liquid nature of investments held in the collateral reinvestment pools and investments held by SWIB. The average maturities of the loans and the average maturities of the assets held in the collateral reinvestment pools were similar as of December 31, 2024.

Notes to the Financial Statements

Securities lending is allowed in certain commingled fund investments. As an investor in such funds, SWIB does not own the underlying securities. External asset managers of commingled funds manage securities lending activity for all investors within the fund and do not separately report on securities lending activity. Earnings of these commingled funds are reported in the Statement of Changes in Net Investment Position as Net Increase (Decrease) in the Fair Value of Investments.

8. Short Sales

The Retirement Funds may sell a security it does not own in anticipation of purchasing the security later at a different price. This is known as a short sale transaction. For the duration of the short sale transaction, a liability is recorded under Short Sales on the Statement of Net Investment Position. The liability presented on the Statement of Net Investment Position represents the fair value of the shorted securities necessary for delivery to the purchaser and is marked-to-market daily. Realized and unrealized gains and losses associated with short sales are recorded on the Statement of Changes in Net Investment Position, in the Net Increase (Decrease) in Fair Value of Investments category.

SWIB complies with all securities regulations and requirements to obtain access to borrowed securities prior to executing a short sale. While the transaction is open, the Retirement Funds incur expenses for securities borrowing costs. In addition, as a security borrower, the Retirement Funds may incur dividend and interest expense, and such payments must be remitted to the security lender during the loan. During the duration of the borrow, there may be corporate action elections requiring the borrower to deliver items such as cash or securities to the lender. Expenses resulting from short sales are included in Investment Operating Expense on the Statement of Changes in Net Investment Position.

Risks arise from short sales due to the possible illiquidity of the securities markets and from potential adverse movements in security values. The cost to acquire the securities sold short may exceed the amount of proceeds initially received, as well as the amount of the liability recorded as Short Sales in the Statement of Net Investment Position. Short sales expose the short seller to potentially unlimited liability as there is no upward limit on the price a shorted security can reach. Certain portfolio guidelines permit short sales and mitigate risks in various ways including limiting the total value of short sales as a percentage of portfolio value, establishing portfolio versus benchmark tracking error limits, and monitoring other statistical and economic risk measures of the portfolio. Investment performance and risk associated with each portfolio is measured against benchmarks and monitored by management.

When a short sale occurs, the shorting portfolio must borrow the security and deliver it to the buyer. If the shorted security is owned by another Retirement Fund portfolio, investment policies allow the borrowing of the shorted securities from other Retirement Fund portfolios, including inter-fund borrowings. In addition to borrowing securities from existing Retirement Fund portfolios, SWIB may borrow securities from external sources. These borrowings are facilitated by SWIB's custodian.

Except in the case of borrowings within the same trust fund, the Retirement Funds are required to post collateral to the lender, at the required rate dictated by the type of collateral posted. Collateral posted ranges between 102% and 115% of the market value of the shorted securities. The Retirement Funds posted \$445.8 million in cash and \$5.4 billion in securities as collateral to external security lenders representing approximately \$914.5 million in excess of the fair market value of the securities borrowed as of December 31, 2024. If the security lender recalled the security and SWIB was not able to supply the lender with the security, the lender would be permitted to use SWIB's collateral to fund the purchase of the security.

9. Investment Policy and Asset Allocation

As part of its fiduciary responsibilities, SWIB is required by Section 25.15(2)(b) of the Wisconsin Statutes "to diversify investments in order to minimize the risk of large losses, unless under the circumstances it is

Notes to the Financial Statements

clearly prudent not to do so, considering each trust's or fund's portfolio as a whole at any point in time." SWIB exercises this duty in part by establishing its investment policy and by setting the asset allocation.

SWIB's Board of Trustees has established the asset allocation pursuant to a comprehensive and ongoing evaluation of the appropriate risk and return standards for each fund under management. The Board of Trustees consists of nine members meeting specific requirements as follows:

- Six Governor-appointed and State Senate-confirmed members, including:
 - Four with at least ten years of investment experience;
 - One with at least ten years of financial experience and who works for a local government participant in the Local Government Investment Pool; and
 - One additional member
- Educator participant in the WRS appointed by the Teachers Retirement Board
- Non-educator participant in the WRS appointed by the Wisconsin Retirement Board
- Secretary of the Department of Administration or designee

The Board-approved investment policy for the WRS is intended to assist in development of a diversified portfolio of investments within acceptable risk parameters. The policy represents a delegation of standing authority to the Executive Director/Chief Investment Officer (ED/CIO) and SWIB investment staff to make prudent investments within the investment guidelines, pursuant to Sections 15.02(4) and 25.15(2) of the Wisconsin Statutes and Section IB 2.02 of the Wisconsin Administrative Code.

