

State Investment Fund

ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2020



Table of Contents

Message from the Portfolio Manager	3
Independent Auditor's Report	4
Management Discussion & Analysis	7
Financial Statements	9
Notes to the Financial Statements	11
Schedule of Investments	17
Agency Information	23

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Message from the Portfolio Manager

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

2020 has been an unprecedented year which has brought both personal and economic hardship to many. The economy, which had been healthy and growing, experienced a deep economic downturn as a result of the coronavirus pandemic. A myriad of actions have been taken to help slow the spread of the coronavirus, including business closures, cancellation of events, and employees working from home on a scale never seen before. While helping to slow the spread of the virus, these actions resulted in a significant slowdown in the economy.

In response to the crisis, the federal government has engaged in both monetary and fiscal policy to ease the burden. Congress passed the \$2 trillion, Coronavirus Aid, Relief, and Economic Security Act on March 27, 2020. This provided direct assistance to families, businesses, and workers. Of that aid, Wisconsin received \$2.2 billion by fiscal year end, helping offset the effects of the economic downturn in our state.

In addition to the fiscal stimulus from the federal government, the Federal Reserve has stepped in to provide monetary policy to combat the economic downturn. Some of the actions taken include securities purchases, lending to securities firms, direct lending to corporations, supporting state and municipal borrowing, expanding the scope of its repo operations, and cutting the fed funds target rate lower bound by 1.5% to 0%. The Federal Reserve has indicated that rates will remain low until it is “confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.” Based on this forward guidance, interest rates are expected to remain low for quite some time.

In the coming year, the market expects the Federal Reserve to continue to be accommodative as the world awaits a vaccine or therapeutic. Despite these trying times, we will continue to position the SIF to meet its investment objectives of safety, liquidity, and competitive rates of return.

Andrea Ruiz, CFA, CPA
Portfolio Manager



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

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

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

Report on the Financial Statements

We have audited the Statement of Net Position, the Statement of Operations and Changes in Net Position, and the related notes of the State Investment Fund of the State of Wisconsin as of and for the year ended June 30, 2020.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State Investment Fund as of June 30, 2020, and the respective changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the State Investment Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2020, or 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 discussed in Note 5B to the financial statements, during the fiscal year the State Investment Fund entered into significant repurchase agreement transactions with the Core Retirement Investment Trust Fund. The State Investment Fund and the Core Retirement Investment Trust Fund are both administered by SWIB.

Our opinion is not modified with respect to these matters.

Other Matters


Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, which precedes the financial statements, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. 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.

Accompanying Information—Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Investment Fund. The Message from the Portfolio Manager and the Schedule of Investments as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 2020, and published as report 20-26, on our consideration of SWIB's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is 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 when considering SWIB's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman", is positioned above the printed name and title.

Joe Chrisman
State Auditor

December 3, 2020

Management Discussion & Analysis

The State Investment Fund's (SIF) discussion and analysis of the financial activities for the fiscal year (FY) ended June 30, 2020 is presented by management to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year and a comparison to the prior year's activity. The SIF temporarily invests the operating funds of the Wisconsin State agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP).

Following this section are the financial statements and notes to the financial statements. The **Statement of Net Position** provides information on the financial position of the SIF at June 30, 2020. It presents the investment assets available for use and any liabilities related to the operations of the

SIF. The **Statement of Operations and Changes in Net Position** presents the results of the investing activities for the twelve months ending June 30, 2020. The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the SIF financial statements. Condensed SIF financial information for the FYs ending June 30, 2020 and June 30, 2019 is included in the table entitled **SIF Condensed Financial Information**.

Because the SIF is used to temporarily invest participants' operating cash flows, investments are in highly liquid, short-term fixed income securities. As of June 30, 2020, the SIF Net Position had increased by \$3.1 billion, or 24.2%, from the prior fiscal year due to the combined increases in the shares of the WRS (increase of \$345 million), State of Wisconsin and agencies (increase of \$2.0 billion),

SIF Condensed Financial Information				SIF Annualized Returns (as of June 30)		
Fiscal Year Ended:	2020	2019	Change%	Year(s)	Return%	Benchmark%
Total Assets	\$16,232,446,088	\$13,081,507,827	24.1	2011	0.19	0.15
Total Liabilities	214,204,187	188,544,704	13.6	2012	0.14	0.09
Net Position	<u>\$16,018,241,901</u>	<u>\$12,892,963,123</u>	24.2	2013	0.15	0.10
				2014	0.09	0.06
Investment Income	\$ 201,298,009	\$ 259,596,140	(22.5)	2015	0.11	0.05
Investment Expenses	3,256,437	2,122,031	53.5	2016	0.28	0.19
State Working Bank Charges	1,900,936	2,173,581	(12.5)	2017	0.54	0.57
Net Income	<u>\$ 196,140,636</u>	<u>\$ 255,300,528</u>	(23.2)	2018	1.34	1.42
				2019	2.33	2.28
Average Monthly Balance	\$14,728,012,043	\$11,588,635,453	27.1	2020	1.45	1.25
Weighted Avg. Maturity (WAM)	31	16				
SIF Ownership:				Multi-Year:		
State of Wisconsin & Agencies	43%	38%		Three Year	1.71	1.65
Wisconsin Retirement System	27%	31%		Five Year	1.18	1.14
Local Govt Investment Pool	30%	31%		Ten Year	0.66	0.61
Total	<u>100%</u>	<u>100%</u>				

