

2025  
Goals, Strategies & Performance Report

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## MISSION

To be a trusted and skilled global investment organization contributing to a strong financial future 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.

# Message from the Executive Director/CIO

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.

As we enter a new year, 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.

I am incredibly proud of the work SWIB does to support the financial security of WRS participants. It is an honor to serve you, and we will continue working to protect and grow your benefits so you can focus on your work, your life, and your future with peace of mind.

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

Edwin Denson  
Executive Director/Chief Investment Officer

# About the Investment Board

SWIB is a trusted and skilled investment organization contributing to the strong financial future of the beneficiaries of the funds entrusted to it. An independent state agency governed by Chapter 25 of state statutes, SWIB is responsible for managing the assets of the fully funded Wisconsin Retirement System (WRS), the State Investment Fund (SIF), and other separately managed funds. The SIF is a pool of invested cash balances of the WRS and various state and local government units. Other funds managed by SWIB include the State Life Insurance Fund, Historical Society Trust Fund, Injured Patients and Families Compensation Fund, and University of Wisconsin System Trust Funds.

As of Dec. 31, 2024, SWIB managed more than \$162 billion in net assets. The Core Fund, the larger of the two WRS trust funds, had net assets of more than \$128 billion, and the Variable Fund, an optional stock-only fund, ended 2024 with net assets of over \$11 billion. The WRS consistently ranks among the 10 largest public pension funds in the U.S. More than 692,000 current and former state and local government employees and their families count on the WRS for some portion of their retirement security.

SWIB and its governing body, the Board of Trustees, have a fiduciary responsibility to invest this money in the best interest of the trust funds as a prudent expert. To help it meet this responsibility, SWIB needs to attract and retain qualified investment professionals and to invest in its technology and systems. Over the years, the Legislature has helped ensure that SWIB can meet its fiduciary duty by providing SWIB flexibility, independence, and authority that are different from those of other state agencies, including investment, budget, position, and compensation setting authority.

SWIB's budget differs from that of other state agencies. SWIB receives no direct general purpose revenues from the state. All costs to manage assets in the trust funds are paid from those trust funds. 2011 Wisconsin Act 32 gave SWIB's independent Board of Trustees the authority to establish SWIB's operating budget and staffing level. This law change has given SWIB the flexibility to adapt to swiftly changing market conditions while increasing its internal management of assets in a cost-effective manner. Since SWIB's inception in 1951, forward-thinking state legislators and governors have given SWIB the tools to allow the agency to evolve into the premier money manager it is today.

Annually, SWIB is required to report its long-term strategies, investment goals, and the status of goals and investment performance for the previous year. This report is submitted to the Legislature pursuant to section 25.17(14m) of the Wisconsin State Statutes. More information about SWIB and the funds it manages can be found at [swib.state.wi.us](http://swib.state.wi.us).

# Management Council



Edwin Denson  
Executive Director/  
Chief Investment Officer



Rochelle Klaskin  
Deputy Executive Director/  
Chief Operating Officer



Todd Mattina  
Head Economist,  
Asset & Risk  
Allocation Chief  
Investment Officer



Anne-Marie Fink  
Private Markets &  
Funds Alpha Chief  
Investment Officer



Nick Stanton  
Head of Multi-Asset  
Strategies



Mike Shearer  
Head of Fixed Income  
Strategies

# Performance

2024 equity market performance was strong but largely driven by a handful of mega-cap stocks. Other major indices posted solid gains despite economic uncertainty and shifting monetary policy. Through June 30, the Core Trust Fund was up 4.87%. The S&P 500 delivered strong performance driven by increasing demand for AI-related products and services across multiple sectors. However, market volatility persisted due to inflation concerns and geopolitical risks. After aggressively cutting interests in 2022 and 2023, the Federal Reserve began raising rates in mid-2024 as inflation showed signs of cooling and economic growth moderated. Labor market strength and corporate profitability remained supportive though some sectors faced challenges from high borrowing costs. The combination of easing monetary policy and steady economic expansion positioned U.S. markets for continued growth heading into 2024.

