

Department of Employee Trust Funds Board

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September 20, 2012



Investment Performance*

	YTD	Five Years	Ten Years
Core Fund	8.9%	2.8%	7.9%
Benchmark	8.5%	2.7%	7.6%
Variable Fund	11.4%	0.4%	7.0%
Benchmark	11.2%	0.2%	7.0%

*Preliminary returns as of August 31, 2012

Cautious Market Outlook

- Continued volatility & uncertainty
- Issues in U.S. are less critical
- Made in the USA - U.S. is again becoming a desired place to do business
- Can political leaders get the U.S. back on track?
- September & October are challenging months
- SWIB working to reduce market volatility on retirees

Performance Goals & Achievement

SWIB has:

- Added new staff & technology
- Improved selection & oversight of external money managers
- Moved more money inside at less cost
- Used new ways to manage risk while generating added returns

Performance Goals & Achievement

- Stronger internal management program with highly-competent & professional staff
- Favorable returns for the WRS
- Consistent contribution rates
- Over 75% of WRS funded by investment returns
- Only fully-funded U.S. public pension plan
- WRS is “solid performer” because of ability to meet benefit obligations for current & future retirees

Experienced Staff

- Steadily improved attracting & retaining high caliber employees across organization
- Highly motivated & effective employees
- Concerted effort to break down silos & flatten organization has generated desired results
- Solid foundation set by previous directors