Management Discussion & Analysis

and the LGIP (increase of \$744 million). The SIF Average Monthly Balance increased by \$3.1 billion in FY 2020 compared to FY 2019. During the fiscal year, the monthly balance peaked at \$17.8 billion in April 2020. Operating cash flows of participants fluctuate during the year and were higher at year-end for several reasons, including the State of Wisconsin's receipt of federal stimulus payments.

Investment Income decreased by \$58.3 million, or 22.5%, from the prior fiscal year. The decrease in investment income resulted from three separate 0.25% decreases in interest rates during the second half of 2019, and an additional 1.50% decrease during March 2020 when the economic impact of the coronavirus prompted the Federal Reserve to decrease the federal funds "target range" from between 1.50% and 1.75% to between 0.0% and 0.25%. As a result, the average federal funds effective rate decreased from 2.23% in FY 2019 to 1.29% in FY 2020. Accordingly, the one-year SIF return decreased from 2.33% in FY 2019 to 1.45% in FY 2020.

Investment Expenses increased by \$1.1 million, or 53.5%, from the prior fiscal year. Investment Expenses include operating expenses, research and data services, and consulting expenses incurred by SWIB and allocated to the SIF. Most of the increase in allocated expenses can be attributed to an increase in operating expenses and research and data services.

The weighted average maturity increased from 16 to 31 days at the end of FY 2019 and FY 2020, respectively. The largest contributor to the change was the increase in the weighted average maturity of government & agency securities, which increased from 24 to 40 days. At June 30, 2020, the SIF held \$4.1 billion in repurchase agreements compared to \$4.4 billion at the end of the prior year, a decrease of \$270 million or 6.2%. Government & agencies and repurchase agreements represent 93.8% of the SIF's total investments as of June 30, 2020.

Financial Statements

State Investment Fund Statement of Net Position As of June 30, 2020	
Assets	
Investments	
Repurchase Agreements	\$ 4,105,417,700
Government & Agencies	11,094,144,358
Commercial Paper	622,112,401
Certificates of Deposit	198,467,725
Time Deposits	63,000,000
Banker's Acceptances	19,996,059
Corporate Notes	102,945,246
Total Investments	16,206,083,489
Other Assets	
Investment Sales Receivable	24,999,937
Accrued Interest Receivable	1,362,662
Total Other Assets	26,362,599
Total Assets	16,232,446,088
Liabilities	
Check Float Invested	135,043,363
Earnings Distribution Payable	1,705,579
Payable for Investments Purchased	76,177,424
Accounts Payable	1,277,821
Total Liabilities	214,204,187
NET POSITION	\$ 16,018,241,901
Net Position consists of:	
Participating Shares	16,018,750,000
Undistributed Unrealized Gains (Losses)	(508,099)
NET POSITION	\$ 16,018,241,901
The accompanying notes are an integral part of this statement.	

Financial Statements

State Investment Fund Statement of Operations and Changes in Net Position For the Fiscal Year Ended June 30, 2020		
Additions		
Investment Income		
Net Increase (Decrease) in the Fair Value of Investments	\$	85,104,208
Interest		116,193,801
Total Investment Income		201,298,009
Less		
Investment Expenses		
Operating Expenses		1,712,225
Custodial Bank Charges		221,458
Research and Data Services		459,243
Legal and Consulting Fees		447,485
Investment Operating Services		416,026
Total Investment Expenses		3,256,437
Net Investment Income		198,041,572
Less		
State Working Bank Charges		1,900,936
Net Income		196,140,636
Distributions Paid and Payable		195,525,858
Change in Undistributed Unrealized Gains (Losses)		614,778
Beginning Undistributed Unrealized Gains (Losses)		(1,122,877)
Ending Undistributed Unrealized Gains (Losses)		(508,099)
Net Change in Participating Shares		3,124,665,000
Beginning of Period Participating Shares		12,894,085,000
End of Period Participating Shares		16,018,750,000
NET POSITION	\$	16,018,241,901
The accompanying notes are an integral part of this statement.		

