

Goals for

INVESTING IN WISCONSIN

Fiscal Years 2025-2028



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Introduction

With over \$160 billion in total assets under management as of June 30, 2024, the State of Wisconsin Investment Board (SWIB) is an independent state agency responsible for managing assets of the fully funded Wisconsin Retirement System (WRS), the State Investment Fund (SIF), and several separately managed funds. Sophisticated investment management strategies, forward-looking technologies, and strong asset management make SWIB a leading investment organization. As a premier money manager, SWIB brings a disciplined, prudent, and innovative approach to market opportunities.

SWIB's fundamental responsibility is to generate strong investment returns and maintain the fiduciary duty it owes to the trust funds under its 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 do so in the future. As of June 30, 2024, SWIB had more than \$8.9 billion invested in companies either headquartered or with more than 100 employees in Wisconsin.

SWIB has two dedicated portfolios that focus on Wisconsin. SWIB's Private Debt Program began in the 1960s. Since then, SWIB has been a valuable partner to hundreds of businesses, making over \$2.6 billion in loans. Dozens of the current loans in this portfolio are made to businesses either headquartered in or with operations in Wisconsin.

The Wisconsin Venture Capital Portfolio launched in 1999 and has allocated over \$400 million to early-stage funds and companies. In addition to investing in venture capital funds and direct investments in Wisconsin venture stage companies, SWIB brings venture capitalists from around the country to Wisconsin so they can learn more about the state's start-up community and networks.

SWIB will continue to search for opportunities that both provide positive investment returns and enhance economic growth in Wisconsin. SWIB is pleased to present its plans for the years ahead in *Goals for Investing in Wisconsin, Fiscal Years 2025-2028*.

Background

SWIB is required by state statutes to report biennially to the Governor and Legislature on a four-year plan for making investments in Wisconsin and to respond to comments solicited from the Wisconsin Economic Development Corporation (WEDC) on ways to support and grow Wisconsin's economy. For purposes of this report, the definition of Wisconsin companies means companies domiciled in the state or with 100 or more employees in Wisconsin.

Wisconsin investments are held primarily in the Wisconsin Retirement System (WRS) trust funds, which totaled approximately \$137 billion or nearly 86% of SWIB's assets under management as of June 30, 2024. The WRS is among the 10 largest U.S. public pension funds. Additional investments in Wisconsin are in the State Investment Fund (SIF) and other separately managed funds. The SIF is a pool of cash balances of various state and local government units and the WRS cash that is managed by SWIB.

Investment decisions begin with SWIB's Board of Trustees and the asset allocation process. Trustees set the mix of assets for each fund and delegate to the Investment Committee the responsibility to establish investment guidelines for each portfolio. Asset allocation and guidelines are available online at swib.state.wi.us. Within these parameters, staff make investment decisions. Based on the current asset allocation mix, Wisconsin investments fall into the following asset classes:

- Private markets including real estate, private equity, venture capital, private debt, hedge funds, and external public managers, which includes traditional and alternative investment strategies.
- Public equities where SWIB purchases shares of stocks in publicly traded companies.
- Public fixed income including publicly traded bonds and certificates of deposit.

This report includes investments in public markets (stocks and bonds) in portfolios actively managed primarily by SWIB staff, some investments delegated to external managers, as well as internally managed index portfolios. In addition, the report includes holdings in private markets (real estate, venture capital, private equity, and business loans) that are held in SWIB's name. Investments in externally managed index funds or other publicly traded funds, in which SWIB's monies are commingled with other investors, are not included in the actual or projected amounts in this report. In those situations, SWIB holds a share of the fund, not individual companies.

Committed to Wisconsin

Since the last reporting period in 2022, SWIB made new investments totaling over \$804.1 million in FY 2023 and nearly \$1.2 billion in FY 2024 in Wisconsin companies that are either headquartered or have more than 100 employees in the state. The annual details for the five years ending June 30, 2024, can be found in the chart **Annual Wisconsin Investments Five-Year Period**.

As shown in the chart, SWIB investments in Wisconsin companies exceeded the previously projected range for FY 2021 to FY 2025. The definition of significant presence in Wisconsin was changed in FY 2023 from 30% or more of a company’s operations in the state to 100 or more employees in the state which led to higher totals compared to previously projected amounts. This change from operations to employment was made to increase the objectivity of the measure and rely on more readily available data. Projections for new investments in Wisconsin companies for the next four years range from \$1.4 billion to nearly \$3.7 billion. Projected investment amounts are based on recent historical trends and future expectations, but actual results depend on many factors including changes in the investment markets and asset allocation. The chart **Four-Year Projections for Wisconsin Investments FY 2025 - FY 2028** outlines projected investments by asset class.