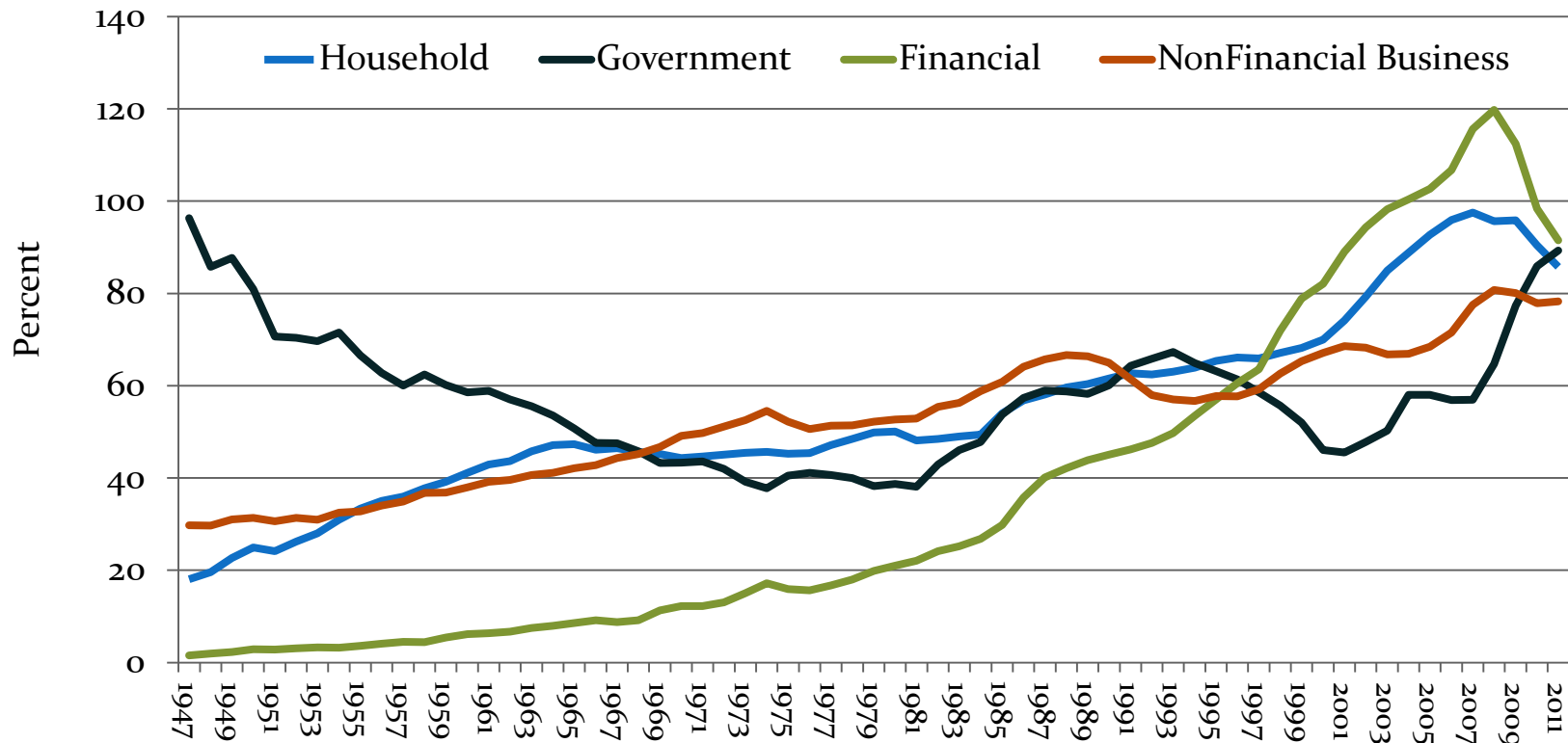
Looking Forward

Looking at opportunities for improvement

- **Strategic Planning** – Identify opportunities, rank priorities & make recommendations
- **Project Management** – Provide structure to initiatives
- **IT & Investment Systems Upgrade** – Replace technology systems that are reaching or have reached their useful life
- **Partnership with ETF** – Continue to build a greater alignment between two agencies

U.S. Debt/GDP Ratios

Deleveraging process going well, but has years to run



Sources: Federal Reserve Board/Haver Analytics

U.S. Employment

Seasonally Adjusted Change in Non-Farm Payrolls (1000s)

	2008-09	2010	2011	8/2012	Since 2007
Total Non-Farm Payrolls	-8663	1027	1840	1114	-4682
Manufacturing/Mining	-2353	178	322	178	-1675
Construction	-1836	-177	69	-31	-1975
Total Private Goods Producing	-4189	1	391	147	-3650
Professional & Business Services	-1582	540	584	365	-93
Retail/Transportation/Hospitality	-2769	426	724	364	-1255
Private Health/Education	796	328	401	275	1800
Financial Services	-545	-10	27	46	-482
Other Services	-477	-37	-22	10	-526
Total Private Services	-4577	1247	1714	1060	-556
Government	103	-221	-265	-93	-476

Source: U.S. Bureau of Labor Statistics, August 2012

Economic Data

Economic data	The Great Inflation 1973 to 1983	Transition 1984 to 1995	Tech & Credit Bubbles 1996 to 6/2009	Recovery 7/2009 to 6/30/12	Full Period 1973 to 6/30/12
Inflation (CPI)	8.23	3.54	2.50	2.40	4.37
Stock Market (Nominal Return)	8.07	15.45	4.84	16.49	9.75
Stock Market (Return Premium)*	-0.61	8.73	1.36	16.38	4.07
Unemployment Rate	7.50	6.24	5.51	8.73	6.53
Nominal GDP Growth	10.05	6.14	4.61	4.08	6.52
Real GDP Growth	2.63	3.16	2.40	2.36	2.69
Real Personal Income Growth	2.42	3.02	2.42	1.21	2.51
Bond Market (Nominal Return)	7.51	11.02	5.84	7.34	7.97
Bond Market (Return Premium)*	-1.12	4.56	2.33	7.24	2.39
Real Corporate Profit Growth	0.91	5.36	1.74	14.79	3.54