Notes to the Financial Statements

1. Description of Funds

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

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

2. Significant Accounting Policies

A. Basis of Presentation

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

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Interest income is accrued as earned.

C. Valuation of Securities

For financial statement purposes, the fair value of securities depends on asset class. Repurchase Agreements and non-negotiable Certificates of Deposit and Time Deposits are carried at cost, because they are non-participating contracts that do not capture interest rate changes in their value.

All remaining debt investments (U.S. Government/ Agency securities, Banker's Acceptances, Commercial Paper, Corporate Notes, and negotiable Certificates of Deposit) are carried at fair value. Because quoted market prices for SIF securities are often not available at month end, BNY Mellon, as SWIB's custodial bank, compiles fair values from third party pricing services which use matrix pricing models to estimate a security's fair value.

The table entitled **Summary of Information by Investment Classification** contains summarized SIF information by investment type as of June 30, 2020.

D. Investment Expenses

Investment Expenses are SWIB's administrative and investment costs that are allocated to the SIF participants which consist of operating expenses, custodial bank charges, research and data services, legal and consulting fees, and investment operating services.

E. State Working Bank Charges

State Working Bank Charges represent charges for various state banking services such as lockbox, ePay, and depository services. These expenses are allocated to SIF participants based on their

Notes to the Financial Statements

proportionate usage of banking services and, accordingly, reduce the participant's share of the Net Investment Income.

3. SIF Investment Income and Pool Shares

For reporting purposes, as noted in Note 2C, investments are valued at fair value. For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, the SIF distributes income to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a constant yield basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method does not distribute to participants any unrealized gains or losses generated by the pool's investments.

Unrealized gains and losses are reflected in the Statement of Operations and Changes in Net Position as "Net Increase (Decrease) in the Fair Value of Investments." The cumulative difference between net income (fair value) and distributions paid (amortized cost) is reported in the Statement of Net Position as "Undistributed Unrealized Gains (Losses)."

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

4. Deposit and Investment Risk

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

Summary of Information by Investment Classification June 30, 2020

Investment Type	Maturity Dates	Fair Value
Repurchase Agreements	07/01/20	\$ 4,105,417,700
Government & Agencies	07/01/20 - 02/28/22	11,094,144,358
Commercial Paper	07/01/20 - 12/03/20	622,112,401
Certificates of Deposit	07/02/20 - 11/16/20	198,467,725
Time Deposits	07/01/20 - 09/21/20	63,000,000
Banker's Acceptances	07/20/20 - 09/14/20	19,996,059
Corporate Notes	07/08/20 - 06/23/21	102,945,246
Total Investments		<u>\$ 16,206,083,489</u>

guidelines. At least quarterly, comprehensive reporting is presented to SWIB's Investment Committee and the Board of Trustees.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the SIF. The Board established SIF investment guidelines with maximum exposure limits by security type based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). The table entitled **Credit Quality Distribution for Securities** displays the credit ratings and aggregate exposures by investment type for the securities held by the SIF as of June 30, 2020.

B. Custodial Credit Risk

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. As of June 30, 2020, the SIF held Certificates of Deposit (CDs) with a value of \$18,445,000 invested pursuant to the Wisconsin Certificate of Deposit Program (administered by Bankers' Bank) established in July 1987. Investment guidelines provide that to be accepted into this program, banks must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits.

Notes to the Financial Statements

The Federal Deposit Insurance Corporation (FDIC) insures the pro rata share of Certificates of Deposit held by the LGIP up to \$250,000, and the State of Wisconsin appropriation for losses on public deposits protects a depositing municipality up to \$400,000 if the local governing body has designated the LGIP as a public depository. As of June 30, 2020, \$18,445,000 is insured through FDIC insurance and the State of Wisconsin appropriation for losses on public deposits. The actual coverage of these deposits can fluctuate daily based on the allocable share of participants' accounts. In addition, the SIF held time deposits with financial institutions with a fair value of \$63 million, all of which were uncollateralized and uninsured at June 30, 2020.

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 SIF held seven repurchase agreements totaling \$4.1 billion as of June 30, 2020. Two of the repurchase agreements are a bilateral agreement totaling \$650 million and the underlying securities (collateral) for these were held at SWIB's custodian. Four of the repurchase agreements, totaling \$1.4 billion, were tri-party agreements. The underlying securities (collateral) for these repurchase agreements were held by the tri-party's agent, not in SWIB's name. The remaining repurchase agreement, totaling \$2.0 billion, was a related-party, bilateral

agreement. The underlying securities for this repurchase agreement were held by SWIB's custodian, in SWIB's name. The related party transaction is discussed in Note 5B.

