



Douglas La Follette, *Secretary of State*
Matt Adamczyk, *State Treasurer*
Brad D. Schimel, *Attorney General*

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Jonathan Barry, *Executive Secretary*

AGENDA

February 2, 2016

2:00 P.M.

Board of Commissioners of Public Lands
101 E. Wilson Street, 2nd Floor
Madison, Wisconsin

Routine Business:

- 1) Call to Order
- 2) Approve Minutes – January 19, 2016 (Attachment)
- 3) Approve Loans (Attachment)

Old Business:

None

New Business:

- 4) Discuss BCPL's Return on Financial Assets (Attachments)
- 5) Discuss Limitations and Impact of Wis. Stats. § 24.605 (Attachments)
- 6) Discuss Possible Investment Options (Attachments)

Routine Business:

- 7) Future Agenda Items
- 8) Executive Secretary's Report
- 9) Adjourn

AUDIO ACCESS INFORMATION

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**BOARD MEETING
FEBRUARY 2, 2016**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the January 19, 2016, board meeting.

Board Meeting Minutes
January 19, 2016

Present via teleconference were:

- Doug La Follette, Commissioner
- Matt Adamczyk, Commissioner
- Brad Schimel, Board Chair
- Jonathan Barry, Executive Secretary
- Tom German, Deputy Secretary
- Vicki Halverson, Office Manager
- Richard Sneider, Loan Analyst
- Mike Krueger, IT Specialist
- Randy Bixby, Land Records Archivist
- Denise Nechvatal, Accountant

- Secretary of State
- State Treasurer
- Attorney General
- Board of Commissioners of Public Lands
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ITEM 1. CALL TO ORDER

Board Chair Schimel called the meeting to order at 2:03 p.m.

ITEM 2. APPROVE MINUTES – JANUARY 5, 2016

MOTION: Commissioner La Follette moved to approve the minutes; Board Chair Schimel seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

Board Chair Schimel asked if the loans had been reviewed for public purpose. Deputy Secretary German confirmed they had.

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Algoma Kewaunee County Application #: 02016119 Purpose: Renovate long-term care facility	City Rate: 3.75% Term: 5 years	Lease Revenue	\$335,764.00
2. Marshfield Marathon and Wood Counties Application #: 02016117 Purpose: Finance fairground land purchase	City Rate: 3.75% Term: 20 years	General Obligation	\$173,500.00
3. Marshfield Marathon and Wood Counties Application #: 02016118 Purpose: Finance TID #5 economic development program	City Rate: 3.75% Term: 14 years	General Obligation	\$405,000.00

4.	New Glarus Green County Application #: 02016121 Purpose: Finance economic development project	Village Rate: 3.75% Term: 20 years	General Obligation	\$450,000.00
5.	West Milwaukee Milwaukee County Application #: 02016120 Purpose: Finance TID #2 development incentive	Village Rate: 3.00% Term: 4 years	General Obligation	\$1,010,000.00
TOTAL				\$2,374,264.00

MOTION: Commissioner La Follette moved to approve the loans; Board Chair Schimel seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

ITEM 4. DISCUSS AND VOTE ON STAFF ATTENDING FIXED INCOME CONFERENCE IN CHICAGO

Board Chair Schimel said an attachment detailing the estimated expenses was included in the Board’s packet.

MOTION: Board Chair Schimel moved to approve staff attending the conference; Commissioner La Follette seconded that.

DISCUSSION: Executive Secretary Barry said there was no registration fee for the conference, which made it a cost-effective option for continuing education.

VOTE: The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

ITEM 5. DISCUSS QUARTERLY INVESTMENT REPORT

Executive Secretary Barry reported that the Board’s fourth quarter interest earnings and capital gains exceeded benchmarks by \$2.16 million and \$1.2 million, respectively. Richard Sneider, the agency’s loan analyst and bond portfolio manager, said that his report would address questions raised by the State Treasurer at prior board meetings as to whether or not State Trust Fund Loans were a good investment for the Trust Funds. He explained how he compared the average interest rate of Trust Fund Loans in the Board’s portfolio to Treasuries of similar maturities to establish the “spread,” which is the difference between the average loan yield and the risk-free Treasury yield. He said the spread is a commonly used tool within the industry to compare relative values of fixed income investments to each other. Using data from the Federal Reserve System, he compared the spread on Trust Fund Loans (2.25%) to spreads on corporate bonds of various credit qualities. After speaking with representatives from Moody’s and other institutional investors, Mr. Sneider believed that the appropriate credit rating for the State Trust Fund Loan program investments was Aa1, one level below a triple A rating. The high rating was attributable to there never being a default since the program was established in 1871 and BCPL’s ability to intercept a municipality’s or school district’s state aid should there ever be a default. He pointed out that a corporate bond with an Aa1 rating had a current spread of approximately 0.85%, compared to the BCPL spread of 2.25%. This demonstrated that State Trust Fund Loans were able to generate 2.5 times the spread available on corporate bonds of a similar risk profile, which shows that the Loan program is able to generate excess returns for the amount of risk assumed. As the Board moves forward in diversifying the BCPL investment portfolio, the

Board may want to consider selling packages of the loans to capture the excess returns as capital gains and reinvesting the funds in additional loans or other assets.

ITEM 6. FUTURE AGENDA ITEMS

None.

ITEM 7. ACTING EXECUTIVE SECRETARY'S REPORT

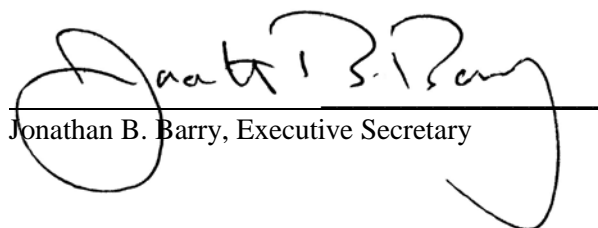
Executive Secretary Barry reported that the (Common School Fund) balance sheet included in the Board's packet showed how the fund had grown by 18.2% since 2011 – from \$835 million to \$987 million. In addition, the balance on State Trust Fund Loans declined from \$407 million to \$269 million while bond investments grew from \$126 million to \$496 million between 2001 and present. Staff saw a refinancing trend with State Trust Fund Loans coming in 2011 and took proactive advantage of the opportunity to invest in bonds.

Executive Secretary Barry reported that the Mud Lake committee recommended a single-tree selection harvest on the site as opposed to a diameter limit cut harvest. While a diameter limit cut would yield more board feet today, it would be considerably less in the future. It is expected that the single-tree selection harvest will allow for greater timber regeneration and harvests in the future. It is estimated that approximately \$100,000 in gross timber sales will be harvested on the site in 2016 and a timber harvest of equal or greater size can be expected within 15 years. High-quality hardwood trees at the peak of their value will also be harvested from the site.

Finally, Executive Secretary Barry reported that he and Commissioner Adamczyk would be meeting with SWIB Executive Director Michael Williamson and his staff to discuss their assisting BCPL staff in developing investment policies under the Prudent Investor Standard.

ITEM 8. ADJOURN

The meeting adjourned at approximately 2:30 p.m.