- The Core Fund, the larger of the two WRS trust funds with more than \$128 billion in net assets, ended the year with a one-year net of all fees and costs return of 8.5% and a five-year net of all fees and costs return of 7.2%. The Core Fund's 10- and 20-year returns net of external manager fees were 7.4% and 6.9% respectively.
- SWIB's returns for the Core Fund exceeded its performance benchmarks for all these periods. Performance benchmarks are market references that the Board of Trustees uses to compare and evaluate SWIB's performance. Benchmarks are set by the Board of Trustees with the guidance of an independent benchmarking consultant.
- SWIB's 5-, 10- and 20-year returns for the Core Fund exceeded the long-term WRS investment target of 6.8%.
- The Variable Fund, an optional stock-only fund with over \$11 billion in assets, ended the year with a net return of 18.7% and five-, 10-, and 20-year returns net of external manager fees of 10.9%, 10.4%, and 8.7%, respectively.
- When looking over the last 20 years, SWIB's active management and diversified holdings generated \$15 billion for the Core Fund above what SWIB would have earned by simply investing in a low-cost passive portfolio consisting of 60% global equities and 40% domestic bonds.

# Wisconsin Retirement System

The WRS is a risk-sharing defined benefit plan. It is a hybrid model in that it contains elements of a defined benefit plan and a defined contribution plan, like a 401(k). Contributions made to the WRS by state and local government employees, and their employers, are invested by SWIB to finance retirement benefits. SWIB has helped fuel one of the only fully funded pension systems in the U.S. during a time when many public pension plans are struggling with underfunding. Investment earnings generated by SWIB comprise about 78% of the revenues needed to fund the WRS, reducing the burden on public employers and employees.

Investment performance for both the Core Fund and Variable Fund is included in the table entitled **WRS Annualized Returns**.

The Core Fund includes diversified holdings in stocks, bonds, private equity, real estate, hedge funds, and other investments. SWIB has designed and built the Core Fund investment strategy to strike an efficient balance between protecting the WRS and growing its assets. Asset class returns as of Dec. 31, 2024, are presented in the table entitled **Core Fund Returns**.

SWIB diversifies its assets among many types of public and private investments. This investment management strategy is designed to weather a variety of economic environments over the long term and help ensure the WRS can meet its obligations today and in the future. It also allows SWIB to meet its standards of responsibility outlined in state statutes. That statute, s. 25.15 (2), requires that SWIB manage the funds as a prudent expert, diversify investments in order to minimize the risk of large losses, and administer assets of each trust or fund solely for its purpose and at a reasonable cost. The investment goal of the Core Fund is to earn an optimal rate of return while taking an acceptable level of risk and meeting or exceeding the actuarially assumed rate of return of 6.8%. The table entitled **Core Fund Asset Allocation Targets** shows policy targets for the Core Fund asset classes for each

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%
Core Fund Benchmark	7.4%	6.5%	6.9%	6.6%
Variable Fund	18.7%	10.9%	10.4%	8.7%
Variable Fund Benchmark	18.3%	11.1%	10.4%	8.7%

Core Fund		
Time Weighted Annualized Asset Class Returns		
Net of External Management Fees		
As of December 31, 2024		
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.

of the last three years. SWIB’s actual asset allocation may vary from the targets shown in the table in ranges approved by the Board.

WRS participants may elect to have 50% of their contributions invested in the all-stock Variable Fund instead of 100% in the Core Fund. The Variable Fund provides participants the potential for higher returns in exchange for higher investment risk. By choosing this option, participants also forego part of the formula benefit guarantee. The Variable Fund’s gains and losses are not smoothed and are recognized in the year in which they occur. This results in greater volatility in investment gains or losses.

By law, the Variable Fund invests only in stocks, as shown in the chart entitled **Variable Fund Asset Allocation**. When setting the Variable Fund asset allocation, Trustees evaluate the risk/return tradeoff of U.S. and non-U.S. exposures. The benchmark is a weighted blend of U.S., international, and emerging market stock indices. The investment strategy for the Variable Fund is to achieve returns equal to or above that of similar stock portfolios over a market cycle.

Core Fund Asset Allocation Targets			
As of December 31, 2024			
Asset Class	2022	2023	2024
Stocks	48.0%	40.0%	38.0%
Fixed Income	25.0%	27.0%	27.0%
Inflation Sensitive	19.0%	19.0%	19.0%
Private Equity	15.0%	18.0%	20.0%
Real Estate	8.0%	8.0%	8.0%
Multi-Asset	0.0%	0.0%	0.0%
Cash & Overlays*	-15.0%	-12.0%	-12.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\*Negative percentages reflect SWIB's leverage strategy.