SWIB requires the execution of a Master Repurchase Agreement (MRA) prior to engaging in repurchase agreements with a counterparty. MRAs are negotiated contracts containing terms in which SWIB seeks to minimize counterparty credit risk. The counterparty credit exposure is managed through the transfer of margin, in the form of cash or securities, between SWIB and the counterparty. The market value of securities utilized

Credit Quality Distribution for Securities June 30, 2020			
Investment Type	Rating	Fair Value	%
Repurchase Agreements (Collateral):			
U.S. Government and Agencies Debt	AA	\$ 4,105,417,700	25.3
U.S. Treasury:			
Short-Term (Bills and Notes)	A-1+	6,624,672,139	40.9
Long-Term (Notes)	AA	245,482,954	1.5
Government Sponsored Entity U.S. Agency:			
Federal Home Loan Bank (FHLB)	A-1+	3,533,371,300	21.8
Federal Home Loan Bank (FHLB)	AA	461,530,670	2.8
Federal Home Loan Mortgage Corp (FHLMC)	A-1+	103,230,000	0.6
Federal National Mortgage Association (FNMA)	A-1+	399,880	0.0
Federal Farm Credit Bank (FFCB)	A-1+	115,480,715	0.7
Federal Farm Credit Bank (FFCB)	AA	9,976,700	0.1
Commercial Paper	A-1+	467,720,466	2.9
Commercial Paper	A-1	154,391,935	1.0
Certificates of Deposit:			
Negotiable	A-1	25,018,000	0.2
Negotiable	A-1+	155,004,725	1.0
Non-Negotiable (Wisconsin CD Program)	NR	18,445,000	0.1
Time Deposits	A-1+	63,000,000	0.4
Banker's Acceptances	A-1+	19,996,059	0.1
Corporate Notes	AAA	4,152,534	0.0
Corporate Notes	AA	98,792,711	0.6
Total Investments		\$ 16,206,083,489	100.0

Notes to the Financial Statements

as collateral for repurchase agreements must be at least 102% of the value of the repurchase agreement. SWIB also controls credit exposures by performing a credit analysis on each counterparty and by establishing maximum exposure limits with any one counterparty based on their creditworthiness.

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 “Systematically Important Financial Institution” by the U.S. 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 be insured for 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. Furthermore, SWIB management has established a system of controls for the oversight of services and related processes of the custodian. SWIB’s current custodial bank was selected in accordance with these guidelines and meets all requirements stipulated in the custodial credit risk policy.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization’s investment in a single issuer. The SIF’s investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for U.S. Treasury bills or agency discount notes. As of June 30, 2020, the SIF had more than five percent of its investments in FHLB (24.6%), U.S. Treasury

(42.4%), and Repurchase Agreement collateral (25.3%) consisting of various securities issued by these same U.S. Treasuries and agencies. Since the Repurchase Agreements generally mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each day.

D. Interest Rate Risk

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

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.

Weighted Average Maturities (WAM) for Securities June 30, 2020		
Investment Type	Fair Value	WAM (Days)
Repurchase Agreements	\$ 4,105,417,700	1
Government & Agencies	11,094,144,358	40
Commercial Paper	622,112,401	45
Certificates of Deposit	198,467,725	27
Time Deposits	63,000,000	34
Banker’s Acceptances	19,996,059	55
Corporate Notes	102,945,246	108
Total Investments	<u>\$ 16,206,083,489</u>	
Portfolio Weighted Average Maturity (Days)		31

Depending on the types of securities held in a fund, certain maturity shortening devices (e.g., interest rate resets, call options, and demand features) are considered when calculating the weighted average maturity.

The table entitled **Weighted Average Maturities (WAM) for Securities** presents the aggregated weighted average maturity by investment type for securities held by the SIF at June 30, 2020.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At June 30, 2020, the SIF was not exposed to foreign currency risk.

5. Related Party Transactions

A. Inter-Fund Loans

Wisconsin Statutes 20.002 (11) provides for the short-term temporary reallocation of surplus moneys between statutory funds, provided that the borrowing fund anticipates receiving future revenues to pay back the temporary loan. For fiscal year 2020, Section 20.002 (11) (b) 2 provides that General Fund borrowings may not exceed 9% of defined revenues (estimated borrowing cap of \$1.655 billion). Section 20.002 (11) (b) 3 permits an additional temporary allocation not to exceed 3% of defined revenues for a period of up to 30 days (estimated total borrowing cap of \$2.207 billion). Further, Section 20.002 (11) (b) 1 limits the total amount of any temporary reallocations to a fund other than the General Fund to \$400 million. The borrowing fund is charged interest on the inter-fund loan at the SIF monthly interest rate. As of June 30, 2020, the amount of inter-fund borrowings between statutory funds invested in the SIF is listed in the table entitled **Inter-Fund Loans**.