Jonathan B. Barry, Executive Secretary

These minutes have been prepared from a recording of the meeting. The summaries have not been transcribed verbatim. Link to audio recording: ftp://doaftp1380.wi.gov/doadocs/BCPL/2016-01-19_BCPL-BoardMtgRecording.mp3

**BOARD MEETING
FEBRUARY 2, 2016**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Lafayette Walworth County Application #: 02016124 Purpose: Construct town garage and salt shed	Town Rate: 3.75% Term: 20 years	General Obligation	\$600,000.00
2. Marshall Dane County Application #: 02016122 Purpose: Finance TID #1 projects	Village Rate: 3.25% Term: 7 years	General Obligation	\$2,150,000.00
3. Tomah Monroe County Application #: 02016123 Purpose: Purchase garbage truck	City Rate: 3.00% Term: 5 years	General Obligation	\$247,659.00
	TOTAL		\$2,997,659.00

**BOARD MEETING
FEBRUARY 2, 2016**

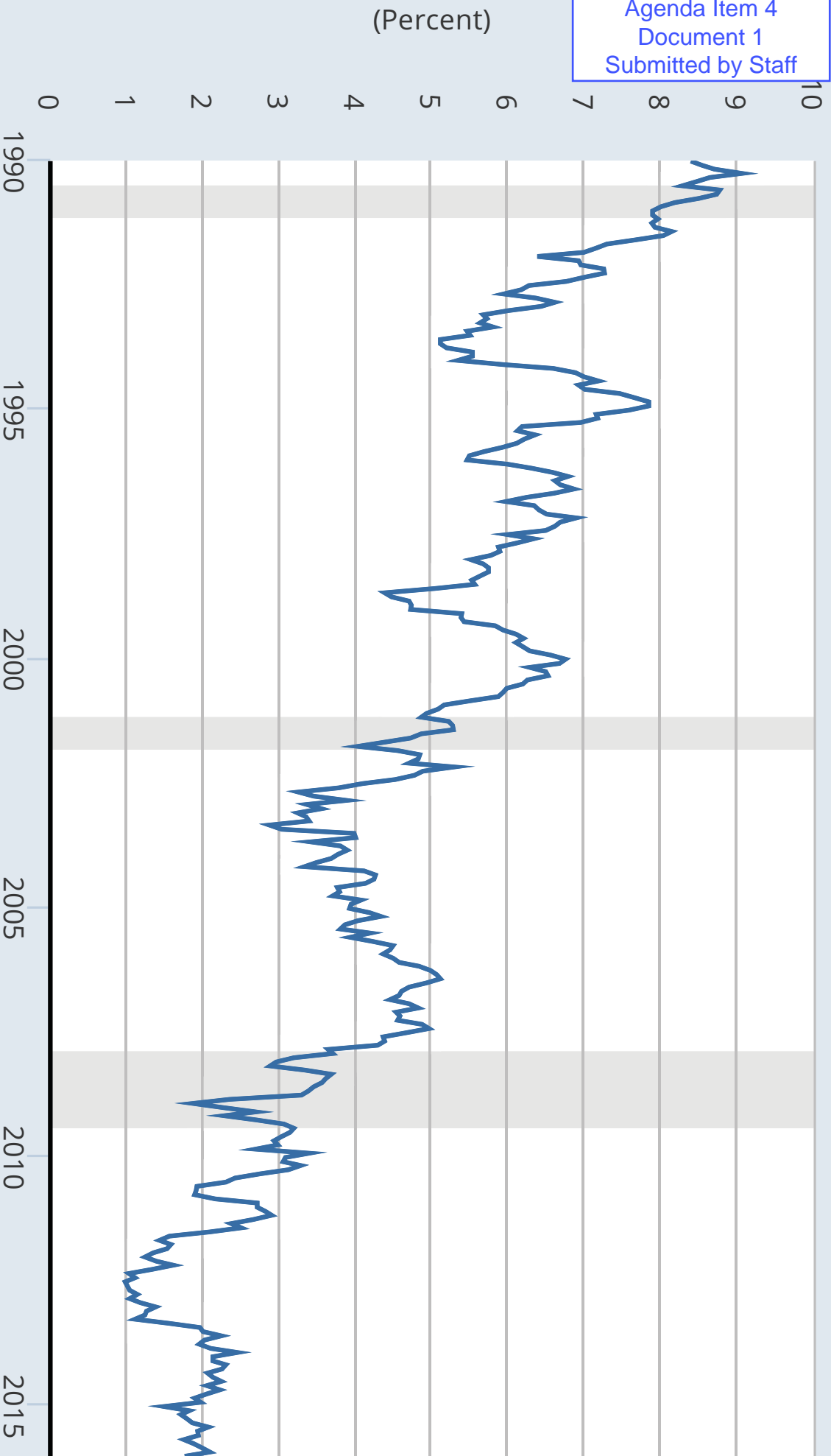
**AGENDA ITEM 4
DISCUSS BCPL'S RETURN ON FINANCIAL INVESTMENTS**

Attached for discussion are the following documents:

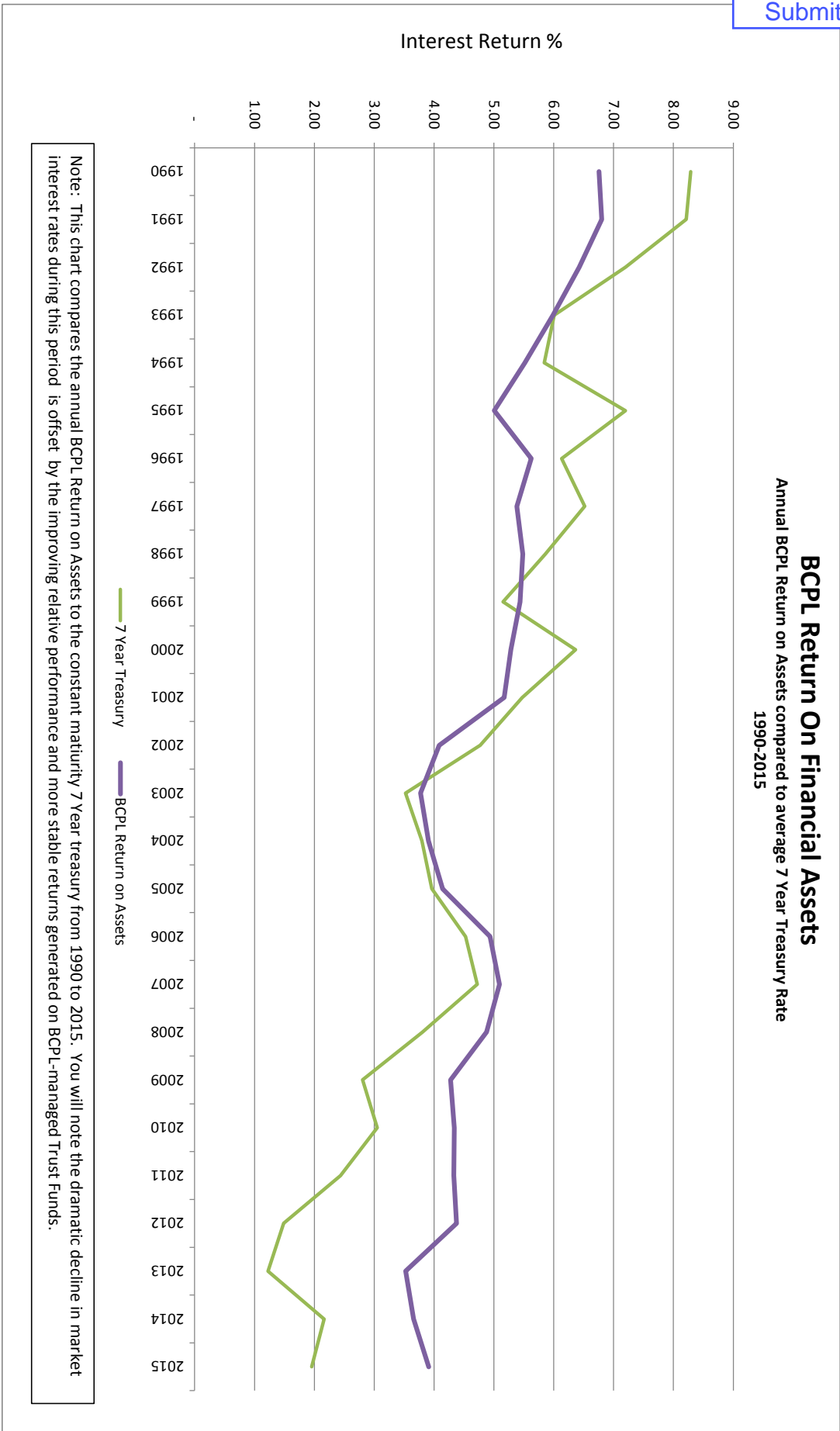
- Document 1: (FRED) 7-Year Treasury Constant Maturity Rate Chart
- Document 2: BCPL Return on Financial Assets Chart (compared to average 7-year Treasury Rate)
- Document 3: BCPL Earnings Spread Chart
- Document 4: Common School Fund Distributions Chart
- Document 5: BCPL Return on Financial Assets Spreadsheet

— 7-Year Treasury Constant Maturity Rate

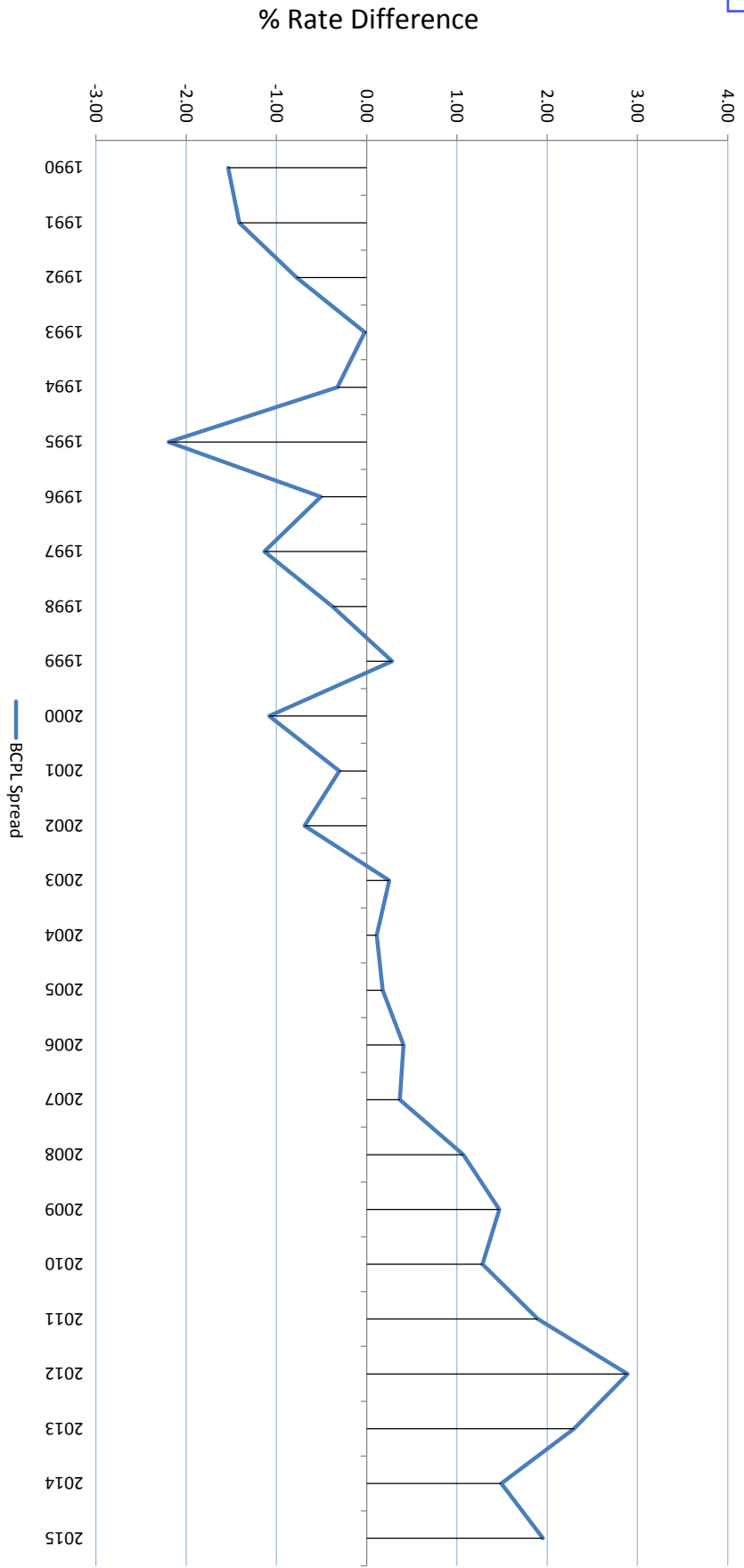
Agenda Item 4
 Document 1
 Submitted by Staff



Source: Board of Governors of the Federal Reserve System (US)
research.stlouisfed.org