Variable Fund Asset Allocation	
U.S. Stock	70%
International Stock	30%
<b>Total</b>	<b>100%</b>

**Long-Term Strategies**

SWIB has been, and continues to be, a long-term investor, which means it can be more patient than many other investors. Historically, markets tend to be cyclical and decline after a few years of strong performance. Success is measured by the overall long-term health of the system rather than individual peaks and valleys. For that reason, managing investment risk is a constant consideration for the trust funds.

SWIB’s long-term goal is to provide prudent and cost-effective management of funds held in trust. This is achieved through people, policies, and processes for setting the asset allocation in a diversified portfolio, estimating expected investment returns and risk, and evaluating investment performance. SWIB has developed a disciplined, prudent, and innovative investment strategy designed to help keep contribution rates stable while generating reasonable returns to help the WRS remain fully funded. Asset allocation – the distribution of investments across stocks, bonds, and other assets to maximize returns and minimize risk – is a primary driver of long-term investment returns and is approved by the Board of Trustees in consultation with SWIB’s asset and risk allocation investment staff and an independent asset allocation consultant.

SWIB has continued to diversify its portfolio by investing in multi-asset strategies. These strategies are not constrained by asset class but can hold securities of many different asset types in the same portfolio. These strategies take advantage of market opportunities that cannot be done through a single asset class.

SWIB uses investment performance targets that are tied to benchmarks – usually market indices against which portfolio and fund returns are evaluated. The Core Fund is measured against a blend of benchmarks representing broader markets for stocks, bonds, and other asset classes that reflect the blend of the Core Fund’s individual portfolios.

### Peer Comparison

Numerous differences in plan structure should be considered when reviewing peer comparisons including asset allocation, cash flow needs, investment styles, funding levels, return assumptions, risk tolerance levels, and statutory or other restrictions on allowable investments. In short, differences in plan structure often result in different goals, which result in different asset allocations that then drive overall returns. When a plan is not fully funded, its effective rate of return will decrease because a portion of the assets are not available to earn investment returns. Given the WRS’s fully funded status and unique risk-sharing design, SWIB invests differently than its peers, who are often underfunded, generally have higher investment targets, and may need to have greater risk tolerances.

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 gross investment returns as of Dec. 31, 2024 performed at the median of peer U.S. pension plans over the trailing ten-year period. In addition, Callan stated “SWIB maintains a cost-effective mix of internal and external investment management that provides a material total fund cost advantage vs. peers.”

Callan comparison peer data is reviewed by the Board of Trustees every quarter. Reports are available on SWIB's website - [swib.state.wi.us](http://swib.state.wi.us).

### Diversification Reduces Risk

Diversification of assets at the fund level is the primary tool for managing risk, because in a more diversified fund risks are often offset by one another. This is because market conditions generally affect different asset classes differently, so returns in one asset class may be positive while another asset class may be negative in the same market environment. SWIB continues to find ways to further diversify the Core Fund as a way to address market volatility. Every year, as part of the process in developing the Core Fund’s asset allocation, SWIB and its asset allocation consultant work together to target an asset mix that is appropriate for the Core Fund’s goals, with a focus on both the expected return of the asset allocation and its overall risk profile.

Managing risk becomes even more important in the WRS since its retirees' annuity payments are directly impacted by returns because of the shared risks and rewards design. Lowering volatility helps stabilize contribution rates and benefit adjustments.

### SWIB Manages Risk in Many Ways

In addition to diversification, SWIB monitors and manages risk through an enterprise-wide process. Each portfolio follows guidelines that specify the types of allowable investments and other requirements

More than **692,000** individuals participate in the WRS.

consistent with policies established by the Board of Trustees. Portfolio managers are responsible for complying with these guidelines, as well as Wisconsin Statutes and Administrative Code. In 2021, SWIB built out a new standalone Risk Management Division that reports directly to the Executive Director/Chief Investment Officer (ED/CIO). This division assesses, evaluates, and monitors investment risk for all strategies and portfolios.

As part of its risk management, SWIB has conducted robust investment stress testing since 2013 to evaluate and strengthen its investment strategy and make it more risk aware. The stress testing evaluates market downturns, liquidity risks, and multiple return environments. Routine testing and modeling are reviewed regularly by SWIB's Investment Committee, and biennially, in-depth stress testing is conducted with the WRS's actuaries and presented to the Board of Trustees. This information is publicly available at [swib.state.wi.us/stresstesting](http://swib.state.wi.us/stresstesting).