Annual Wisconsin Investments Five-Year Period (In millions)	
Fiscal Year	Investment Amount
2021	\$72.5
2022	\$93.3
2023	\$804.1
2024	\$1,176.2
2025 (estimate)	\$990.2
Five-Year Total	\$3,136.3
Projections FY 2021-2025	\$425 to \$1,935

Four-Year* Projections for Wisconsin Investments FY 2025-FY 2028 (In millions)		
*Per 2021 Act 177, forecast is for four years rather than five years as in previous reports		
	Projected 1-Year Range	Projected 4-Year Range
Public Fixed Income	\$150 - \$500	\$600 - \$2,004
Public Equities	\$200 - \$400	\$800 - \$1,600
Private Markets/Private Debt	\$2-\$8	\$8-\$32
Private Equity/Venture Capital	\$2 - \$12	\$8- \$48
Real Estate	\$0	\$0 - \$10
Total	\$354 - \$920	\$1,416- \$3,680

WRS Private Debt Portfolio

The WRS Wisconsin Private Debt Portfolio provides financing for company operations both inside and outside of the state. While its fiduciary duty is owed to the trust funds of the WRS, SWIB has found ways to invest meaningful capital directly into companies that not only provide market rate returns, but also lead to enhanced economic activity throughout the state.

Approximately 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.

Since the 1960s, SWIB has helped hundreds of companies with over \$2.6 billion in loans. SWIB was an early leader focusing on in-state investments, later adding an internally-managed private debt portfolio dedicated to investing in Wisconsin businesses in the 1980s.

The portfolio's mandate is to make long-term investments in Wisconsin companies through private transactions and to maintain an average investment grade credit rating. The mandate allows SWIB to fill a specific need by making this type of direct financing available especially to companies unable to secure the attention of large investors. 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. Loans are highly customized and include senior loans as small as \$5 million and subordinated loans as small as \$3 million. Loans typically mature in five to 15 years. Most loans are secured with real estate or other collateral.

Typically, staff works directly with companies to analyze information and negotiate loans. An investment banker or broker hired by the borrower may assist. Most Wisconsin borrowers do not have an independent credit rating, so SWIB prepares the underwriting and credit analysis and then proposes and negotiates a suitable financing structure. The Wisconsin Private Debt Portfolio also offers



mezzanine financing, which entails a higher level of risk because loans are subordinated to the company's bank or other senior debt financing. To compensate, expected returns for these investments range from 14% to 16%. Investments consist of a loan, and in some instances, some equity holding with the loan maturing in five years and earning interest only through its life.

SWIB's core investment strategy for the portfolio has not changed. SWIB welcomes new investment opportunities that fit the Wisconsin Private Debt Portfolio guidelines. Staff actively seeks new investment possibilities by marketing this financing resource to Wisconsin businesses and collaborating with financial institutions. If an investment opportunity does not fit with the portfolio's criteria, staff works to identify other potential sources of funding and frequently makes referrals on behalf of the borrower to the Wisconsin Economic Development Corporation (WEDC), commercial banks, private equity groups, or other capital sources. The actual amount of loans in which SWIB will invest ultimately depends upon investment opportunities, general market conditions, and resources.

Looking to the future, from FY 2025 to FY 2028, SWIB projects new Wisconsin Private Debt Portfolio loans will range from \$8 million to \$32 million.

Businesses participating in SWIB's Private Debt Program are primarily headquartered or operating in Wisconsin or have plans to invest in our state. Companies of all sizes interested in learning how SWIB's Private Debt Program could help them create their own success stories should contact SWIB Portfolio Manager Chris Prestigiacomo at Chris.Prestigiacomo@swib.state.wi.us.

Venture Capital Portfolio

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

While achieving investment returns and fostering regional economic growth are important, an equally significant aspect of these investments is the transformative impact that the technologies developed by these startups can have on people's lives.

Targeting Venture Capital 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. The Wisconsin Venture Capital Portfolio, established in 1999, focuses on venture capital investments within Wisconsin. In 2016, the Non-Wisconsin Venture Capital Portfolio was launched to identify global investments through limited partnerships, other fund vehicles, strategic partnerships, or co-investments in venture-backed companies. 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.