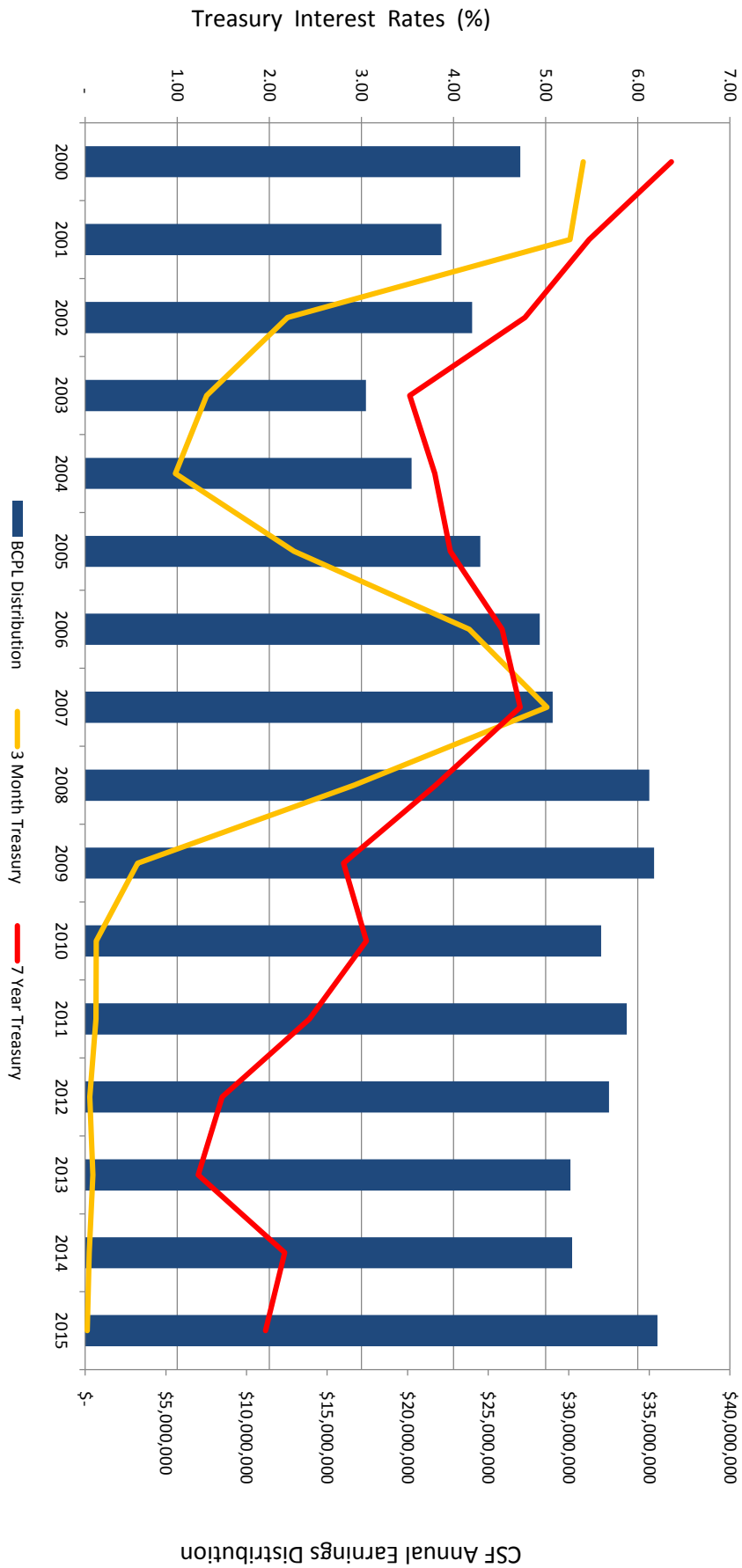


BCPL Earnings Spread
 Annual BCPL Return on Assets less average 7 Year Treasury Rate
 1990-2015



Note: This chart compares the annual BCPL Return on Assets to the average annual rate on the 7 year constant maturity Treasury Bill. When this line is below 0%, BCPL returns are lower than the 7 year Treasury, and when the line is above 0%, BCPL returns are higher than the 7 year Treasury. Prior to 2003, it was common for BCPL returns to be less than the average 7 year Treasury Rate for that year.

Common School Fund Distributions 2000-2015



Note: This chart compares the annual distribution of Common School Fund earnings to market interest rates from 2000 to 2015. Despite constraints limiting investments to certain fixed-income securities, BCPD management has been able to maintain stable distributions during the period of historically low interest rates following the Great Recession.

BCPL Return on Financial Assets 1990-2015

Fiscal Year	Total AUM**	Total BCPL Investment Income	Cash Return On Assets (%) **	Average 7 Year Treasury Rate (%)	BCPL Spread (%) ***
2015	\$ 1,010,957,855	\$ 39,248,710	3.91	1.96	1.95
2014	\$ 995,639,257	\$ 35,174,627	3.66	2.16	1.49
2013	\$ 927,562,308	\$ 32,336,190	3.52	1.23	2.30
2012	\$ 907,221,835	\$ 38,682,510	4.38	1.49	2.89
2011	\$ 860,629,351	\$ 36,718,511	4.33	2.44	1.90
2010	\$ 834,933,853	\$ 35,444,869	4.34	3.05	1.28
2009	\$ 799,645,290	\$ 33,387,114	4.28	2.80	1.47
2008	\$ 762,280,892	\$ 36,277,964	4.88	3.80	1.07
2007	\$ 725,741,150	\$ 35,174,787	5.09	4.72	0.37
2006	\$ 656,028,654	\$ 31,428,904	4.94	4.53	0.41
2005	\$ 617,427,471	\$ 24,795,106	4.14	3.96	0.18
2004	\$ 579,324,478	\$ 21,814,821	3.91	3.80	0.11
2003	\$ 537,372,132	\$ 19,507,059	3.77	3.52	0.25
2002	\$ 496,872,692	\$ 19,707,503	4.09	4.77	(0.69)
2001	\$ 467,725,024	\$ 23,629,335	5.17	5.47	(0.30)
2000	\$ 446,326,657	\$ 23,055,426	5.28	6.36	(1.08)
1999	\$ 426,475,225	\$ 22,401,050	5.44	5.15	0.28
1998	\$ 397,682,487	\$ 21,126,529	5.48	5.86	(0.38)
1997	\$ 372,982,760	\$ 19,321,878	5.38	6.52	(1.13)
1996	\$ 344,970,295	\$ 18,876,956	5.62	6.13	(0.51)
1995	\$ 326,249,909	\$ 15,761,208	5.00	7.20	(2.19)
1994	\$ 303,704,012	\$ 16,334,621	5.52	5.84	(0.32)
1993	\$ 288,540,219	\$ 16,706,120	5.99	6.01	(0.02)
1992	\$ 269,548,386	\$ 16,714,102	6.42	7.20	(0.78)
1991	\$ 250,782,260	\$ 16,324,387	6.80	8.21	(1.41)
1990	\$ 229,333,716	\$ 15,491,864	6.76	8.29	(1.53)

* Assets Under Management

** Return is calculated as total investment income divided by average AUM from the beginning and end of year. Changes in the market value of investments is not included.

*** Spread is calculated as BCPL return on assets less average 7 year Treasury rate for that period.

**BOARD MEETING
FEBRUARY 2, 2016**

**AGENDA ITEM 5
DISCUSS LIMITATIONS AND IMPACT OF WIS. STATS. § 24.605**

See attached documents submitted by Commissioner Adamczyk.

BCPL making virtually no money on Land Bank Fund:

Between the two accounts, we have \$2,262,176 sitting in the SIF making basically nothing in interest.

If this money were invested like other trust funds with an annual return rate of 4.3%, we could be making about \$100,000 per year. ($\$2,262,176 \times .043 = \$97,273$)

That means until the end of our term in 2019 the BCPL would lose out on about \$300,000 for the K-12 schools and the UW System.