SWIB's compliance staff continuously monitors investments and reports any exceptions and their resolution. Many monitoring tools are used to detect, and in some cases prevent, investment activities that would violate the investment guidelines. Portfolios out of compliance with guidelines will be brought into compliance immediately, or a plan for doing so or a waiver must be approved by the ED/CIO.

SWIB's Internal Audit Division enhances and protects organizational value by providing risk-based and objective assurance, advice, and insight through regular audits, consulting, and other activities.

### SWIB Optimizes Strategy Implementation

Staff is responsible for making investment decisions subject to its fiduciary duty, Board-approved asset allocation, and other restrictions. Assets can be managed passively as an index, which seeks to replicate the returns of the market or benchmark, or with active management, which attempts to exceed the performance of a particular market index using independent decisions. Active strategies are expected to produce higher returns than passive strategies over time; however, additional costs and risk associated with active management are considered when determining implementation strategies.

In 2023, SWIB launched a cross-functional implementation working group to advise the ED/CIO and the Asset & Risk Allocation CIO in making strategy implementation decisions.

### Hedge Funds

SWIB's investment strategy includes investments in hedge funds. SWIB's use of hedge funds is different from many other public pension funds. Many other plans seek hedge fund returns similar to the stock market and are paying hedge fund managers for both stock market performance and additional returns from active management. SWIB looks to access general market returns in the lowest cost and most efficient manner possible, preferring to replicate market exposures internally. SWIB's hedge fund portfolio, which is generally designed to have minimal correlation with the stock market, is then combined with this exposure for a more efficient and cost-effective approach.

Investments account for about **78%** of the income needed to fund the WRS.

## **Leverage**

The SWIB Board recommended no change to the 2024 policy target of 12% for Core Fund leverage. While the word “leverage” might imply additional risk, SWIB employs leverage to help reduce risk by enabling a higher allocation to lower-risk, fixed income securities while targeting the same performance return. Leverage is achieved through many passively implemented arrangements including reverse repurchase agreements and derivatives exposures.

## **Derivatives**

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 policy objectives which have been approved by the Board of Trustees. The following are the types of derivatives that SWIB uses in its portfolios. SWIB also invests in derivative instruments indirectly through several commingled funds, which have not been included in the following narrative.

## **Foreign Currency Spot and Forward Contracts**

Foreign currency spot and forward contracts are uncleared, over-the-counter agreements between two counterparties to exchange designated currencies at a specific time in the future. No cash is exchanged when a foreign currency exchange spot or forward contract is initiated. SWIB may employ discretionary currency overlay strategies at the total fund and asset class level when currency market conditions suggest such strategies are warranted. Only the currencies of developed market countries in the MSCI World Index may be used to implement a currency overlay. SWIB executes spot and forward contracts with various counterparties. Guidelines have been established which provide minimum credit ratings for counterparties. Additionally, policies have been established which seek to implement master netting arrangements with counterparties to over-the-counter derivative transactions.

## **Futures Contracts**

A futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Upon entering into a futures contract, collateral is deposited with the broker, in SWIB's name, in accordance with the agreement. Collateral for futures contracts can be in the form of cash, U.S. Treasuries, and equity securities. 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. The resulting gain/loss is typically received/paid the following day until the contract expires. Futures contracts involve, to varying degrees, risk of loss in excess of the collateral deposited with the broker. Losses may arise from future changes in the value of the underlying instrument.

## **Options**

An option 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 of the option 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.

## **Swaps**

A swap is a negotiated contractual agreement in which counterparties exchange cash flows of one

SWIB manages more than **\$139 billion** in WRS assets.

party’s financial instrument for those of the other party’s financial instrument. Both parties to the swap contract are subject to market and credit risk of the underlying contract payments. Market risk results from the variability of payments and credit risk results from the parties’ obligations to make payments. Collateralization of payments and market value variations mitigates the credit risk.

**To Be Announced Securities**

To Be Announced (TBA) mortgage-backed securities (MBS) are over-the-counter forward contracts on mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae where the seller agrees to deliver the MBS for an agreed upon price on an agreed upon date. The TBA market provides mortgage lenders with a means of hedging interest rate risk between the time a loan rate is locked by a borrower and when the loan is funded. At settlement, TBA securities are exchanged for mortgage pools. However, SWIB’s strategy is not typically expected to take in a mortgage pool. Instead, those TBA securities will usually be sold prior to that exchange occurring.