Additionally, the Investment Committee (IC) was created to provide oversight of SWIB investments within the parameters established by the Board of Trustees. Oversight includes analysis of risk and investment returns of the portfolios, asset classes, and Core and Variable Funds. The IC is responsible for proposing to the Board of Trustees changes to the WRS investment policy, approving investment guidelines or strategies for internally managed portfolios, approving the general strategies for each asset class, and for approving new investment and derivative instruments. The Board of Trustees reserves all rights to modify and amend IC guidelines at any time at its discretion.

The IC approved WRS Investment Guidelines include several policies, including a derivatives use policy, rebalancing procedures, and a leverage use policy. The derivatives use policy sets forth the objectives, monitoring, and reporting guidelines relating to derivative investments. The rebalancing procedures used in both mandatory and discretionary asset class rebalancing are described in the Investment Guidelines, and the leverage use policy describes SWIB's leverage philosophy. The total amount of policy leverage is approved by the Board of Trustees through the WRS asset allocation process.

The Board adopts the Retirement Funds' asset allocation policy, based on recommendations by the IC, the Board's asset allocation consultant, ED/CIO, and Head Economist & Asset and Risk Allocation CIO.

SWIB undertakes a comprehensive review of its strategic asset allocation plan every other year, including asset/liability modeling and stress testing, to determine a suitable target allocation for each asset class included in the Core and Variable Funds, and an annual review to assess whether any interim adjustments should be made. The strategic nature of these reviews contemplates a long-term time horizon over which potential results are evaluated. This exercise is not an attempt to predict short-term market movements, but an effort to understand the long-term impacts of poor, normal, and above average market results.

In addition to potential future market impact, SWIB also contemplates the objectives of the funds, the impact of actuarial analysis, and the soundness of investment return and risk expectations. SWIB's asset allocation policies reflect the Board's program of risk allocation that involves reducing equity exposure by leveraging lower-volatility assets, such as fixed income securities. This investment strategy results in Core

Notes to the Financial Statements

Fund strategic targets which exceed 100% of invested assets. Currently, the Board has approved an asset allocation target of 12% policy leverage for the Core Fund subject to an allowable range of up to 20%.

SWIB's asset allocation review process also includes assumptions regarding expected rates of return. Long-term (e.g., 30-year) expected real rates of return on pension plan investments are determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The table entitled **Asset Allocation Targets and Expected Returns** presents the policy asset allocation targets and the best estimates of expected geometric rates of return for each major asset class as of December 31, 2024. In determining asset allocation targets, investments may be categorized differently than they are within the financial statements. The financial statements generally include more detail on types of assets when compared to asset allocation targets.

Asset Allocation Targets and Expected Returns¹ As of December 31, 2024			
Core Fund Asset Class	Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %²
Public Equity	38	7.0	4.3
Public Fixed Income	27	6.1	3.4
Private Equity/Debt	20	9.5	6.7
Inflation Sensitive Assets	19	4.8	2.1
Real Estate	8	6.5	3.8
Leverage	-12	3.7	1.1
Total Core Fund	100	7.5	4.8
Variable Fund Asset Class			
U.S. Equities	70	6.5	3.8
International Equities	30	7.4	4.7
Total Variable Fund	100	6.9	4.2
¹ Asset Allocations are managed within established ranges; target percentages may differ from actual monthly allocations ² New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.6%			

10. Related-Party Disclosure

During 2024, the Core Fund entered into reverse repurchase agreements with the State Investment Fund (SIF), for which the investment assets are managed by SWIB, as a counterparty. The transactions were governed by a master repurchase agreement and credit exposure is also managed through the transfer of margin between the Core Fund and SIF. As of December 31, 2024, the Core Fund held \$6.0 billion in bilateral reverse repurchase agreements with the SIF. The repurchase agreements were overnight agreements collateralized with US Treasury securities in the amount of 102%. The Core Fund enters into

Notes to the Financial Statements

similar reverse repurchase agreements with other counterparties. The Core and Variable Funds are also participants in the SIF, with investments totaling \$2.0 billion and \$259.5 million, respectively, as of December 31, 2024. The SIF is a short-term, commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return.

During 2024, the Core Fund sold short-term securities with a par value totaling \$105.4 million to the SIF. The market value of the securities sold was based on a determination of a reasonable price not favoring either portfolio using available independent bid ask inquiries or the securities or similar securities.

AGENCY INFORMATION

Office Address:

4703 Madison Yards Way
Suite 700
Madison, WI 53705

Mailing Address:

P.O. Box 7842
Madison, WI 53707

Website:

www.swib.state.wi.us

Telephone Number:

(608) 266-2381

Facsimile Number:

(608) 266-2436

Beneficiary Hotline:

(800) 424-7942

Email Address:

info@swib.state.wi.us