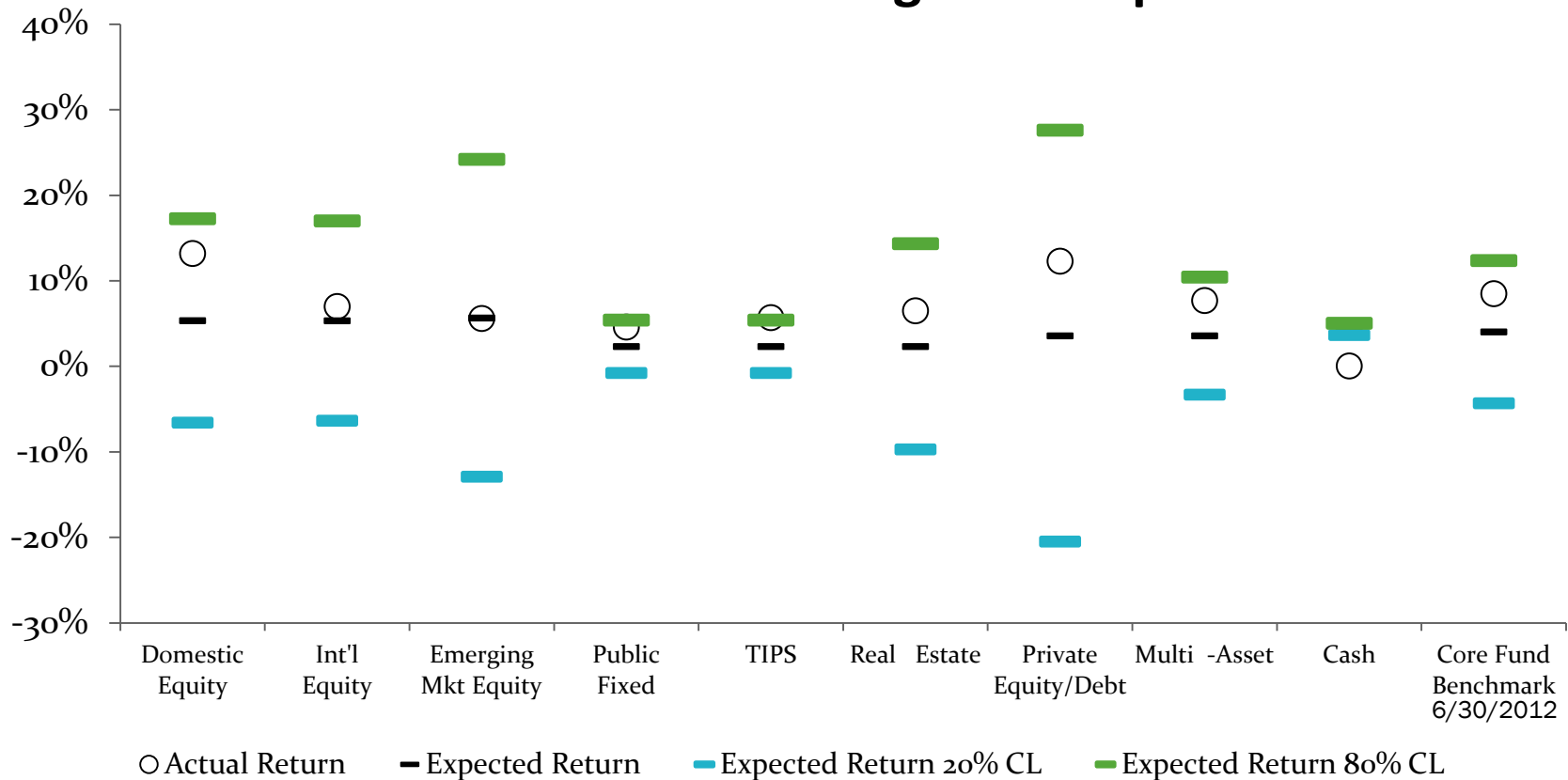
*90 day Tbill used to calculate return premium.