**Internal Management Is Cost Effective**

According to CEM Benchmarking, an independent provider of objective cost benchmarking for public pensions plans, SWIB does more internal management of assets than other pension plans. SWIB’s cost for internal active management is considerably lower than the cost of external active management.

**Qualified Staff and Systems Are Critical**

SWIB competes for staff with investment firms in the private sector throughout the country. A successful internal management program requires experienced and qualified staff. Because SWIB manages so many assets internally, it must also invest in its people. With assistance from an independent compensation consultant, SWIB annually reviews the investment industry employment market to set compensation at appropriate levels. In addition to hiring and retaining qualified staff, SWIB seeks to develop the information technology, trading, accounting, and monitoring systems needed to accommodate its complex investment strategies. When considering whether to gain access to an investment strategy through internal or external management, SWIB considers many factors including the cost and return expectations associated with each option.

Maintaining a lower-cost internal management program requires the ability to attract, hire, and retain qualified staff. Over the past few years, the Board of Trustees has worked with its compensation consultant to maintain an incentive compensation program that motivates staff to earn the highest possible returns at reasonable costs and controlled levels of risk, aligning their interests with those of the WRS over the long term. SWIB’s incentive compensation plan is explicitly authorized by section 25.16 of the Wisconsin Statutes. This statute was created in the 1987 session of the Legislature, after SWIB reported it was unable to attract and retain

Staff Qualifications (as of December 31, 2024)	
<b>Total SWIB Staff*</b>	<b>258</b>
Masters of Business Administration (MBA)	61
Masters Degree other than MBA	67
Juris Doctor Degree (JD)	10
Doctorate (PhD)	13
Chartered Financial Analyst (CFA)	55
Certified Public Accountant (CPA)	17
Chartered Alternative Investment Analyst (CAIA)	13
*Some SWIB Staff have more than one advanced degree or credential.	

investment staff needed to manage the trust funds in a cost-effective manner. SWIB's compensation plan focuses on paying for performance and five-year returns. A competitive compensation plan is critical to SWIB's ability to attract and retain a talented and skilled workforce.

To adequately and efficiently process trades, measure risk, and manage investments, SWIB must continually enhance its systems and processes. Over the past several years, SWIB's team has worked diligently to implement new technology platforms to improve accounting, trading, risk management, and portfolio management activities. Investments in SWIB's technology are ongoing, and these improvements will continue to provide staff better access to high quality and timely data while improving SWIB's ability to monitor and manage risk.

# Goals & Strategies

## 2024 Goals

### Goal: Increase Active Return Through Improved Investment Strategies

In 2024, the enhancement of the technology infrastructure improved SWIB's investment management tools and operational capabilities. SWIB defined the business requirements for a strategic order management system (OMS) and evaluated the current vendor landscape to position SWIB to select an OMS in 2025.

### Goal: Enhance and Optimize SWIB's Operations and Technology Infrastructure

In 2024, SWIB completed the multi-phase technology and operations project to modernize and insource SWIB's investment book of record (IBOR) to expand the support of its public market strategies. SWIB will continue to maintain its operating environment and infrastructure by completing necessary upgrades and infrastructure maintenance and established capabilities to comply with new regulatory requirements. Finally, SWIB selected a technology platform to support its Finance and Human Resources divisions and began implementation of the new platform.

### Goal: Enhance Talent Acquisition, Retention, and Management

In 2024, efforts to bolster talent acquisition, retention, and management were successful. The next phase of the in-house leadership program involved both management and interview trainings and developed the framework for leadership behavior expectations. Thirty open positions were filled, including six internal transfers, indicating a successful recruitment and retention strategy.

## 2025 Goals

### Goal: Increase Active Return Through Improved Investment Strategies

In 2025, SWIB will select and begin implementation of a strategic OMS to improve investment trading capabilities. SWIB will create the internal infrastructure necessary to issue commercial paper for the first time. SWIB will develop an agency-wide onboarding process for new instruments and continue to evaluate opportunities to enhance its account structures to provide longer-term cost savings and balance sheet flexibility.