B. Inter-Fund Transactions

The Wisconsin Legislature created SWIB for the sole purpose of providing professional investment management for the funds entrusted to it, including the assets of the SIF and the Core Retirement Investment Trust Fund (Core Fund). During the fiscal year, the SIF entered into repurchase agreement transactions with the Core Fund as a counterparty. The transactions were governed by an MRA, and investment guidelines limit exposure with the SIF to \$3.0 billion. Credit exposure is also managed through the transfer of margin between the Core Fund and SIF. As of June

Inter-Fund Loans June 30, 2020	
Fund	Loan Amount
Industrial Building Construction Loan Fund	\$ 1,000
Medical Assistance Trust Fund	172,351,000
Recycling & Renewable Energy Fund	1,000
Total Loans	<u>\$ 172,353,000</u>

30, 2020, the SIF held \$2.0 billion in a bilateral repurchase agreement with the Core Fund. The repurchase agreement was an overnight agreement collateralized with U.S. Treasury securities. The SIF enters into similar repurchase agreement transactions with other counterparties. The Core Fund is also a participant in the SIF, with an investment totaling \$4.2 billion at June 30, 2020. The Variable Fund invested \$206 million in the SIF at June 30, 2020.

6. Fair Value Reporting

Fair value measurements of the investments held by the SIF are categorized by the hierarchy established by generally accepted accounting principles. The hierarchy, which has three levels, is based on the valuation inputs used to measure the fair value of the asset.

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 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

Notes to the Financial Statements

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.

The fair value measurements of investments held by the SIF as of June 30, 2020 are found in the table titled **Investments Measured at Fair Value**.

Securities classified in Level 1 are generally valued at the official closing price (usually the last trade prices) or the last bid price on the security's primary exchange. Such investments include U.S. Treasury bills and only the most recently-issued U.S. Treasury notes and bonds are classified as Level 1 because available pricing for these securities is similarly reliable to exchange-traded securities.

Securities classified as Level 2 are valued using observable inputs, by third-party pricing services

using a matrix-pricing technique. Matrix-pricing is used to value securities based on their relationship to quoted market prices for securities with similar interest rates, maturities, and credit ratings. Most debt securities are classified as Level 2 because they are generally traded using a dealer market, with lower trading volumes than Level 1 securities.

Level 3 investments are generally valued using significant inputs that are unobservable to the marketplace. Banker's Acceptances included in Level 3 represent securities that derive their fair value from cost. Typically, due to their short-term nature, cost approximates fair value for these investments.

Investments held at cost (Repurchase Agreements and non-negotiable Certificates of Deposit and Time Deposits) are not reported within the fair value hierarchy.

Investments Measured at Fair Value June 30, 2020				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments by Fair Value Level:				
Government & Agencies	\$ 6,454,654,260	\$4,639,490,098	\$ -	\$ 11,094,144,358
Commercial Paper	-	622,112,401	-	622,112,401
Certificates of Deposit (negotiable)	-	180,022,725	-	180,022,725
Banker's Acceptances	-	-	19,996,059	19,996,059
Corporate Notes	-	102,945,246	-	102,945,246
Total Investments by Fair Value Level	<u>\$ 6,454,654,260</u>	<u>\$5,544,570,470</u>	<u>\$ 19,996,059</u>	<u>\$ 12,019,220,789</u>
Investments Reported at Cost				
Repurchase Agreements				\$ 4,105,417,700
Certificates of Deposit (non-negotiable)				18,445,000
Time Deposits (non-negotiable)				63,000,000
Total Investments				<u>\$ 16,206,083,489</u>

State Investment Fund
SCHEDULE OF INVESTMENTS
Fiscal Year Ended June 30, 2020

Schedule of Investments

REPURCHASE AGREEMENTS

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
AUSTRALIA AND NEW ZEALAND REV REPO	0.10	7/1/2020	\$ 297,989,556
AUSTRALIA AND NEW ZEALAND REV REPO	0.10	7/1/2020	352,010,444
CORE FUND DVP REPO	0.24	7/1/2020	2,015,417,700
CREDIT AGRICOLE TRI REPO	0.06	7/1/2020	240,000,000
DAIWA TRI GOVT REPO	0.08	7/1/2020	500,000,000
JEFFERIES TRI GOVT REPO	0.10	7/1/2020	600,000,000
MIZUHO TRI GOVT REPO	0.07	7/1/2020	100,000,000
TOTAL REPURCHASE AGREEMENT			\$ 4,105,417,700