From the onset of the venture capital initiative, SWIB has made several direct investments in Wisconsin-based companies. SWIB has invested in over 30 companies directly since the inception of the portfolio.

Getting the Word Out About Wisconsin

SWIB has built strong relationships with many top-tier venture capital funds. In addition to venture capital investments, SWIB connects coastal managers with investment opportunities in Wisconsin. Over time, these connections and introductions should increase the availability of venture capital funding for businesses within the state.

SWIB actively supports the local early-stage and venture capital community. One example is SWIB's sponsorship and involvement in the Greater Madison Area Chamber of Commerce Pressure Chamber start-up pitch competition. The event, held during Forward Festival, a week-long celebration of entrepreneurship and innovation in Madison, features emerging companies pitching their ideas to a panel of regional investors, business executives, and a live audience. The competition's winner joins a group of start-ups on a trip to Silicon Valley where they meet with prominent venture capital firms through introductions coordinated by SWIB. SWIB is part of the Madison delegation for this trip which also includes state economic development partners and Chamber leaders. Additionally, SWIB has also participated in events like the Wisconsin Early-Stage Symposium and has hosted speaker luncheons to further engage with the entrepreneurial community.

Venture Capital Spotlight: Elephas

Madison-based Elephas Biosciences Corporation is a biotech company focused on improving cancer diagnostics and treatment. Cancer is a leading cause of death worldwide, with the number of patients projected to triple by 2060. Elephas created an advanced imaging platform that analyzes live tumor biopsies to predict how cancer patients will respond to immunotherapy. Their platform keeps the tumor's natural environment intact, allowing for more accurate and personalized insights into treatment effectiveness. By providing quick and precise information, Elephas helps doctors make better-informed decisions improving patient outcomes and access to effective therapies. Elephas also supports ongoing clinical trials and a significant research partnership with the Mayo Clinic to advance their technology. With their unique approach, Elephas is positioning itself as a leader in making cancer treatment more precise and tailored to each patient.



Investing in promising companies like Elephas is part of SWIB's strategy for the Wisconsin Venture Capital Portfolio.

Increasing Opportunities

Over the past 20 years, SWIB has allocated over \$400 million to its Wisconsin Venture Capital Portfolio. This represents approximately 20% of SWIB's total venture capital commitments. As investments mature, SWIB expects to redeploy funds as new opportunities arise. SWIB expects the percentage invested in Wisconsin to increase in the future. From FY 2025 through FY 2028, SWIB projects new Wisconsin private equity/venture capital investments will range from \$8 million to \$48 million.

Other Wisconsin Investments

Real Estate

Nearly all Wisconsin real estate investments are made through funds and partnerships rather than through direct investments. From FY 2025 through FY 2028, SWIB projects new Wisconsin real estate investments of up to \$10 million.

Public Equities

SWIB's public equity team will continue to evaluate public equity investments in quality Wisconsin companies that offer value to the WRS. This includes exploring opportunities in initial public offerings and secondary stock offerings of Wisconsin companies. Additionally, staff will research smaller Wisconsin companies that are overlooked by Wall Street analysts. Actual investments depend on investment strategies, market conditions, available opportunities, and the portfolio's size. From FY 2025 through FY 2028, SWIB projects new Wisconsin public equity investments will range from \$800 million to \$1.6 billion.

Public Fixed Income

SWIB's public fixed income team invests in government and corporate bonds for the WRS, SIF, and separately managed funds. These portfolios invest primarily in high to medium quality public fixed income instruments that provide competitive returns. The team also evaluates public offerings from Wisconsin-based companies to determine if they meet the portfolio's investment criteria. Additional investments include commercial paper issued by Wisconsin corporations and deposits placed with Wisconsin financial institutions. From FY 2025 through FY 2028, SWIB projects new Wisconsin public fixed income investments will range from \$600 million to \$2.4 billion.

Wisconsin Economic Development Corporation Suggestions & SWIB's Response



Edwin Denson, Executive Director/Chief Investment Officer
State of Wisconsin Investment Board
4703 Madison Yards Way – Suite 700
Madison, WI 53705

September 30, 2024

Mr. Denson:

In accordance with Wisconsin Statutes 238.26, the Wisconsin Economic Development Corporation (WEDC) respectfully submits to the State of Wisconsin Investment Board (SWIB) this report outlining the types of investments in business that will have the greatest likelihood of enhancing economic development in Wisconsin.

