



STATE OF WISCONSIN
Department of Employee Trust Funds
A. John Voelker
SECRETARY

Wisconsin Department
of Employee Trust Funds
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Correspondence Memorandum

Date: May 21, 2021
To: Audit Committee
From: Michelle Hoehne, Auditor
Office of Internal Audit (OIA)
Subject: Wisconsin Deferred Compensation (WDC) Financial Statement Audit

This memo is for Audit Committee review and discussion. No action is required.

The Deferred Compensation (DC) Board contracted with Wipfli, LLP to conduct the annual financial statement audit of the WDC program for the year ended December 31, 2020. Wipfli issued an unqualified or “clean” opinion indicating the financial statements are free from material misstatement.

The audit results will be reported to and approved by the DC Board on June 10, 2021. The memo provided to the DC Board and the Financial Statements, including the Independent Auditor’s Report, are attached.

Staff will be available at the Audit Committee meeting if you have questions pertaining to the audit or related DC Board action.

Attachment: 2020 Financial Statements Report and Audit Results, including:

- Memo to DC Board
- Draft WDC Financial Statements for the year ended December 31, 2020

Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit

Electronically Signed 5/28/21

Board	Mtg Date	Item #
AUD	6.16.21	5



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Correspondence Memorandum

Date: May 12, 2021

To: Deferred Compensation Board

From: Ramona Yee, Deputy Administrator
Division of Trust Finance

Shelly Schueller, Director
Wisconsin Deferred Compensation Program

Subject: 2020 Financial Statements Report and Audit Results

ETF requests the Deferred Compensation Board (Board) approve the State of Wisconsin Public Employees Deferred Compensation Plan and Trust Financial Statements as of December 31, 2020.

As part of its overall responsibilities, the Board requires an audited annual financial statement report on the health of the Wisconsin Deferred Compensation Program (WDC). The purpose of the audit is to have an independent public accounting firm express its opinion as to whether the financial statements accurately reflect the financial position of the WDC.

The financial highlights for the two years ending December 31, include the following:

WDC Financial Statements Report Highlights and Comparisons		
Item	2020	2019
WDC Net Position Available for Plan Benefits	\$6.5 billion	\$5.7 billion
Average Rate of Return on Mutual Fund and Collective Investment Trust Fund Investments	17.86%	25.8%
Employee Contributions	\$186.7 million	\$172.8 million
Plan Participants	66,825	65,948
Distributions	\$259.5 million	\$276.0 million
Participants Taking Distributions	8,823	9,752

Pursuant to its contract with the Board, Wipfli has completed the WDC's comprehensive financial statements audit for the year ending December 31, 2020. As the attached report indicates, the auditors have issued an unqualified or "clean" opinion, indicating the financial statements are free from material misstatement as of December 31, 2020.

Reviewed and approved by Cindy Klimke, Administrator, Division of Trust Finance

C. Klimke Electronically Signed 5/24/21

Board	Mtg Date	Item #
DC	6.10.21	3

2020 Financial Statements and Audit Report
May 12, 2021
Page 2

Staff from ETF and Wipfli will be available at the meeting to discuss the financial statements and audit results with the Board.

Attachment: Draft WDC Financial Statements for the year ending December 31, 2020

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
AND TRUST
Madison, Wisconsin**

**Financial Statements as of and for the Year
Ended December 31, 2020
Including Independent Auditor's Report**

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Independent Auditor's Report

Deferred Compensation Board
Department of Employee Trust Funds
State of Wisconsin
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of State of Wisconsin Public Employees Deferred Compensation Plan and Trust, which comprise the statement of fiduciary net position available for plan benefits as of December 31, 2020 and 2019, and the related statement of changes in fiduciary net position available for plan benefits for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the 2020 financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Public Employees Deferred Compensation Plan and Trust as of December 31, 2020, and the changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis information on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wipfli LLP

June 10, 2021

Madison, Wisconsin

DRAFT

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents Management's Discussion and Analysis of the Wisconsin Public Employees Deferred Compensation Plan and Trust's (the Plan) financial performance, which includes an overview of the Plan's financial position and activities as of December 31, 2020, and 2019, and for the years then ended. It is presented as required supplemental information to the financial statements.

The Plan is a supplemental retirement savings plan available to all active state and university employees. Active local government and school district employees may also be eligible if their employer has elected to offer this optional benefit plan. The Wisconsin Deferred Compensation (WDC) Plan is governed by Section 457 of the Internal Revenue Code (IRC), Wisconsin Statute § 40.80, 40.81, & 40.82 and Wisconsin Administrative Code ETF Chapter 70.