GOVERNMENT & AGENCIES

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
FFCB	DISCOUNT	8/3/2020	\$ 49,993,000
FFCB	VARIABLE RATE	9/1/2020	10,001,500
FFCB	VARIABLE RATE	10/15/2020	24,997,500
FFCB	VARIABLE RATE	11/12/2020	30,488,715
FFCB	VARIABLE RATE	9/17/2021	9,976,700
FHLB	DISCOUNT	7/1/2020	102,000,000
FHLB	DISCOUNT	7/2/2020	2,680,000
FHLB	DISCOUNT	7/6/2020	2,599,948
FHLB	DISCOUNT	7/7/2020	2,949,941
FHLB	DISCOUNT	7/10/2020	74,997,750
FHLB	DISCOUNT	7/13/2020	2,099,916
FHLB	DISCOUNT	7/14/2020	5,999,760
FHLB	DISCOUNT	7/15/2020	4,999,750
FHLB	VARIABLE RATE	7/17/2020	40,000,000
FHLB	DISCOUNT	7/17/2020	149,992,500
FHLB	DISCOUNT	7/21/2020	9,999,300
FHLB	DISCOUNT	7/22/2020	7,399,482
FHLB	DISCOUNT	7/23/2020	1,203,916
FHLB	VARIABLE RATE	7/24/2020	19,999,800
FHLB	DISCOUNT	7/24/2020	100,691,944
FHLB	DISCOUNT	7/27/2020	149,986,500
FHLB	VARIABLE RATE	7/29/2020	32,000,000
FHLB	DISCOUNT	7/29/2020	102,155,805
FHLB	DISCOUNT	7/31/2020	55,014,498
FHLB	DISCOUNT	8/3/2020	201,971,720
FHLB	DISCOUNT	8/4/2020	1,134,841
FHLB	VARIABLE RATE	8/5/2020	32,997,690
FHLB	DISCOUNT	8/5/2020	499,925
FHLB	DISCOUNT	8/7/2020	1,119,832
FHLB	DISCOUNT	8/11/2020	6,918,824
FHLB	DISCOUNT	8/12/2020	2,799,524
FHLB	DISCOUNT	8/13/2020	13,497,570
FHLB	VARIABLE RATE	8/14/2020	40,997,130
FHLB	DISCOUNT	8/14/2020	11,277,970
FHLB	VARIABLE RATE	8/19/2020	151,981,760
FHLB	DISCOUNT	8/19/2020	3,299,340
FHLB	VARIABLE RATE	8/21/2020	100,988,890
FHLB	DISCOUNT	8/24/2020	599,868
FHLB	VARIABLE RATE	8/25/2020	6,499,350
FHLB	DISCOUNT	8/25/2020	1,399,678
FHLB	DISCOUNT	8/26/2020	58,486,545
FHLB	VARIABLE RATE	8/28/2020	199,972,000
FHLB	DISCOUNT	8/28/2020	1,599,616
FHLB	DISCOUNT	9/1/2020	122,570,576
FHLB	DISCOUNT	9/2/2020	44,589,296
FHLB	VARIABLE RATE	9/4/2020	249,965,000
FHLB	DISCOUNT	9/4/2020	7,298,175
FHLB	DISCOUNT	9/8/2020	49,986,500
FHLB	DISCOUNT	9/9/2020	55,584,988
FHLB	VARIABLE RATE	9/11/2020	70,996,450
FHLB	DISCOUNT	9/11/2020	3,499,020
FHLB	DISCOUNT	9/14/2020	27,891,909
FHLB	DISCOUNT	9/18/2020	5,538,283
FHLB	DISCOUNT	9/22/2020	255,918,080
FHLB	DISCOUNT	9/24/2020	1,599,472
FHLB	DISCOUNT	9/25/2020	64,978,550
FHLB	1.38	9/28/2020	1,002,930
FHLB	VARIABLE RATE	9/28/2020	69,988,800
FHLB	VARIABLE RATE	9/28/2020	49,990,500
FHLB	2.63	10/1/2020	503,060
FHLB	VARIABLE RATE	10/1/2020	35,000,000
FHLB	DISCOUNT	10/1/2020	18,223,073
FHLB	VARIABLE RATE	10/7/2020	17,000,680
FHLB	VARIABLE RATE	10/19/2020	24,998,750