OVERVIEW

In 2024, the national economy is experiencing significant shifts, driven by shifting interest rates and credit environment, workforce changes, and the need for sustainable practices. Key challenges include persistent labor shortages, and limited venture capital outside coastal areas. Wisconsin can address these issues by focusing on rural development; investing in manufacturing, biohealth, and agriculture; fostering local venture capital; and leveraging innovation ecosystems to position itself as an adaptable, competitive state.

LOOKING AHEAD

Building on Our Strengths

Wisconsin's manufacturing history and advancements in automation and technology make it a leader in the sector. The growing integration of AI opens new opportunities for innovation. Microsoft's \$3.3 billion data center investment in Wisconsin – their first co-innovation lab focused on AI and manufacturing, and the first located in the U.S. outside major coastal hubs – underscores the state's business appeal. With over 490,000 jobs in 9,000 manufacturing companies, Wisconsin is strategically positioned to usher in the next wave of economic innovation and growth.

Wisconsin's research institutions are driving innovation in biohealth, advancing medical devices, theranostics, pharmaceuticals, and personalized medicine. In June 2024, Wisconsin received \$49 million from the U.S. Economic Development Administration as part of the U.S. Regional Technology Hubs program. This funding will bolster Wisconsin's leadership in personalized medicine and biohealth research, but also in extending medical imaging manufacturing and growing the biohealth startup ecosystem.

Meanwhile, agriculture continues to evolve with sustainable practices and agritech innovations. As a leader in dairy, livestock, and crop production, Wisconsin is poised to strengthen its agricultural foundation through precision farming, AI-driven analytics, and automation, ensuring the state's leadership in feeding the future.

LOOK FORWARD

WEDC has continued to expand its efforts to support rural economies through the Office of Rural Prosperity and recognizes the need to support and preserve Wisconsin's unique communities, culture, and quality of life. Investments have included direct technical assistance and funding from WEDC to rural communities through the Thrive Rural Wisconsin Program and the Cooperative Development Grant Program. The Office of Rural Prosperity deepened relationships to promote regional alignment with economic development agencies and other rural organizations to foster fiscal opportunity for rural Wisconsin communities.

Financial Stewardship and Institutional Capital

WEDC recognizes the State of Wisconsin Investment Board's (SWIB) commitment to managing one of the nation's only fully funded public pension systems. This prudent management provides stable income to thousands of Wisconsin residents, while benefiting the state's economy.

While SWIB's focus is not directly on addressing specific economic challenges or shaping the future of the state's economy, its role as a significant institutional investor enables it to contribute meaningfully to economic development, as long as those investments align with its central mission. By fostering economic growth, SWIB achieves a "double bottom line," benefiting both Wisconsin Retirement System (WRS) participants and the broader state economy through enhanced stability and long-term economic strength.

For Wisconsin's financial institutions, particularly community-based and locally owned banks, access to capital is essential to sustaining their critical role as the financial backbone of businesses and communities. SWIB's Wisconsin Certificate of Deposit (CD) Program continues to be a valuable source of capital for these institutions, especially in light of ongoing shifts in federal monetary policies.

Beyond this, SWIB's investments across Wisconsin in public companies, bonds, and real estate serve as vital sources of capital and economic stability. Through its long-standing support of key sectors like healthcare, infrastructure, utilities, broadband, and retail, SWIB is helping lay the groundwork for sustained economic growth and future prosperity across the state. SWIB's investments in Wisconsin's financial institutions, public companies, and real estate advance statewide economic stability.

Small Business Access to Capital

SWIB's Private Debt Program remains a critical resource for businesses investing in technology and equipment. In a challenging credit environment, this program helps companies in manufacturing and agriculture expand and modernize.

WEDC's efforts to support rural economies, combined with the State Small Business Credit Initiative (SSBCI), aim to close funding gaps for growing businesses. With the SSBCI funds through the U.S. Treasury, WEDC expanded support for organizations that provide loans, equity-based investments, and royalty-based financing for high-growth startup businesses through the Capital Catalyst program. That program, combined with the Technology Development Loan program that provides fixed interest below market rate loans to startup and emerging growth companies, provide much needed early-stage risk capital. This leaves a large gap of funding for businesses that are in between the earliest stages of commercialization and those that are still below the revenue threshold of SWIB's debt financing.

As WEDC stays closely connected with businesses statewide to understand their financing needs and expansion strategies, we remain committed to collaborating with SWIB on cross-

training opportunities for our teams. Together, we aim to work with local and regional partners to raise awareness of the Private Debt Program and facilitate referrals that will connect businesses with this valuable capital resource.