Possible problems in the future:

Scenario: If over the next few years the BCPL sold \$10 million in land but didn't buy any new land, BCPL would continue to make nothing on that money as well.

($\$10,000,000 \times 0.043 = \$430,000$ lost income)

Below is the statute that limits the options for BCPL Commissioners:

24.605 Accounts in trust funds for deposit of proceeds from sale of certain lands. The board shall establish in each of the trust funds an account to which are credited the proceeds from the sale of any public lands on or after May 3, 2006, that are required by law to be deposited in the funds. Moneys credited to the accounts in the funds may only be used to invest in land under s. [24.61 \(2\) \(a\)](#) and for the payment of expenses necessarily related to investing in land under s. [24.61 \(2\) \(a\)](#).

ITEM 4. PROPOSED LAND BANK PURCHASE – POTLATCH / MOOSE LAKE

Commissioner Van Hollen asked if an analysis had been performed to justify the purchase of the land and its return in terms of timber revenue compared to lending the funds via the State Trust Fund Loan Program. Executive Secretary Nelson replied that a formal economic analysis had not been done. She was confident that given the property's \$525 per acre price and its high value timber, an analysis would have been comparable. Commissioner Van Hollen said that if the objective was to increase earnings for the Common School Fund, then an analysis would have to be completed. If it was to reduce non-productive timber land and acquire productive timber lands, then this purchase met that criteria. Executive Secretary Nelson said that procedures and criteria were developed when the Land Bank Authority was granted to the agency. The overall goal is to increase timber productivity in the Board's timber portfolio regardless of the fund. She said that the Land Bank legislation requires that the land bank proceeds be invested in other lands.

MOTION: Commissioner Van Hollen moved to approve the purchase of the Potlatch property; Commissioner Sass seconded the motion. The motion passed, 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands authorizes the purchase of the Property at a price of up to One Million, Five Hundred One Thousand One Hundred Ten Dollars (\$1,501,110) in accordance with Chapter 24 of the Wisconsin Statutes on such terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such purchase transaction.

ITEM 5. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Nelson reminded the Board of the press event at 10:30 AM on Friday, March 27, in the State Capitol's Assembly Parlor.

ITEM 6. ADJOURN

MOTION: Commissioner Van Hollen moved to adjourn the meeting; Commissioner Sass seconded the motion. The motion passed, 3-0.



Tia Nelson, Executive Secretary

These minutes have been prepared from a tape recording of the meeting. The summaries have not been transcribed verbatim. Anyone wishing to listen to the tape may do so at the Board of Commissioners of Public Lands, 125 S. Webster Street, Suite 200, Madison, Wisconsin.

Adamczyk, Matt - OST

From: German, Tom - BCPL
Sent: Monday, October 19, 2015 12:16 PM
To: Adamczyk, Matt - OST
Cc: Nechvatal, Denise - BCPL
Subject: FW: Land Bank Funds available

Hi Matt,

In response to your questions regarding current balances in the land bank funds,

There is \$1,024,221.87 in the land bank portion of the Common School Fund; and
There is \$1,237,954.90 in the land bank portion of the Normal School Fund.

According to Wis. Stats. Section 24.605, the proceeds of school trust land sales may only be invested in land that improves timberland management efficiency or increases public access to school trust lands. In addition, the land investment must be within a Board approved consolidation area and as these are "replacement" school trust lands, BCPL's total land acreage cannot exceed 77,845 acres which is the amount BCPL owned at the time of the Land Bank legislation.

Therefore, in accordance with the above statute, land bank sale proceeds are not invested in bonds or loans. Prior to any land investments, those land bank sale proceeds are held in the State Investment Fund ("SIF"). As you know, the SIF is very liquid so that moneys can be accessed readily, but the interest rate is very low (currently 0.14%).

Please let me know if you have any additional questions.

By the way, is there anything you want me to say at the Board meeting tomorrow with respect to my previous email questions and voice mail message?

Sincerely,

Tom German, Acting Executive Secretary
Board of Commissioners of Public Lands
101 E. Wilson Street, 2nd Floor
P.O. Box 8943
Madison, WI 53708
(608) 267-2233 (direct line)
(608) 267-2787 (fax)

From: Nechvatal, Denise - BCPL
Sent: Monday, October 19, 2015 11:06 AM
To: German, Tom - BCPL
Subject: FW: Land Bank Funds available

Hi Tom,

There is \$1,024,221.87 in Common School Fund and \$1,237,954.90 in Normal School Fund available for land purchases.

Regards,

Denise

From: Adamczyk, Matt - OST
Sent: Monday, October 19, 2015 10:26 AM
To: Nechvatal, Denise - BCPL
Cc: Halverson, Vicki - BCPL
Subject: Land Bank Funds available

Denise,

I have some questions about how much money is in funds 744 and 745, which I think are the land bank funds for Common School and Normal School.

	Common School	Normal School
Total Sales	\$3,522,546	\$12,977,238
Total Purchases	\$2,498,324	\$12,136,083

Seemingly, using the numbers from the document I got from BCPL there should be about \$2 million available for purchases.

Please confirm how much for each is available.

Also, are these separate funds invested in any manner to make interest?

Sincerely,
Matt Adamczyk
Wisconsin State Treasurer
(608) 266-1714

**BOARD MEETING
FEBRUARY 2, 2016**

**AGENDA ITEM 6
DISCUSS POSSIBLE INVESTMENT OPTIONS**

See attached documents submitted by Commissioner Adamczyk.