FINANCIAL HIGHLIGHTS

- Net Position Available for Plan Benefits increased by \$789.4 million from \$5.7 billion at December 31, 2019, to \$6.5 billion at December 31, 2020. This increase was primarily due to Investment Income. Net Investment Income for the year ended December 31, 2020, was \$838.1 million. Compared to the prior year, Net Investment Income decreased from \$1.0 billion or by 16.9%. Investment performance was not as strong in 2020 compared to 2019. The average rate of return on Mutual Fund and Collective Investment Trust (CIT) Fund earnings was 17.9% during 2020, compared to 25.8% during 2019.
- Employee Contributions increased 8.0% from \$172.8 million for the year ended December 31, 2019 to \$186.7 million for the year ended December 31, 2020. An increase in plan participation was a factor for the increase in contributions. There were 66,825 and 65,948 plan participants as of December 31, 2020, and 2019, respectively, a 1.3% increase.
- Transfers-in From Other Plans decreased 28.4% from \$43.0 million for the year ended December 31, 2019 to \$30.8 million for the year ended December 31, 2020. Transfers-in From Other Plans normally come from new enrollments into the plan. Fewer new members joined the WDC Plan in 2020 compared to 2019.
- Distributions To Participants decreased by 6.0%. There were 8,823 individuals who received a distribution in 2020, compared to 9,752 in 2019. The average distribution was \$29,408 in 2020.
- Administrative Expenses include advisory service fees paid by participants using the managed accounts service, fees paid to Empower Retirement for plan and participant record keeping services, costs for audits, and other Plan expenses. Furthermore, certain investment options provide reimbursements of fees to participants, which are netted against the administrative expenses, as shown below.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Administrative Expenses

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Advisory Service Fees	\$ 2,987,844	\$ 2,343,158	\$ 644,686	27.5 %
Administrative Fees	3,795,880	3,602,464	193,416	5.4 %
Investment Option Reimbursements	(75,731)	(65,958)	(9,773)	(14.8)%
Administrative Expenses	<u>\$ 6,707,993</u>	<u>\$ 5,879,664</u>	<u>\$ 828,329</u>	<u>14.1 %</u>

Administrative Expenses increased 14.1% from \$5.9 million for the year ended December 31, 2019, to \$6.7 million for the year ended December 31, 2020. This increase was primarily due to more participants using the managed account service and larger participant balances which the advisory services fees are based on. There was also an increase in overall plan participation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the Statement of Fiduciary Net Position Available for Plan Benefits and the Statement of Changes in Fiduciary Net Position Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan.

The following Summary of Fiduciary Net Position Available for Plan Benefits and the Summary of Changes in Fiduciary Net Position Available for Plan Benefits provides summary information about the financial position and activities of the Plan.

Summary of Fiduciary Net Position Available for Plan Benefits

	Other Employee Benefit Trust Fund			
	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>\$ Change</u>	<u>% Change</u>
Cash and Cash Equivalents	\$ 148,419,310	\$ 131,461,225	\$ 16,958,085	12.9 %
Investments	6,331,201,537	5,558,811,284	772,390,253	13.9 %
Receivable - Contributions	446,685	416,086	30,599	7.4 %
Total Assets	<u>6,480,067,532</u>	<u>5,690,688,595</u>	<u>789,378,937</u>	<u>13.9 %</u>
Net Position Available for Plan Benefits	<u>\$6,480,067,532</u>	<u>\$5,690,688,595</u>	<u>\$789,378,937</u>	<u>13.9 %</u>

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Summary of Changes in Fiduciary Net Position Available for Plan Benefits

	Other Employee Benefit Trust Fund			
	2020	2019	\$ Change	% Change
Additions				
Employee Contributions	\$ 186,701,813	\$ 172,831,679	\$ 13,870,134	8.0 %
Transfers-in From Other Plans	30,795,833	43,017,231	(12,221,398)	(28.4)%
Net Investment Income (Loss)	838,059,455	1,008,296,022	(170,236,567)	(16.9)%
Total Additions	1,055,557,101	1,224,144,932	(168,587,831)	(13.8)%
Deductions				
Distributions to Participants	259,470,171	276,013,271	(16,543,100)	(6.0)%
Administrative Expenses	6,707,993	5,879,664	828,329	14.1 %
Total Deductions	266,178,164	281,892,935	(15,714,771)	(5.6)%
Net Increase (Decrease)	\$ 789,378,937	\$ 942,251,997	\$ (152,873,060)	(16.2)%

FINANCIAL CONTACT

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustees' accountability. If you have questions about the report or need additional financial information, contact the Deferred Compensation Director for the Department of Employee Trust Funds at P.O. Box 7931, Madison, Wisconsin, 53707-7931.