### Goal: Enhance and Optimize SWIB's Operations and Technology Infrastructure

In 2025, SWIB will continue to maintain its operating environment and infrastructure by completing necessary upgrades and infrastructure maintenance. SWIB will prepare to comply with upcoming SEC changes to centralized clearing rules for eligible Treasury trades and repurchase transactions. SWIB will continue to enhance its overall technology foundation and mature its cloud security posture. SWIB will complete implementation of the technology platform to support its Finance and Human Resources divisions and secure and prepare its technology environment to leverage generative AI capabilities.

### Goal: Enhance Talent Acquisition, Retention, and Management

In 2025, SWIB will continue to recruit and retain top talent with the requisite skills, competencies, and experience to support SWIB's mission. SWIB will develop and track metrics related to employee retention and implement a 3-year rolling leadership training program, which includes increasing the resources available to leaders.

# State Investment Fund

SWIB also manages the State Investment Fund (SIF), which consists of commingled cash balances of the state and its agencies, local governments, and the WRS. The SIF investment goals are safety of principal, liquidity, and competitive rates of return. The fund's shorter-term cash management objectives reflect these goals.

State agencies deposit tax revenues, fees, federal funds, and other revenues from over 50 state funds with the SIF until needed for state operating expenditures. WRS cash assets are invested in the SIF for transition and cash flow purposes, and in some cases, until longer-term investment opportunities with more favorable rates of return become available.

The State of Wisconsin Local Government Investment Pool (LGIP) provides a secure investment option for all Wisconsin local governments, including counties, cities, villages, towns, school districts and other entities. The LGIP provides overnight availability and improved earnings for operating expenditures.

SIF earnings are calculated and distributed monthly based on the participant's average daily balance as a percent of the fund. Participants may deposit and withdraw funds daily. SIF assets were valued at about \$22.7 billion on Dec. 31, 2024.

## **Investment Strategy**

To effectively achieve its objectives for safety of principal, liquidity, and then competitive money market returns, the investment strategy of the SIF positions the portfolio to earn additional returns by monitoring and analyzing market and economic expectations and the market return of short-term government securities. Investment staff constantly monitor global market and economic events and position the fund accordingly. The SIF ended 2024 with a one-year return of 5.35%, outperforming its one-year benchmark. The SIF continued to outperform its five- and ten-year benchmarks.



# Investments in Wisconsin

SWIB's fundamental responsibility is to generate strong investment returns and maintain the fiduciary duty it owes to the trust funds under management. However, SWIB welcomes opportunities that have the dual benefit of being both a good investment for the trust funds and good for Wisconsin's economy. For decades, SWIB has been making investments in Wisconsin and will continue to try and do so in the future. As of June 30, 2024, SWIB had more than \$8.9 billion invested in companies either headquartered or with a significant presence in Wisconsin. (Note that in FY 2023 the definition of significant presence in Wisconsin was changed from 30% or more of a company's operations in the state to 100 or more employees in the state. This change from operations to employment was made to increase the objectivity of the measure and rely on more available data.)

SWIB has two dedicated portfolios that focus on Wisconsin. The Wisconsin Private Debt Portfolio began in the 1960s and the Wisconsin Venture Capital Portfolio was launched in 1999.

## Wisconsin Private Debt Portfolio

About 40% of the Private Debt Portfolio is invested in Wisconsin opportunities. As of June 30, 2024, the portfolio held loans to 61 borrowers headquartered or having operations in Wisconsin totaling approximately \$740 million. The average outstanding balance for borrowers was about \$7 million.

SWIB often collaborates with the company's banks and other institutional investors providing long-term loans that complement the bank's short-term financing but does not compete with the bank to provide other financial services. The program offers flexibility with loans that mature in five to 15 years.

## Wisconsin Venture Capital Portfolio

SWIB's primary objective for investing in early-stage start-up companies through its Wisconsin Venture Capital Portfolio is to generate strong risk-adjusted investment returns for the beneficiaries of the WRS. A secondary benefit includes the potential creation of jobs through these investments.

Private equity refers to investments in equity securities in companies not publicly traded on a stock exchange. While these investments typically involve higher risks than publicly traded securities, they also offer the potential for higher returns. Venture capital is a specific type of private equity investment.

Active funds allocated to the Wisconsin Venture Capital Portfolio are committed to 15 venture capital funds as of June 30, 2024. The portfolio also has active direct investments in seven Wisconsin venture stage companies. As of June 30, 2024, the Wisconsin Venture Capital Portfolio had over \$250 million committed/invested in funds and directly into companies.