Appendix

Returns vs. Expectations

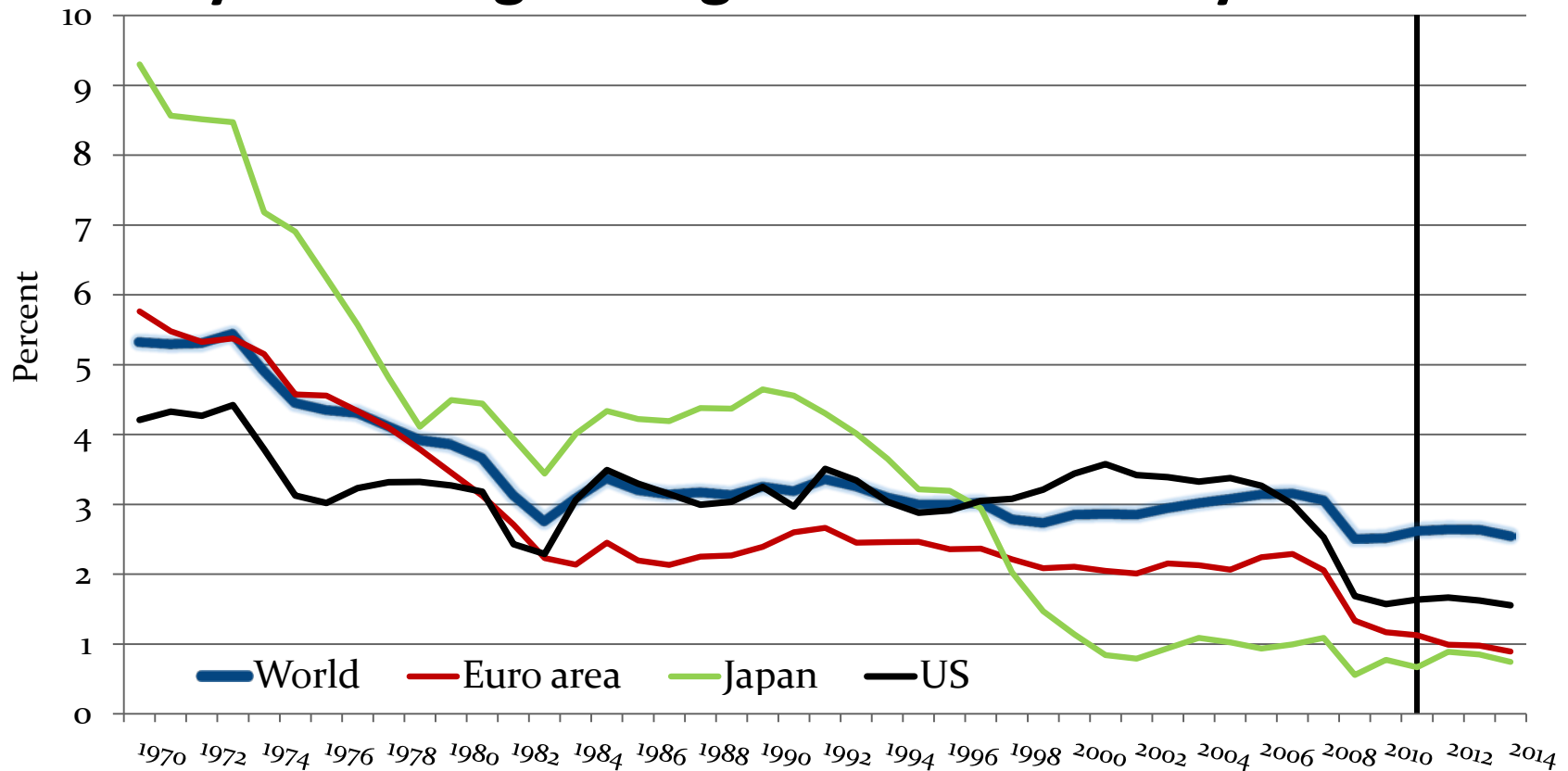
Year-to-Date Returns vs. Long-term Expectations



Note: Actual returns should fall within the confidence band 80% of the time based on a normal distribution.