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FINANCIAL STATEMENTS

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENT OF FIDUCIARY NET POSITION AVAILABLE FOR PLAN BENEFITS
As of December 31, 2020**

	Other Employee Benefit Trust Fund
ASSETS	
Cash and Cash Equivalents	\$ 148,419,310
Investments:	
Stable Value Fund	782,066,567
Mutual Funds	2,161,327,353
Collective Investment Trust Funds	<u>3,387,807,617</u>
Total Investments	6,331,201,537
Receivable - Contributions	<u>446,685</u>
Total Assets	6,480,067,532
LIABILITIES	
Total Liabilities	<u>0</u>
NET POSITION AVAILABLE FOR PLAN BENEFITS	<u><u>\$ 6,480,067,532</u></u>

The accompanying notes are an integral part of the financial statements.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION AVAILABLE FOR PLAN BENEFITS
For the Year Ended December 31, 2020**

	Other Employee Benefit Trust Fund
ADDITIONS	
Employee Contributions	\$ 186,701,813
Transfers-in From Other Plans	30,795,833
Investment Income (Loss):	
Net Appreciation (Depreciation) in Fair Value of Investments	762,970,960
Interest and Dividends	89,753,427
Less:	
Investment Expense	(14,664,932)
Net Investment Income (Loss)	838,059,455
Total Additions	1,055,557,101
DEDUCTIONS	
Distributions To Participants	259,470,171
Administrative Expenses	6,707,993
Total Deductions	266,178,164
NET INCREASE (DECREASE)	789,378,937
NET POSITION AVAILABLE FOR PLAN BENEFITS, BEGINNING OF YEAR	5,690,688,595
NET POSITION AVAILABLE FOR PLAN BENEFITS, END OF YEAR	\$ 6,480,067,532

The accompanying notes are an integral part of the financial statements.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS**

NOTE 1- DESCRIPTION OF PLAN

The State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) was established in 1981 pursuant to Wisconsin State Statute Section 40.80.

In accordance with Section 457 of the IRC, the Plan limits the amount of an employee's annual contributions to an amount not to exceed the lesser of \$19,500 or 100% of the employee's includable compensation for 2020. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees.

In 2010, the federal government passed the Small Business Jobs Act of 2010, which allows 457 plans such as the WDC Plan to offer a Roth contribution option effective January 1, 2011 and the WDC opened the Roth contribution option to participants on July 1, 2011. Roth contributions are made with after-tax dollars. Participants may withdraw WDC Roth contributions and earnings income tax and penalty free once they have held the account for at least five years and severed employment. The Plan also provides certain catch-up contribution provisions for participants age 50 or older and for participants within three years of their normal retirement age. The Plan allows the employer to make contributions on behalf of employees. No such contributions were made in 2020.

Under the Plan provisions, employees of the State of Wisconsin and public employers in Wisconsin that elect to participate are eligible to contribute to the Plan through payroll deductions. As of December 31, 2020, approximately 66% of the Plan assets were applicable to State employees and the remaining 34% represent the assets of other Wisconsin public employers participating in the Plan.

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. In March 2006, Wisconsin Act 150 was signed into law, creating Code Section 40.80 (2)(g) of the Wisconsin Statutes. Section 40.80 (2)(g) incorporates requirements of the federal tax code by establishing the WDC Plan as a trust. Furthermore, it established the Deferred Compensation Board members as trustees with fiduciary responsibilities.

The Plan is governed by the Wisconsin Deferred Compensation Board (the Board) and is administered by a third party.

Employees electing to participate in the Plan may contribute to or exchange within any of the following investment options:

- FDIC Bank option managed by Johnson Bank.
- Stable Value option managed by Galliard Capital Management, Inc.
- Mutual Funds including self-directed brokerage options, which are limited to mutual funds, offered by Charles Schwab & Co., Inc. Participants may exchange funds accumulated in the core options of the Plan to a Personal Choice Retirement Account (PRCA), which provides approximately 3,000 investment offerings in addition to the Plan's core options.
- Collective Investment Trust (CIT) Funds.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS**

Employees may withdraw the value of the funds contributed to the Plan upon termination of employment with the employer, retirement, death, or financial hardship. Employees, or their beneficiaries, may select various payout options which include lump sum or periodic payments.