1983 - 2014 WISCONSIN RETIREMENT SYSTEM

CORE TRUST FUND				VARIABLE TRUST FUND		
YEAR	SWIB TOTAL RATE OF RETURN	EFFECTIVE RATE <i>(Credited to active employees)</i>	DIVIDEND <i>(Paid to retirees)</i>	SWIB TOTAL RATE OF RETURN	EFFECTIVE RATE <i>(Credited to active employees)</i>	ADJUSTMENT <i>(Impacts retirees' accounts)</i>
2014	5.7%	8.7%	2.9%	7.3%	7.0%	2.0%
2013	13.6%	10.9%	4.7%	29.0%	31.0%	25.0%
2012	13.7%	2.2%	-9.6% (loss)	16.9%	17.0%	9.0%
2011	1.4%	1.5%	-7.0% (loss)	-3.0% (loss)	-3.0% (loss)	-7.0% (loss)
2010	12.4%	4.8%	-1.2% (loss)	15.6%	16.0%	11.0%
2009	22.4%	4.2%	-1.3% (loss)	33.7%	33.0%	22.0%
2008	-26.2% (loss)	3.3%	-2.1% (loss)	-39.0% (loss)	-40.0% (loss)	-42.0% (loss)
2007	8.7%	13.1%	6.6%	5.6%	6.0%	0.0%
2006	15.8%	9.8%	3.0%	17.6%	18.0%	10.0%
2005	8.6%	6.5%	0.8%	8.3%	9.0%	3.0%
2004	12.8%	8.5%	2.6%	12.7%	12.0%	7.0%
2003	24.2%	7.4%	1.4%	32.7%	34.0%	25.0%
2002	-8.8% (loss)	5.0%	0.0%	-21.9% (loss)	-23.0% (loss)	-27.0% (loss)
2001	-2.3% (loss)	8.4%	3.3%	-8.3% (loss)	-9.0% (loss)	-14.0% (loss)
2000	-0.8% (loss)	10.9%	5.7%	-7.2% (loss)	-7.0% (loss)	-11.0% (loss)
1999**	15.7%	24.1%	17.1%	27.8%	28.0%	21.0%
1998	14.6%	13.1%	7.2%	17.5%	18.0%	12.0%
1997	17.2%	12.8%	7.7%	21.6%	23.0%	18.0%
1996	14.4%	12.5%	6.6%	19.8%	20.0%	14.0%
1995	23.1%	11.3%	5.6%	25.6%	27.0%	19.0%
1994	-0.6% (loss)	7.7%	2.8%	0.8%	0.0%	-4.0% (loss)
1993	15.0%	11.0%	4.9%	16.5%	17.0%	11.0%
1992	9.7%	10.2%	4.4%	10.7%	11.0%	5.0%
1991	20.4%	12.1%	6.3%	27.1%	28.0%	18.0%
1990	-1.5% (loss)	8.6%	3.6%	-11.3% (loss)	-11.0% (loss)	-14.0% (loss)
1989*	19.2%	18.1%	11.3%	22.6%	24.0%	16.0%
1988	14.4%	10.2%	4.1%	21.7%	22.0%	14.0%
1987*	2.2%	14.0%	6.7%	-1.1% (loss)	-1.0% (loss)	-6.0% (loss)
1986	14.5%	12.7%	7.6%	11.5%	13.0%	8.0%
1985	27.5%	12.5%	7.2%	32.7%	33.0%	26.0%
1984	12.8%	11.4%	6.0%	5.8%	6.0%	0.0%
1983	12.5%	11.2%	5.0%	24.7%	26.0%	18.0%

Depending on the years you were covered under the WRS, the amount of interest credited to your **Core Fund** (formerly Fixed Fund) account may vary. Core Fund effective rates were capped by law at 5% for people who began employment between Jan. 1, 1982, and Dec. 31, 1999. A change in the law provided that Core Fund effective rates apply to all employees as of Dec. 31, 1999. Core Fund gains and losses are smoothed over 5 years. By law, no increases are applied to annuities unless the effective rate increases are in excess of at least 5%.

*Rates credited in 1987 & 1989 were distorted by one-time accounting changes.

** Results include a special one-time recognition of past earnings created by 1999 WI Act 11.

Contact: Vicki Hearing
Email: vicki.hearing@swib.state.wi.us
Phone: (608) 261-2415



PRESS RELEASE

SWIB Announces 2015 Wisconsin Retirement System Preliminary Returns

Madison, WI (January 13, 2016) – In a year when U.S. stocks had their worst annual performance since 2008, the primary trust fund for the Wisconsin Retirement System (WRS) ended the year flat, according to preliminary results. Preliminary returns for the state’s public employee retirement system were announced today by the State of Wisconsin Investment Board (SWIB).

The Core Fund, the larger of the two WRS trust funds with diversified holdings in global stocks, bonds, loans, real estate and private equity, ended the year with a preliminary return of negative 0.4 percent, slightly below its benchmark. The Core Fund’s preliminary five-year return is 6.7 percent, which is above its benchmark. Over that same time period, SWIB has earned a total of \$1.1 billion to the funds above market returns. The Core Fund’s benchmarks reflect the Board of Trustees’ asset allocation plan designed to generate favorable returns over time in different market environments while minimizing risk and volatility of those returns over the long-term. The preliminary market value of the Core Fund on December 31, 2015, was \$85.3 billion.

The Variable Fund, an optional stock fund targeting 70 percent domestic and 30 percent international equities, ended the year with a preliminary return of negative 1.2 percent, which was also slightly below its benchmark. The Variable Fund’s preliminary market value was \$6.7 billion on December 31, 2015. The Variable Fund’s benchmark reflects the asset allocation chosen to best meet the statutory requirement of the fund.

“This is not a market for the weak of heart,” Michael Williamson, SWIB executive director, said regarding the 2015 markets. “Many economists believe we are in a ‘low return environment.’ We cannot control the market, but we can manage risks and costs. Through our long-term investment strategy, our goal is to stabilize the effects of returns on the WRS during downturns in the stock markets, minimize severe swings in contribution rates and annuity adjustments, and earn 7.2 percent over time.”

Due to investment gains in prior years, the Department of Employee Trust Funds (ETF) is projecting that WRS retirees will not see an annuity decrease for the Core Fund. ETF will

[MORE](#)

determine annuity adjustments for the Core Fund and Variable Fund in March after an actuarial analysis is completed. Likewise, prior gains are likely to keep 2017 contribution rates for public employees and employers relatively stable, according to ETF. Contribution rates for 2017 will be set in June 2016.

The WRS is one of the best-funded public retirement systems in the country as a result of structure and investment performance. Investment earnings have generated 76 percent of the funding while employee and employer contributions have provided 24 percent of the funding for the retirement system. Despite an extended volatile market environment, investments over the long-term are expected to keep the system strong. SWIB's 20-year return for the Core Fund is 7.4 percent.

SWIB expects the volatility that the financial markets showed in 2015, and which have continued in the first weeks of 2016, to continue in the near future. "SWIB's diversified portfolio should help stabilize the WRS returns and help navigate through the wild times ahead and the turbulence we are expecting to experience over the next year," SWIB Chief Investment Officer David Villa said.

SWIB has earned positive returns in six of the last seven years since 2009 for the Core Fund and in five of the last seven years for the Variable Fund. Independent reports from Callan Associates, Inc., and CEM Benchmarking, found that SWIB's management provides significant financial benefit to the WRS. By reducing costs through its asset allocation, managing more funds internally and passively, and negotiating lower fees for external managers it hired, SWIB generates significant savings for the WRS.

Total assets under management at SWIB are about \$100 billion as of December 31, 2015. This includes, along with other state and local government investments, approximately \$92 billion in WRS trust funds, which provides benefits to over 588,000 current or former employees of state agencies, the university system, school districts and most local governments. The WRS is the 9th largest U.S. public pension fund and the 25th largest public or private pension fund in the world.

END

State of Wisconsin



Suggested Fund Lineup & Performance Prepared by Vanguard
Fund Performance as of December 31, 2015
SOURCES - Vanguard, Morningstar Inc.