The portfolio leverages the imbalance between the Wisconsin region's strong research and development output, entrepreneurial talent, low business operating costs and the relatively limited availability of venture capital funding.

SWIB believes this imbalance creates an opportunity to generate returns because venture investing demands significant time and hands-on involvement with each company. The high costs of managing long-distance investments give an advantage to local investors with established connections to regional research and business leaders with the skills to build companies that can commercialize this research. The limited competition gives local investors the opportunity to invest at attractive valuations and select the best opportunities.

SWIB is required by state statutes to report biennially to the Governor and the Legislature on its plans for making investments in Wisconsin. The Goals for Investing in Wisconsin Report for fiscal years 2025-2028 can be found on SWIB's website [swib.state.wi.us](http://swib.state.wi.us) under the Investing in Wisconsin tab.

## Appendix A

### CORE and VARIABLE FUND HOLDINGS BY ASSET CLASS

The following tables compare how the various categories of investments for the Core and Variable Funds were managed within each asset class as of Dec. 31, 2023 and 2024. Totals include exposure to futures and may not add correctly due to rounding.

Core Trust Fund				
Exposures by Sub Asset Class				
	12/31/2023		12/31/2024	
	\$ in Millions	% of Total	\$ in Millions	% of Total
<u>Equities</u>				
Developed Global <sup>1,3</sup>	\$ 40,895	33%	\$ 38,589	30%
U.S. Small Cap	3,010	3	2,796	2
International Small Cap <sup>2</sup>	1,946	2	2,305	2
Emerging Market Equity <sup>1,2</sup>	4,912	4	3,624	3
Total Equities	\$ 50,763	41%	\$ 47,314	37%
<u>Fixed Income</u>				
U.S. Investment Grade <sup>3</sup>	\$ 17,617	14%	\$ 20,302	14%
High Yield	5,856	5	6,718	5
Levered Loans	3,015	3	3,378	3
Emerging Market Debt	3,006	3	3,363	3
Total Fixed Income	\$ 29,494	24%	\$ 33,761	24%
<u>Inflation Sensitive</u>				
TIPS	\$ 23,057	19%	\$ 24,248	19%
Commodities	0	0	0	0
Total Inflation Sensitive	\$ 23,057	19%	\$ 24,248	19%
<u>Private Markets</u>				
Real Estate	\$ 12,037	10%	\$ 11,925	9%
Private Equity	14,227	12	15,246	12
Private Equity Co-Invest	2,886	2	3,163	3
Venture Capital	2,345	2	2,539	2
Private Equity Legacy	14	0	11	0
Current Return	3,498	3	4,265	3
Private Debt	694	1	858	1
Total Private Markets	\$ 35,702	29%	\$ 38,007	30%
<u>Multi-Asset</u>	\$ 0	0%	\$ 0	0%
<u>Cash/Leverage/Overlays</u>	\$ (16,438)	(14%)	\$ (14,937)	(12%)
<u>Total</u>	\$ 122,578	100%	\$ 128,393	100%

<sup>1</sup> MW TOPS split between US, Int'l, and EM using MSCI ACWI

<sup>2</sup> AB and Driehaus split using MSCI ACWI x US Small Cap

<sup>3</sup> Factor Premia portfolios split 60% Developed Global and 40% US Investment Grade

Variable Trust Fund

Exposures by Sub Asset Class

	12/31/2023		12/31/2024	
	<u>\$ in Millions</u>	<u>% of Total</u>	<u>\$ in Millions</u>	<u>% of Total</u>
<u>Equities</u>				
Domestic Equity <sup>1, 4</sup>	\$ 6,851	69.7%	\$ 7,751	70%
International Equity <sup>1, 4</sup>	2,120	21.6	2,336	21
Emerging Market Equity <sup>1</sup>	824	8.4	979	9
Total Equities	\$ <u>9,796</u>	99.6%	\$ <u>11,065</u>	100%
<u>Multi-Asset</u>	\$ <u>0</u>	<u>0%</u>	\$ <u>0</u>	<u>0%</u>
<u>Cash</u>	\$ <u>35</u>	<u>0.4%</u>	\$ <u>28</u>	<u>0%</u>
<u>Total</u>	\$ <u>9,831</u>	100%	\$ <u>11,094</u>	100%

<sup>1</sup> MW TOPS split between US, Int'l, and EM using MSCI ACWI

<sup>4</sup> Developed global equity portfolios split between US and Int'l using MSCI World

## Appendix B

### **RISK MANAGEMENT**

As part of SWIB's ongoing risk management activities, SWIB routinely monitors risk within the areas outlined below.