Legislative Changes

The Setting Every Community Up for Retirement Enhancement (SECURE) Act became law on December 20, 2019. This Act increased the age for mandatory withdrawals (also known as required minimum distributions, or RMDs) from 70½ to age 72. This provision is effective for participants who turn 70½ on or after January 1, 2020.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act became law on March 25, 2020. On June 11, 2020 the Board approved certain provisions of this Act related to RMDs and distributions. The CARES Act waived all RMDs for 2020. RMDs issued in 2020 prior to the Act were allowed to be rolled back within 60 day of the distribution. The CARES Act also permits penalty-free withdrawals of up to \$100,000 for COVID-19 related financial emergencies during 2020. There were 952 such withdrawals in the amount of \$12.9 million during 2020.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net position available for plan benefits and the net change in position.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and Cash Equivalents represent the balance of the FDIC Bank Option at December 31, 2020. The FDIC Bank option provides safety of principal and a stable credited rate of interest and is insured up to \$250,000 per participant. At December 31, 2020, 96 individual participant accounts held more than \$250,000 totaling \$38.7 million. The FDIC Bank option paid interest ranging from 0.30% to 1.42% during the year. As of December 31, 2020, the crediting rate was 0.30%.

Contributions and Contributions Receivable

Employee contributions are recognized when such amounts are withheld. Receivable contributions represent amounts withheld from employees but not yet received or remitted to the investment carriers at year-end.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS**

Investment Valuation

Mutual Funds are valued at the daily closing price as reported by the fund on an active market, which is based on the underlying net asset value (NAV) of the shares held by the Plan at year-end. Mutual Funds held by the Plan are open-end Mutual Funds that are registered with the Securities and Exchange Commission (SEC). These funds are required to publish daily NAV and to transact at that price. The Mutual Funds held by the Plan are deemed to be actively traded.

CIT Funds are similar in structure to Mutual Funds but are not regulated by the SEC and are not publicly traded. CIT Funds are valued at NAV, which approximates fair value as a practical expedient. The NAV, as provided by fund administrator, is based on the fair value of the underlying investments held by the fund less liabilities. Participant transactions may occur daily. There are no unfunded commitments and no restrictions on the redemption of these investments.

CIT Funds consist of:

- Target date funds that seek to provide growth of capital and income using an asset allocation strategy designed for specific retirement dates. These funds invest in a mix of Vanguard mutual funds and trusts.
- Index funds that seek investment results that correspond to a particular equity or debt index.
- A fund that seeks to provide long-term total return on capital, primarily through capital appreciation and, to a lesser extent, income.
- A fund that seeks to provide capital appreciation over a market cycle relative to the S&P 500 Index, through the active management of equities with a focus on companies having strong long-term growth prospects.

The Stable Value Fund invests in fully benefit-responsive investment contracts, often referred to as "wrap contracts". The wrap contracts are issued by insurance companies and banks to stabilize the fund's investment return on various fixed income securities, providing participants with low-risk investment that seeks to provide stable returns that exceed other low-risk investments over the long term.

The wrap contracts allow participants to withdraw or transfer their balances in the Stable Value Fund in accordance with the plan at contract value, which is principal plus credited interest. The wrap contracts' guarantee of participants' return of principal does not extend to certain events, such as a board decision to terminate the contract or very large unexpected withdrawals that might arise from other specified events. Net Asset Value is contract value less fees and expenses, and approximates fair value as a practical expedient. Participants can transact daily at the NAV. There are no unfunded commitments and no restrictions on redemptions.

Distributions

Distributions are recorded at the time withdrawals are made from participant accounts.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS**

Investment Income

Investment income consists of dividend income and realized and unrealized gains and losses attributed to the Mutual Funds, including PCRA, and CIT Funds.

Interest Income

The Stable Value option paid interest ranging from 2.07% to 2.51% during the year ended December 31, 2020. At December 31, 2020, the crediting rate was 2.07%.

Interest income is recorded as earned on the accrual basis.

Participants' Accounts

Earnings are credited to individual participants' accounts based upon the investment performance of each specific option selected.

Transfers-in From Other Plans

Transfers-in From Other Plans represents the balance of assets transferred by employees from other eligible plans.

