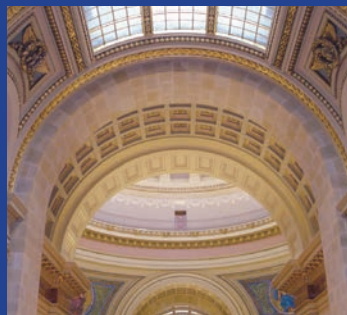


**Report 18-9
August 2018**

Retirement Funds Investment Activity Calendar Year 2017

State of Wisconsin Investment Board

STATE OF WISCONSIN



Legislative Audit Bureau ■

Retirement Funds Investment Activity Calendar Year 2017

State of Wisconsin Investment Board

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OPINIONS PUBLISHED SEPARATELY

The financial statements and our opinions on them are included in the
State of Wisconsin Investment Board's *2017 Retirement Funds Annual Report*



STATE OF WISCONSIN | Legislative Audit Bureau

22 East Mifflin St., Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab

Joe Chrisman
State Auditor

August 29, 2018

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required by ss. 13.94 (1) (df) and 25.17 (51), Wis. Stats., we have completed a financial audit of the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended December 31, 2017. SWIB invests assets of the Wisconsin Retirement System through the Core Fund and Variable Fund, and together these funds are known as the Retirement Funds. The financial statements report the investment activity for the Retirement Funds. The financial statements and our unmodified opinions on them are included in SWIB's *2017 Retirement Funds Annual Report*, which may be found on SWIB's website.

Net investment position provides a measure of overall financial condition. On the basis of generally accepted accounting principles (GAAP), the net investment position of the Core Fund increased from \$89.4 billion as of December 31, 2016, to \$100.3 billion as of December 31, 2017. The Core Fund reported a net investment gain of \$6.9 billion in 2016 and \$13.8 billion in 2017. The one-year investment return for the Core Fund increased from 8.6 percent in 2016 to 16.2 percent in 2017. The Core Fund investment return in 2017 is primarily attributed to strong investment returns from public equity, private equity, and real estate investments.

The net investment position of the Variable Fund increased from \$7.0 billion as of December 31, 2016, to \$8.2 billion as of December 31, 2017. The Variable Fund reported a net investment gain of \$0.7 billion in 2016 and \$1.6 billion in 2017. The one-year investment return for the Variable Fund increased from 10.6 percent in 2016 to 23.2 percent in 2017. The Variable Fund investment return in 2017 is attributed to strong investment returns from public equity investments.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 5. We did not identify any control or compliance concerns that were required to be reported under these standards. As noted, the financial statements and our opinions are published separately by SWIB in its annual report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Joe Chrisman'.

Joe Chrisman
State Auditor

JC/SH/ss

Auditor's Report ■



Report 18-9

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

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

Ms. Rochelle Klaskin, Interim Executive Director and
Members of the Audit and Finance Committee of the Board of Trustees
State of Wisconsin Investment Board

We have audited the financial statements and the related notes of the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund (Retirement Funds) managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended December 31, 2017, and have issued our report thereon dated August 15, 2018. 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.

Internal Control over Financial Reporting

Management of SWIB is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered SWIB's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWIB's internal control. Accordingly, we do not express an opinion on the effectiveness of SWIB's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Retirement Funds' financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Retirement Funds' financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

This 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 and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of SWIB's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

August 15, 2018