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**Funding WRS Liabilities:** The most basic measure of risk for WRS trust funds under management is the ability to pay promised benefits. The WRS actuary and SWIB's asset allocation consultant both agree that the WRS is well-positioned to meet its current and future obligations.

**Volatility:** Minimizing year-to-year fluctuation in the Core Fund's returns helps to stabilize required contributions to the WRS and dividends paid to retirees. This is partly achieved through the smoothing mechanism in the Core Fund, whereby returns are smoothed over a five-year period, as well as investment strategies that temper the volatility of returns and take advantage of short-term displacements in prices.

**Interest Rate Risk:** Risk that changes in interest rates affect the value of a bond SWIB holds. SWIB uses multiple methods to monitor and mitigate interest rate risk. One example is an investment in Treasury Inflation Protected Securities (TIPS).

**Currency Risk:** Currency risk is the potential risk of loss from fluctuating foreign exchange rates. Foreign currency exposure in the trust funds occurs primarily in the international stock and bond holdings and, to a lesser extent, from private markets. International and global portfolio managers make currency hedging decisions. International currency risk is further managed by diversifying across international regions, economies, sectors, and individual investments.

**Tracking Error/Active Risk:** Tracking error measures the volatility of excess return versus the benchmark. It is an indication of how the fund or portfolio is positioned relative to the benchmark. This also helps measure the extent to which the performance of any one portfolio within the trust fund could affect the performance of the entire fund. The Trustees have adopted an active risk objective of 120 basis points, plus or minus 60 basis points, for the Core Fund. The active risk target for the Variable Fund is 60 basis points, plus or minus 30 basis points. SWIB staff monitor tracking error on an ongoing basis and perform attribution analysis to understand in detail where deviations from the benchmark are occurring.

**Soft Risk Parameters:** Investment guidelines include "soft risk parameters," supplementary guidelines within which a portfolio is expected to operate over time. The Investment Committee, composed of SWIB executive and investment staff, monitors portfolios on a regular basis for compliance with parameters. The Investment Committee discusses the rationale and outlook for any exceptions.

**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 portfolios' investment objectives. In addition, some fixed income portfolios are required to carry a minimum weighted average rating at all times. SWIB's Credit Team reviews overall credit risks.

## Appendix C

### **SEPARATELY MANAGED FUNDS**

Goals and strategies for the following funds are set by the various fund administrators. SWIB takes guidance from the administrators of the funds on how the assets should be managed, and SWIB executes the investment strategies.

**Injured Patients and Families Compensation Fund:** The Injured Patients and Families Compensation Fund provides excess medical malpractice coverage for Wisconsin health care providers and to compensate injured claimants. SWIB is responsible for managing the fund's assets to meet the maturity and liquidity needs established by the Board of Governors. The investment objective of the fund includes a balance between capital appreciation, preservation of capital, and current income.

**UW System Trust Funds:** The University of Wisconsin System trust funds consist primarily of monies that have been gifted directly to a UW institution, rather than one of the separate, supporting foundations. The Trust Funds Office works externally with donors and other related parties, and internally with the benefiting campuses and colleges, to facilitate the receipt and proper use (compliant with donor terms and conditions) of all gifts and bequests. Most of the trust funds are invested by SWIB. The system's spending policy targets annual expenditures of 4% of the market value of the assets (calculated using a three-year rolling average) for payments to beneficiaries. The investment objective is to achieve, net of administrative and investment expenses, reasonable, attainable, and sustainable returns over and above the rate of inflation. SWIB seeks to achieve this objective through use of passive, externally managed, public markets funds.

**State Life Insurance Fund:** The State Life Insurance Fund offers low-cost life insurance to Wisconsin residents. The investment objective of the fund is to maintain a diversified portfolio of high-quality public bonds which will preserve principal, maximize investment income, and minimize costs to policyholders. Liabilities from the fund's insurance contracts are factored into investment decisions.

**Historical Society Trust Fund:** The Historical Society Trust Fund supports current and anticipated initiatives and operations of the Wisconsin Historical Society. The investment objective of the Historical Society Trust Fund is to maintain a mix of equities and fixed income providing long-term growth in capital and income generation.



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