Related Party Transactions

Certain members of the Deferred Compensation Board, Wisconsin Retirement Board, Teachers Retirement Board, Group Insurance Board and Employee Trust Funds Board are participating members of the Plan.

The WDC program is required by Wisconsin Statute §40.80(2)(f) to reimburse the department for any costs incurred directly or indirectly by the department in soliciting, evaluating, monitoring and servicing deferred compensation plans. In 2020, the WDC reimbursed the department \$184.3 thousand for such costs.

Accounting Changes

Governmental Accounting Standards Board (GASB) Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, was adopted for the year ended December 31, 2020. This statement clarifies previous guidance related to the reporting of fiduciary activities and provides guidance in determining whether governmental 457 plans meet the definition of a pension plan. This statement had no impact on the WDC financial statements or related disclosures.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - INVESTMENTS

Investments held in the name of the Plan at December 31, 2020, can be found in the table below. Investments marked with an asterisk (*) represent individual investment options which exceed 5% of the Net Position Available For Plan Benefits as of December 31, 2020. Investments marked with two asterisks (**) are funds with international exposure.

Investments by Fair Value for the Year Ended December 31, 2020

Stable Value investments:	
Stable Value Fund	782,066,567 *
Mutual Funds and CIT Funds:	
International Equity Funds	
American Funds Europacific Growth R6	233,291,809 **
BlackRock EAFE Equity Index Fund ¹	239,664,031 **
Total International Equity Funds	472,955,840
Large-Cap Funds	
Calvert U.S. Large Cap Core Responsible Index R6	84,985,653
American Beacon Bridgeway Large Cap ¹	18,768,672
Fidelity Contrafund Commingled Pool ¹	879,397,660 *
Vanguard Institutional 500 Index Trust ¹	705,642,341 *
Total Large-Cap Funds	1,688,794,326
Mid-Cap Funds	
T. Rowe Price Institutional Mid Cap Equity Growth	638,805,286 *
BlackRock Mid Cap Equity Index Fund ¹	267,226,686
Total Mid-Cap Funds	906,031,972
Small-Cap	
BlackRock Russell 2000 Index Fund M ¹	90,967,735
DFA U.S. Micro Cap Fund	212,596,773
Total Small-Cap Funds	303,564,508
Target Date Funds	
Vanguard Target Retirement 2015 ¹	127,932,661
Vanguard Target Retirement 2025 ¹	314,225,136
Vanguard Target Retirement 2035 ¹	237,332,009
Vanguard Target Retirement 2045 ¹	150,599,571
Vanguard Target Retirement 2055 ¹	52,858,775
Vanguard Target Retirement Income Trust ¹	69,075,470
Total Target Date Funds	952,023,622
Balanced Funds	
Vanguard Wellington Admiral	568,715,863 *
Total Balanced Funds	568,715,863

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS**

Investments by Fair Value for the Year Ended December 31, 2020

Bonds	
BlackRock U.S. Debt Index M ¹	234,116,871
Dodge & Cox Income Fund	98,631,979
Vanguard Long-Term Investment Grade Fund	187,115,261
Total Bonds	<u>519,864,111</u>
Money Market	
Vanguard Treasury Money Market Fund	54,533,723
Total Money Market	<u>54,533,723</u>
Self-Directed Brokerage Option	
Personal Choice Retirement Accounts - Charles Schwab	82,651,005
Total Self-Directed Brokerage Option	<u>82,651,005</u>
Total Mutual Funds and CIT Funds	<u>5,549,134,970</u>
Total Investments	<u><u>\$ 6,331,201,537</u></u>

* Exceeds 5% of the Net Position Available for Plan Benefits.

** Funds with International exposure.

¹ Collective Investment Trust Fund

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan would not be able to recover the value of its deposits, investments, or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent, but not in the Plan's name. The Stable Value Fund, CIT Funds, and Mutual Funds do not have securities that are used as evidence of the investments and therefore are not exposed to custodial credit risk.

Interest rate risk, applicable to securities with exposure to debt instruments, is the risk that changes in interest rates will adversely affect the value of an investment. Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The weighted average duration for investments held as of December 31, 2020 is shown on the following page.