Fund Name	Ticker Symbol	Fund Category	Net Expense Ratio	1 Year Return	3 Year Return	5 Year Return	10 Year Return	Return Since Inception	Inception Date
Fixed Income									
Vanguard Long-Term Bond Index Fund	VBTLX	Long-Term Bond	0.20	-3.47	1.64	6.82	6.37	7.34	03/07/1994
Vanguard Long-Term Bond Index Fund Institutional Plus	VBILX	Long-Term Bond	0.05	-3.35	1.79	†	†	4.14	10/06/2011
Spliced Barclays U.S. Long Government/Credit Float Adjusted Index*				-3.31	1.70	6.98	6.45	†	
Vanguard Intermediate-Term Bond Index Fund Investor Shares	VBILX	Intermediate-Term Bond	0.20	1.21	1.42	4.29	5.39	6.15	03/01/1994
Vanguard Intermediate-Term Bond Index Fund Institutional Plus	VBILX	Intermediate-Term Bond	0.05	1.33	1.56	†	†	3.31	11/30/2011
Spliced Barclays U.S. 5-10 Yr Government/Credit Float Adjusted Index**				1.28	1.52	4.45	5.45	†	
Large Blend Stock									
Vanguard Total Stock Market Index Fund Institutional Shares	VITSX	Large Blend	0.04	0.42	14.70	12.17	7.52	6.85	07/07/1997
Vanguard Total Stock Market Index Fund Institutional Plus Shares	VSMFX	Large Blend	0.02	†	†	†	†	†	04/28/2015
Spliced Total Stock Market Index***				0.40	14.70	12.18	7.51	†	

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at www.vanguard.com/performance.
† Performance data is not available for the specified time period.

* Barclays U.S. Long Government/Credit Bond Index through December 31, 2009; Barclays U.S. Long Government/Credit Float Adjusted Index thereafter.

** Barclays U.S. 5-10 Year Government/Credit Bond Index through December 31, 2009; Barclays U.S. 5-10 Year Government/Credit Float Adjusted Index thereafter.

*** Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013; and CRSP US Total Market Index thereafter.

Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments.

Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks.

For more information about Vanguard funds, visit www.vanguard.com, or call 800-523-1188, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

Vanguard Marketing Corporation, Distributor.

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Vanguard REIT Index Fund Investor Shares (VGSIX)

Product summary

This fund invests in real estate investment trusts—companies that purchase office buildings, hotels, and other real estate property. REITs have often performed differently than stocks and bonds, so this fund may offer some diversification to a portfolio already made up of stocks and bonds. The fund may distribute dividend income higher than other funds, but it is not without risk. One of the fund's primary risks is its narrow scope, since it invests solely within the real estate industry and may be more volatile than more broadly diversified stock funds.

Fund facts

Asset class	Stock - Sector-Specific	
Category	Real Estate	
Expense ratio as of 05/28/2015	0.26%	This is 80% lower than the average expense ratio of funds with similar holdings.*
Minimum investment	\$3,000	
Fund number	0123	
Fund advisor	Vanguard Equity Investment Group	

Price and performance

Price as of 01/21/2016	\$24.70
Change	\$0.16 0.65%
SEC yield	note

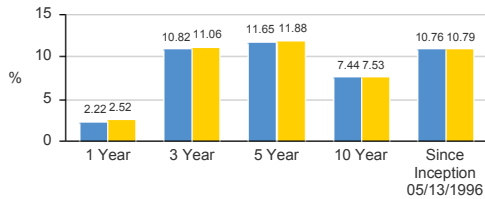
Risk potential



Average annual performance

As of 12/31/2015

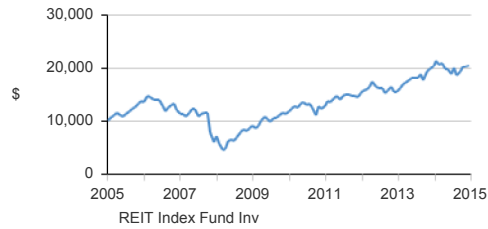
Quarter-end | Month-end



REIT Index Fund Inv
 REIT Spliced Index** (Benchmark)

Hypothetical growth of \$10,000

As of 12/31/2015



The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so that investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. See performance data current to the most recent month-end. Click to view standardized returns, fees, and expenses.

Portfolio composition

Equity sector diversification

	REIT Index Fund Inv as of 12/31/2015	MSCI US REIT Index as of 12/31/2015
Diversified REITs	7.20%	7.30%
Health Care REITs	12.30%	12.30%
Hotel & Resort REITs	5.60%	5.60%
Industrial REITs	4.50%	4.60%
Office REITs	13.70%	13.80%
Residential REITs	17.10%	17.10%
Retail REITs	24.70%	24.60%
Specialized REITs	14.80%	14.80%

Sector categories are based on the Global Industry Classification Standard system.

Characteristics as of 12/31/2015

Number of stocks	153
Fund total net assets	\$52.7 billion
Net assets of ten largest holdings	37.1%
Foreign holdings	—

Month-end ten largest holdings

(37.1% of total net assets) as of 12/31/2015

1	Simon Property Group Inc.
2	Public Storage
3	Equity Residential
4	AvalonBay Communities Inc.
5	Welltower Inc.
6	Prologis Inc.
7	Boston Properties Inc.
8	Ventas Inc.
9	Equinix Inc.
10	HCP Inc.

Portfolio holdings may exclude any temporary cash investments and equity index products.

[Vanguard portfolio holdings disclaimer page](#)

[Month-end top ten holdings with weighting](#)

[Portfolio holdings](#)

* Most recent data available. © 2014 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; (3) does not constitute investment advice offered by Morningstar; and (4) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

All investments are subject to risk, including the possible loss of the money you invest. Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes.

For the 10-year period ended September 30, 2015, 10 of 10 Vanguard money market funds, 49 of 52 Vanguard bond funds, 18 of 18 Vanguard balanced funds, and 110 of 122 Vanguard stock funds—for a total of 187 of 202 Vanguard funds—outperformed their Lipper peer-group averages. Only funds with a minimum 10-year history were included in the comparison. Source: Lipper, a Thomson Reuters Company. *The competitive performance data shown represent past performance, which is not a guarantee of future results. See the most recent performance of our funds*

**MSCI US REIT Index adjusted to include a 2% cash position (Lipper Money Market Average) through April 30, 2009; MSCI US REIT Index thereafter.



Vanguard funds not held in a brokerage account are held by The Vanguard Group, Inc., and are not protected by SIPC. Brokerage assets are held by Vanguard Brokerage Services, a division of Vanguard Marketing Corporation, member [FINRA](#) and [SIPC](#).

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Total Return - 1 Year				
Ticker	VBLTX		VITSX	
Fund/BM ID	522	22245	855	11600
Fund/BM Name	Long-Term Bond Index	Spl Barclays US Long Gv/Cr Flt Adj Ix*	Total Stock Mkt Idx Inst	Spliced Total Stock Market Index**
12/31/1994	--	-7.09493	--	-0.06461
12/31/1995	29.7218	29.94904	--	36.44861
12/31/1996	-0.26362	0.14351	--	21.21122
12/31/1997	14.30042	14.52123	--	31.29114
12/31/1998	11.97665	11.76998	23.37494	23.43095
12/31/1999	-7.85295	-7.65442	23.92585	23.55929
12/31/2000	16.63661	16.15977	-10.45992	-10.89413
12/31/2001	8.16954	7.2826	-10.85103	-10.97403
12/31/2002	14.35059	14.80778	-20.89745	-20.85972
12/31/2003	5.50436	5.87291	31.5485	31.64068
12/31/2004	8.40239	8.55941	12.59767	12.62396
12/31/2005	5.32129	5.33526	6.11833	6.08114
12/31/2006	2.66988	2.71468	15.68968	15.71507
12/31/2007	6.59233	6.59744	5.56411	5.59063
12/31/2008	8.63706	8.43658	-36.93951	-37.0423
12/31/2009	1.75834	1.92024	28.82731	28.76388
12/31/2010	10.27447	10.1572	17.22867	17.2834
12/31/2011	22.05596	22.48892	1.08846	1.08105
12/31/2012	8.48991	8.78755	16.41906	16.43757
12/31/2013	-9.12969	-8.82517	33.493	33.51468
12/31/2014	19.71738	19.30771	12.56423	12.57948
12/31/2015	-3.46838	-3.30805	0.41502	0.40275

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*Barclays U.S. Long Government/Credit Bond Index through December 31, 2009; Barclays U.S. Long Government/Credit Float Adjusted Index thereafter.