GDP Growth Low

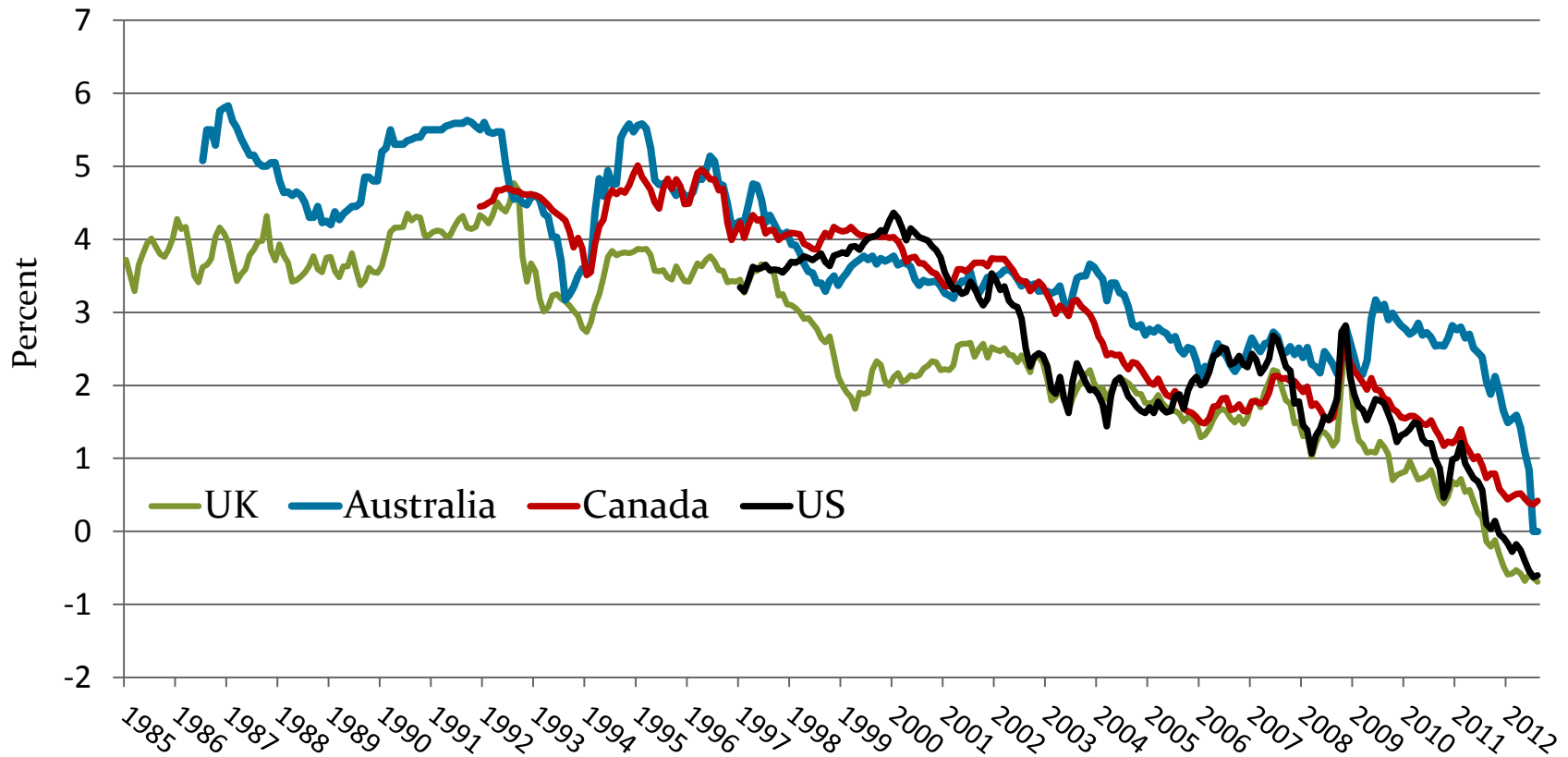
10-year rolling average real GDP at 42 year low



Source: World Bank.

2012 to 2014 are estimates

Uncharted Territory: Real Yields



Inflation protected treasury security yields - 12/31/84 to 8/31/12