**STATE OF WISCONSIN PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS**

Weighted Average Duration for the Year ended December 31, 2020

Investment Option	Fair Value	Weighted Average Duration (in years)
Stable Value Investments:		
Stable Value	\$ 782,066,567	2.99
Mutual and Collective Investment Funds:		
Vanguard Target Retirement 2015	127,932,661	6.10
Vanguard Target Retirement 2025	314,225,136	7.05
Vanguard Target Retirement 2035	237,332,009	7.13
Vanguard Target Retirement 2045	150,599,571	7.16
Vanguard Target Retirement 2055	52,858,775	7.11
Vanguard Target Retirement Income Trust	69,075,470	6.02
Vanguard Wellington Admiral	568,715,863	8.17
BlackRock U.S. Debt Index M	234,116,871	6.01
Dodge & Cox Income Fund	98,631,979	4.90
Vanguard Long-Term Investment Grade Fund	187,115,261	15.33
	<u>\$ 2,822,670,163</u>	

Credit risk is the risk that the Plan will lose money because of the default of the security of the issuer or investment counterparty. The Stable Value Fund, Mutual Funds, and CIT Funds are unrated.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options as selected by the Board. Investments that exceed 5% of net position are identified on page 14 and 15.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The Plan allows the option of investments in Mutual Funds and CIT Funds that make investments in foreign securities and are not required to disclose the individual assets within the fund. The fair value of these investments was \$472,955,840 as of December 31, 2020. The individual funds are identified on page 14.

Fair Value Measurement: The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Significant other observable inputs, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active and other market corroborated inputs.
- Level 3: Significant unobservable inputs.

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Assets measured at fair value on a recurring basis are summarized as follows:

	Level 1	Level 2	Level 3	Fair Value
December 31, 2020				
Mutual Funds:				
International Equity Funds	233,291,809	0	0	233,291,809
Large-cap Equity Funds	84,985,653	0	0	84,985,653
Mid-cap Equity Funds	638,805,286	0	0	638,805,286
Small-cap Equity Funds	212,596,773	0	0	212,596,773
Balanced Funds	568,715,863	0	0	568,715,863
Bond Funds	285,747,240	0	0	285,747,240
Money Market	54,533,723	0	0	54,533,723
Self-Directed Brokerage Mutual Funds	82,651,005	0	0	82,651,005
Total Mutual Funds	<u>\$ 2,161,327,352</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,161,327,352</u>
Investments measured at net asset value (NAV)				
Stable Value Fund				\$ 782,066,567
Collective Investment Trust Funds				<u>3,387,807,618</u>
Total Investments measured at Net Asset Value (NAV) ¹				<u>\$ 4,169,874,185</u>
Total Investments				<u>\$ 6,331,201,537</u>

¹ In accordance with GASB 72, *Fair Value Measurement and Application*, certain investments measured at net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statements of Fiduciary Net Position.

NOTE 4 - PLAN ADMINISTRATION

The cost of the Plan is paid for primarily with participant administrative fees. Each participant in the Plan is charged a fee based upon their account balance and a tiered dollar charge. The following fees were in effect for 2020:

<u>Participant Account Balance</u>	<u>Monthly/Annual Participant Fee</u>
\$1 - \$5,000	\$0/\$0
\$5,001 - \$25,000	\$1/\$12
\$25,001 - \$50,000	\$3.25/\$39
\$50,001 - \$100,000	\$6.50/\$78
\$100,001 - \$150,000	\$8.50/\$102
\$150,001 - \$250,000	\$11.75/\$141
More than \$250,000	\$17.50/\$210

The Board maintains an account from which Plan expenses are paid. The balance of this account as of December 31, 2020, was \$2,017,561 and is invested in the Stable Value Fund. At the Board's discretion, these funds are available to defray future administrative expenses and participant fee increases.

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NOTE 5 - TAX STATUS

The Plan is reviewed by legal counsel to ensure conformity with Section 457 of the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or beneficiary.

NOTE 6 - CONTINGENCIES

Periodically, the Plan may become subject to various pending or threatened claims or legal matters. As of the date of these financial statements, no such items are known or expected. It is the opinion of management that the ultimate liability arising from any such threatened and pending claims will not have a material effect on the financial position of the Plan. The Plan is exposed to various other liabilities and risks related to the fiduciary responsibility of directors and officers.

NOTE 7 - RISK AND UNCERTAINTIES

The Plan, as directed by participants, may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks.

Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position Available for Plan Benefits.

NOTE 8 - PLAN TERMINATION

The State may terminate the Plan at any time, although no intent to terminate the Plan has been expressed. In the event of termination, all participants will remain fully vested.

NOTE 9 - SUBSEQUENT EVENTS

The Plan evaluated subsequent events through **June 10, 2021**, the date the financial statements were available to be issued, for events requiring reporting or disclosure in the Plan's financial statements. Management believes no material events have occurred.