**Dow Jones U.S. Total Stock Market Index (formerly known as the Dow Jones Wilshire 5000 Index) through April 22, 2005; MSCI US Broad Market Index through June 2, 2013;

Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of ar



State of Wisconsin
**Wisconsin Deferred
Compensation Program**
Fact Sheet

As of December 31, 2014

The Wisconsin Deferred Compensation Program (WDC) is a supplemental retirement savings program authorized under Section 457 of the Internal Revenue Code (IRC). The WDC was created by Wisconsin Laws of 1981 Chapter 187 and established in 1982 for state employees; it has been available to local employers since 1985.

Program Administration

The Department of Employee Trust Funds and the Deferred Compensation Board (Board) have statutory authority for program administration and oversight. The Board contracts for administrative services (marketing, record keeping, daily program administration) through a competitive bid process. Empower Retirement is under contract to provide these services through November 30, 2017.

The Board selects the investment options offered by the WDC and contracts directly with investment providers. The Board annually reviews the performance of the investment options offered to determine if they continue to meet established performance benchmarks. Options that are determined to be no longer acceptable may be removed from the WDC and new options may be added at any time.

Features

Maximum Deferral - Section 457 plan participants may contribute 100% of taxable income to their accounts, up to a federal maximum that is adjusted annually. In 2014, this maximum was \$17,500 annually. In 2015, this maximum is \$18,000 annually. Participants over age 50 are eligible to contribute an additional \$6,000 annually. The maximum limit for federal income tax purposes may be periodically increased (in \$500 increments) for cost of living adjustments tied to the consumer price index. Participants within three years of normal retirement age who under-contributed in prior years may also be eligible to contribute an additional \$18,000 annually.

Account Flexibility - The WDC allows participants to:

- Change the amount of their deferrals at any time.
- Save by deferring traditional pre-tax or Roth (post-tax) dollars.
- Redirect deferrals to other investment options offered by the WDC without restriction.
- Exchange existing account balances from one option to another (subject to the excessive trading policy).
- Elect to use the Asset Allocation Service to provide automatic rebalancing of a participant's account balance based on an established asset allocation model.
- Elect to use the WDC's managed accounts service (additional separate fee applies).

Portability - Dollars from a traditional IRA, a 401(k) and a 403(b) can be rolled into the WDC, and amounts distributed from the WDC, can roll into a traditional IRA, a 401(k) and a 403(b) plan. Dollars rolled out of the WDC are subject to the tax rules of the new plan.

Participant Services - WDC representatives in Wisconsin are available to assist participants between 7:00 a.m. and 7:00 p.m. every workday of the year. Both participants and employers may call contact WDC at 1-877-457-9327 (toll-free).

An automated voice response system is available for participants to obtain account information and execute transactions. The WDC's website at www.wdc457.org offers program information, access to personal account data and execution of transactions online. Distribution of an itemized participant statement and newsletter occurs within 15 days of the end of each quarter.

Distribution Options - At termination of employment, participants may defer receiving distributions from their account up to age 70½. Distribution options available include lump sum payments, partial lump sum payments and periodic payments.

WDC Program Costs

Participant fees and reimbursements from investment providers provide funding for program administration. State funds are not used for the administration of the WDC. Contracts with investment providers are negotiated to include certain reimbursements in consideration of the record keeping services being provided by the WDC through its contract administrator. The Board annually reviews administrative revenues and expenses and adjusts participant fees as necessary. Annual participant fees, in effect since January 1, 2008, are:

If participant balance is between:	Monthly fee deducted:	Equals total annual fee of:
\$0 to \$5,000	\$0.00	\$0.00
\$5,001 to \$25,000	\$1.00	\$12.00
\$25,001 to \$50,000	\$2.00	\$24.00
\$50,001 to \$100,000	\$4.00	\$48.00
\$100,001 and up	\$5.50	\$66.00

Statistics as of December 31, 2014

- 900 local government and school district employers (from approximately 1,400 eligible) have elected to offer the WDC to their employees.
- 57,530 public employees participate in the WDC. 34,486 are state employees and 23,044 are employees of local and school district employers.
- The WDC offered 6 target date (asset allocation) funds and 16 options in the core investment spectrum in 2014. Participants may have an account with one or more of the available options. Participants also have access to thousands of mutual fund choices through the Schwab Personal Choice Retirement Account (PCRA), the WDC's self-directed brokerage option.

Investment Option	Number of Participant Accounts	Total Assets
Vanguard Target Retirement 2055 Fund	1,366	\$7,347,747
Vanguard Target Retirement 2045 Fund	4,515	\$45,113,990
Vanguard Target Retirement 2035 Fund	5,181	\$83,331,980
Vanguard Target Retirement 2025 Fund	5,508	\$130,929,953
Vanguard Target Retirement 2015 Fund	2,942	\$102,932,249
Vanguard Target Retirement Income Fund	1,262	\$40,185,823
FDIC Fund	3,198	\$89,908,661
Vanguard Money Market Fund - Admiral	7,479	\$30,987,243
Stable Value Fund	20,387	\$605,313,080
Federated US Gov't: 2-5 Year Institutional Fund	6,691	\$36,198,589
BlackRock US Debt Index Fund "W"	11,425	\$81,643,448
Vanguard Long Term Investment Grade Bond Funds – Admiral	11,462	\$120,087,351
Vanguard Wellington Fund – Admiral	22,462	\$432,546,049
Vanguard Inst. Index Fund Plus (S & P 500)	21,892	\$374,436,946
Fidelity Contrafund	20,681	\$549,718,901
Calvert Social Investment Equities Fund	3,141	\$46,046,075
BlackRock MidCap Index Fund "F"	15,801	\$157,783,076
T. Rowe Price Instl Midcap Growth Fund	18,105	\$390,647,814
BlackRock Russell 2000 Index Fund "T"	4,784	\$56,219,867
DFA U.S. Micro Cap Fund	22,030	\$235,766,936
BlackRock EAFE Equity Index Fund "T"	12,513	\$76,501,190
American Funds EuroPacific Growth Fund – Class R6	19,315	\$168,270,906
Schwab PCRA	680	\$65,726,884
Total	*242,820	\$3,927,644,758

* The total number of participant accounts exceeds the number of participants, as participants may invest in more than one investment option. The average number of investment options per participant is 4.2.