Schedule of Investments

GOVERNMENT & AGENCIES SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
FHLB	VARIABLE RATE	11/6/2020	20,993,700
FHLB	DISCOUNT	11/13/2020	44,971,200
FHLB	VARIABLE RATE	11/30/2020	24,996,750
FHLB	VARIABLE RATE	12/4/2020	37,995,060
FHLB	VARIABLE RATE	12/10/2020	99,995,000
FHLB	3.13	12/11/2020	227,979
FHLB	VARIABLE RATE	12/23/2020	23,001,610
FHLB	DISCOUNT	12/23/2020	51,989,730
FHLB	DISCOUNT	12/28/2020	35,967,600
FHLB	VARIABLE RATE	1/22/2021	19,991,600
FHLB	VARIABLE RATE	1/28/2021	20,990,760
FHLB	VARIABLE RATE	2/1/2021	4,397,668
FHLB	VARIABLE RATE	2/22/2021	79,984,800
FHLB	VARIABLE RATE	2/25/2021	54,965,350
FHLB	VARIABLE RATE	2/26/2021	47,978,880
FHLB	VARIABLE RATE	3/10/2021	36,000,720
FHLB	VARIABLE RATE	3/12/2021	9,998,300
FHLB	VARIABLE RATE	4/9/2021	12,003,120
FHLB	VARIABLE RATE	6/11/2021	24,984,500
FHLB	VARIABLE RATE	7/8/2021	83,952,120
FHLB	VARIABLE RATE	7/23/2021	16,989,970
FHLB	VARIABLE RATE	8/18/2021	24,994,500
FHLB	VARIABLE RATE	9/3/2021	22,997,240
FHLB	VARIABLE RATE	9/10/2021	24,977,000
FHLB	VARIABLE RATE	2/10/2022	72,903,640
FHLB	VARIABLE RATE	2/28/2022	214,716,200
FHLMC	DISCOUNT	7/2/2020	3,250,000
FHLMC	DISCOUNT	8/19/2020	99,980,000
FNMA	DISCOUNT	9/16/2020	399,880
Treasury Bill	DISCOUNT	7/2/2020	560,000,000
Treasury Bill	DISCOUNT	7/7/2020	424,991,500
Treasury Bill	DISCOUNT	7/9/2020	267,991,960
Treasury Bill	DISCOUNT	7/14/2020	244,990,200
Treasury Bill	DISCOUNT	7/16/2020	137,993,100
Treasury Bill	DISCOUNT	7/21/2020	184,988,900
Treasury Bill	DISCOUNT	7/23/2020	119,991,600
Treasury Bill	DISCOUNT	7/28/2020	309,969,000
Treasury Bill	DISCOUNT	7/30/2020	64,993,500
Treasury Bill	DISCOUNT	8/4/2020	499,935,000
Treasury Bill	DISCOUNT	8/6/2020	174,979,000
Treasury Bill	DISCOUNT	8/13/2020	74,988,000
Treasury Bill	DISCOUNT	8/18/2020	454,918,100
Treasury Bill	DISCOUNT	8/20/2020	174,968,500
Treasury Bill	DISCOUNT	8/25/2020	449,905,500
Treasury Bill	DISCOUNT	8/27/2020	149,967,000
Treasury Bill	DISCOUNT	9/1/2020	149,964,000
Treasury Bill	DISCOUNT	9/3/2020	124,968,750
Treasury Bill	DISCOUNT	9/8/2020	229,942,500
Treasury Bill	DISCOUNT	9/10/2020	249,932,500
Treasury Bill	DISCOUNT	9/15/2020	49,985,000
Treasury Bill	DISCOUNT	9/17/2020	24,992,250
Treasury Bill	DISCOUNT	9/22/2020	99,969,000
Treasury Bill	DISCOUNT	10/1/2020	269,892,000
Treasury Bill	DISCOUNT	10/6/2020	59,978,400
Treasury Bill	DISCOUNT	10/8/2020	24,989,250
Treasury Bill	DISCOUNT	10/13/2020	49,977,000
Treasury Bill	DISCOUNT	10/20/2020	99,954,000
Treasury Bill	DISCOUNT	10/27/2020	24,988,500
Treasury Bill	DISCOUNT	10/29/2020	24,987,000
Treasury Bill	DISCOUNT	11/3/2020	149,908,500
Treasury Bill	DISCOUNT	11/10/2020	124,920,000
Treasury Bill	DISCOUNT	11/12/2020	24,985,250
Treasury Bill	DISCOUNT	11/27/2020	74,949,000
Treasury Bill	DISCOUNT	12/1/2020	274,818,500
Treasury Bill	DISCOUNT	12/10/2020	24,982,000
Treasury Note	VARIABLE RATE	10/31/2020	170,017,879
Treasury Note	VARIABLE RATE	7/31/2021	50,089,285
Treasury Note	VARIABLE RATE	10/31/2021	70,225,182
Treasury Note	VARIABLE RATE	1/31/2022	125,168,488
TOTAL GOVERNMENT & AGENCIES			\$ 11,094,144,358