Venture Capital Investment

Access to capital continues to be a challenge for new and growing businesses in 2024. Early-stage companies are crucial to a thriving economy, driving innovation, creating new jobs, and generating wealth and opportunity for diverse communities. Innovation-led businesses generate high-quality, high-wage jobs that not only support families but also attract skilled talent, contributing to Wisconsin's competitiveness in the global economy. SWIB's longstanding support for innovation capital remains essential to Wisconsin's venture and early-stage ecosystem.

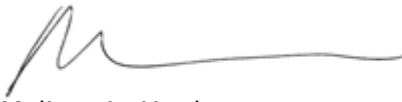
The concentration of venture capital in coastal markets is a well-known hurdle for Midwest startups, but WEDC is working to mitigate this through the Wisconsin Investment Fund, which directs \$50 million in federal resources into Wisconsin's venture capital ecosystem. By leveraging these funds, WEDC aims to create new opportunities for Wisconsin startups, enhancing the state's innovation pipeline. By continuing to support locally managed funds and expanding syndication, SWIB can play a pivotal role in fostering growth across sectors in Wisconsin-based funds and startups.

The partnership between SWIB and the Wisconsin Alumni Research Foundation in the creation of 4490 Ventures is a prime example of bold, proactive efforts to develop local investment opportunities. As Wisconsin looks to the future, we encourage SWIB to pursue even more creative and ambitious ways to support locally managed venture capital, with an eye toward scaling its commitments when the risk-return balance is favorable.

Collaboration

WEDC and SWIB share overlapping missions to foster economic growth. By working together, we can enhance Wisconsin's profile and attract businesses, investors, and employees. SWIB is an excellent ambassador for Wisconsin, and we look forward to supporting and assisting SWIB in showcasing and sharing our state's many strengths as we fulfill our respective missions.

Sincerely,



Melissa L. Hughes
Secretary and CEO Wisconsin Economic Development Corporation

December 31, 2024

Melissa Hughes
Secretary and CEO Wisconsin Economic Development Corporation
2352 S Park St Suite 303
Madison, WI 53713

Dear Ms. Hughes,

Thank you for providing your ideas on how the State of Wisconsin Investment Board (SWIB) can continue to make investments that will enhance economic development in the State of Wisconsin. We appreciate discussing ways that SWIB can collaborate with the Wisconsin Economic Development Corporation (WEDC).

SWIB's foremost responsibility is to generate strong investment returns to ensure financial security for current and future retirees of the Wisconsin Retirement System (WRS). A healthy WRS benefits all Wisconsin residents by helping to lower municipal costs, reduce the tax burden, and channel WRS retiree dollars back into Wisconsin's local economies. In this way, our efforts contribute to the broader economic stability and prosperity of communities throughout the State.

SWIB has been a longstanding financial partner for Wisconsin businesses, providing debt capital for decades and standing out as one of the few public pension plans with a dedicated team and resources focused on supporting local enterprises. As in the past, we are excited about the opportunity to collaborate with WEDC staff to identify attractive financing prospects that benefit Wisconsin's businesses. Our portfolio includes numerous loans to both Wisconsin based companies and those operating within Wisconsin, with funds often used to support and advance these businesses. We are in constant dialogue with Wisconsin's banks and other financial intermediaries, continually exploring lending opportunities that align with SWIB's fiduciary responsibilities to the WRS.

If we can identify investments that not only deliver strong returns but also foster growth for a company or positively impact a local community, it's a true "win-win" for everyone involved.

While our investment history in venture capital is shorter than in private debt, our commitment runs deep, and we have made an impact on the State's start-up ecosystem. SWIB not only invests in local venture funds and companies but also leverages our extensive network to regularly bring outside venture capital firms into the State to engage directly with local businesses and our fund managers. We help promote Wisconsin's early-stage ecosystem broadly outside of the state. We recognize and appreciate WEDC's dedication to the Wisconsin Investment Fund, as several of our active funds and companies will directly benefit from this initiative. We look forward to working with WEDC staff to continue fostering a thriving startup and early-stage ecosystem in Wisconsin.

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SWIB and WEDC have a long history of working together and we look forward to future dialogue as we continue to find ways consistent with our fiduciary duty to partner with and invest in Wisconsin businesses. Thank you for providing us your recommendations.

Sincerely,

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

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