Schedule of Investments

COMMERCIAL PAPER

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
APPLE INC	DISCOUNT	7/1/2020	\$ 39,999,944
APPLE INC	DISCOUNT	7/31/2020	18,997,579
APPLE INC	DISCOUNT	12/3/2020	249,744
ARMY & AIR FORCE	DISCOUNT	7/1/2020	13,999,964
ARMY & AIR FORCE	DISCOUNT	7/15/2020	24,999,167
BNY MELLON	DISCOUNT	7/1/2020	19,999,989
COCA COLA CO	DISCOUNT	7/7/2020	517,993
GLAXOSMITHKLINE	DISCOUNT	7/28/2020	24,989,072
JOHNSON & JOHNSON	DISCOUNT	11/2/2020	24,979,340
JOHNSON & JOHNSON	DISCOUNT	11/23/2020	24,972,321
JOHNSON & JOHNSON	DISCOUNT	12/1/2020	15,381,291
JOHNSON & JOHNSON	DISCOUNT	12/2/2020	9,588,220
MERCK & CO INC	DISCOUNT	8/13/2020	24,996,364
MERCK & CO INC	DISCOUNT	8/21/2020	24,995,486
NATIONAL SEC CORP	DISCOUNT	7/13/2020	74,997,914
NESTLE FIN INTL	DISCOUNT	7/15/2020	24,998,750
NOVARTIS FIN CORP	DISCOUNT	7/6/2020	49,998,867
PFIZER INC	DISCOUNT	7/28/2020	28,897,820
PROCTOR & GAMBLE	DISCOUNT	9/16/2020	24,992,308
PROCTOR & GAMBLE	DISCOUNT	9/22/2020	49,982,967
TORONTO-DOMINION	DISCOUNT	8/3/2020	24,995,892
TORONTO-DOMINION	DISCOUNT	8/14/2020	32,992,369
TORONTO-DOMINION	DISCOUNT	9/16/2020	16,592,591
TOYOTA MTR CR CP	DISCOUNT	8/5/2020	24,996,450
TOTAL COMMERCIAL PAPER			\$ 622,112,401

CERTIFICATES OF DEPOSIT (CDs)

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
BANK OF AMERICA	VARIABLE RATE	8/5/2020	\$ 21,998,240
BANK OF AMERICA	VARIABLE RATE	8/14/2020	3,002,835
BANK OF MONTREAL	1.00	7/2/2020	25,001,250
BANKERS' BANK	1.65	7/15/2020	2,500,000
BANKERS' BANK	0.50	7/15/2020	1,600,000
BANKERS' BANK	1.63	8/17/2020	4,745,000
BANKERS' BANK	0.45	9/15/2020	6,000,000
BANKERS' BANK	0.60	10/15/2020	1,600,000
BANKERS' BANK	0.35	11/16/2020	2,000,000
CANADIAN IMP BK NY	1.77	7/16/2020	25,018,000
COMMONWEALTH BK AUST	0.17	7/27/2020	25,000,500
TORONTO-DOMINION	0.18	8/6/2020	49,999,500
US BANK NATIONAL	0.17	7/31/2020	30,002,400
TOTAL CERTIFICATES OF DEPOSIT			\$ 198,467,725

TIME DEPOSITS

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
AUSTRALIA AND NEW ZEALAND BK	0.30	9/21/2020	\$ 25,000,000
ROYAL BANK OF CANADA/NY	0.12	7/1/2020	38,000,000
TOTAL TIME DEPOSITS			\$ 63,000,000

BANKER'S ACCEPTANCES (BAs)

SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
US BANK	DISCOUNT	7/20/2020	\$ 1,099,947
US BANK	DISCOUNT	8/25/2020	17,628,517
US BANK	DISCOUNT	9/8/2020	580,831
US BANK	DISCOUNT	9/14/2020	686,765
TOTAL BANKER'S ACCEPTANCES			\$ 19,996,059

Schedule of Investments

CORPORATE NOTES			
SECURITY NAME	COUPON RATE	MATURITY DATE	FAIR VALUE
APPLE INC	2.00	11/13/2020	\$ 5,235,085
AUTOMATIC DATA PROCESSING INC	2.25	9/15/2020	25,154,469
JOHNSON & JOHNSON	2.95	9/1/2020	525,327
JOHNSON & JOHNSON	1.95	11/10/2020	3,627,207
MICROSOFT CORP	3.00	10/1/2020	7,957,036
PROCTER & GAMBLE CO	1.90	10/23/2020	9,157,922
ROYAL BANK OF CANADA	VARIABLE RATE	7/22/2020	11,113,108
WALMART INC	3.63	7/8/2020	2,571,414
WALMART INC	3.25	10/25/2020	7,858,201
WALMART INC	1.90	12/15/2020	29,533,224
WALMART INC	VARIABLE RATE	6/23/2021	212,254
TOTAL CORPORATE NOTES			\$ 102,945,246
GRAND TOTAL STATE INVESTMENT FUND			\$ 16,206,083,489

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