



Employee Trust Funds Joint Board Meeting

Michael Williamson, Executive Director

March 23, 2017

State of Wisconsin Investment Board



SWIB is a unique & valuable partner of more than **600,000 individuals** and **1,400 Wisconsin employers**.



SWIB manages more than **\$96 billion** in WRS assets and over **\$104 billion** in total assets.



The WRS is the **9th largest** public pension fund in the U.S. & **24th largest** public/private pension fund in the world.

Core Fund Returns

As of December 31, 2016

8.6%

Benchmark: 7.9%

5-Year

8.1%

Benchmark: 7.7%

10-Year

5.2%

Benchmark: 4.9%

20-Year

7.2%

Benchmark: 6.8%

Variable Fund Returns

As of December 31, 2016

10.6%

Benchmark: 10.4%

5-Year

12.1%

Benchmark: 11.8%

10-Year

5.5%

Benchmark: 5.3%

20-Year

7.1%

Benchmark: 6.6%

Protecting & Growing the WRS

Make Money, Manage Risk, and Control Cost

- Our strategy is disciplined, balanced, & focused on long-term results
- We invest first to protect the WRS from a major downturn & then to earn reasonable returns
- The Core Fund's 20-year return matches the assumed rate of return

Peer Funding Ratios

Public Pension Plan ¹	Actuarial Funded Ratio	Rank
Wisconsin Retirement System—Core Fund	100.0%	1
Florida State Board	86.5	2
Ohio Public Employees Retirement System	82.4	3
Teachers Retirement System of Texas	80.2	4
Minnesota State Board	79.9	5
Virginia Retirement System	73.3	6
Washington State Investment Board	73.0	7
California Public Employees Retirement System	72.1	8
Pennsylvania Public School Employees' Retirement	60.6	9
New Jersey Division of Investments	59.5	10

¹ When more than one plan is managed, the largest was used.

Source: Legislative Council 2015 Comparative Study of Major Public Employee Retirement Systems. This peer group is used by the Legislative Audit Bureau in their management audits when reviewing Core Fund returns.

Peer Assumed Rates of Return

<u>Public Pension Plan¹</u>	Assumed Rate of Return	Rank
Virginia Retirement System	7.00%	1
Wisconsin Retirement System—Core Fund	7.20	2
California Public Employees Retirement System	7.50	3
Pennsylvania Public School Employees' Retirement	7.50	3
Florida State Board	7.65	5
Washington State Investment Board	7.70	6
New Jersey Division of Investments	7.90	7
Ohio Public Employees Retirement System	8.00	8
Teachers Retirement System of Texas	8.00	8
Minnesota State Board	8.00	8

¹ When more than one plan is managed, the largest was used

Source: Legislative Council 2015 Comparative Study of Major Public Employee Retirement Systems. This peer group is used by the Legislative Audit Bureau in their management audits when reviewing Core Fund returns.

Fiduciary Duty

Under s. 25.15 (2) (b), stats., one of the "standards of responsibility" applied to the Board when it manages money and property is:

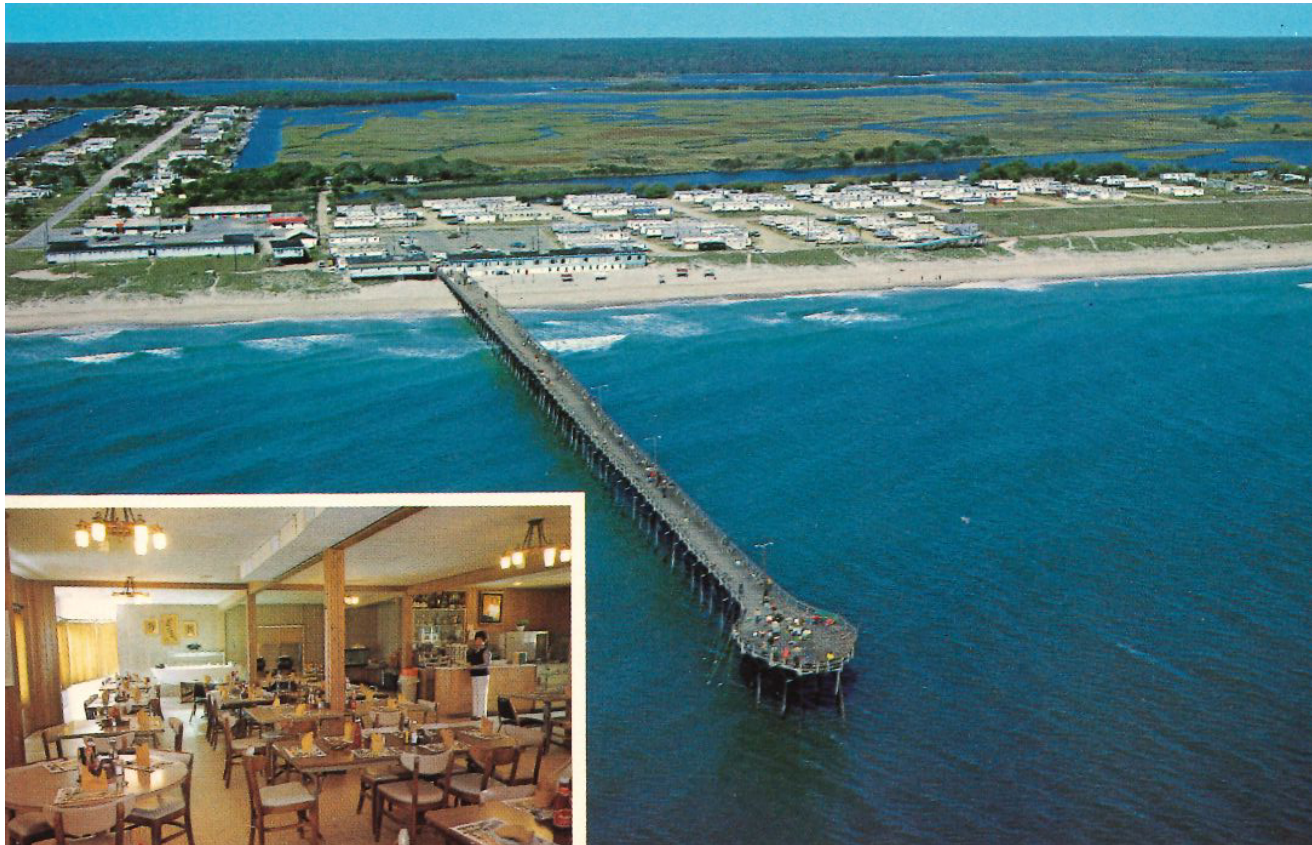
"To diversify investments in order to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so ..."

Core Fund Asset Allocation

Asset Class	Allocation
Public Equities	49%
Public Fixed Income	26%
Inflation Sensitive	8%
Private Equity/Debt	8%
Real Estate Equity	7%
Multi-Asset	1%
Cash	1%
Total	100%

As of December 31, 2016

A Different Kind of Pier



In the Path of the Storm



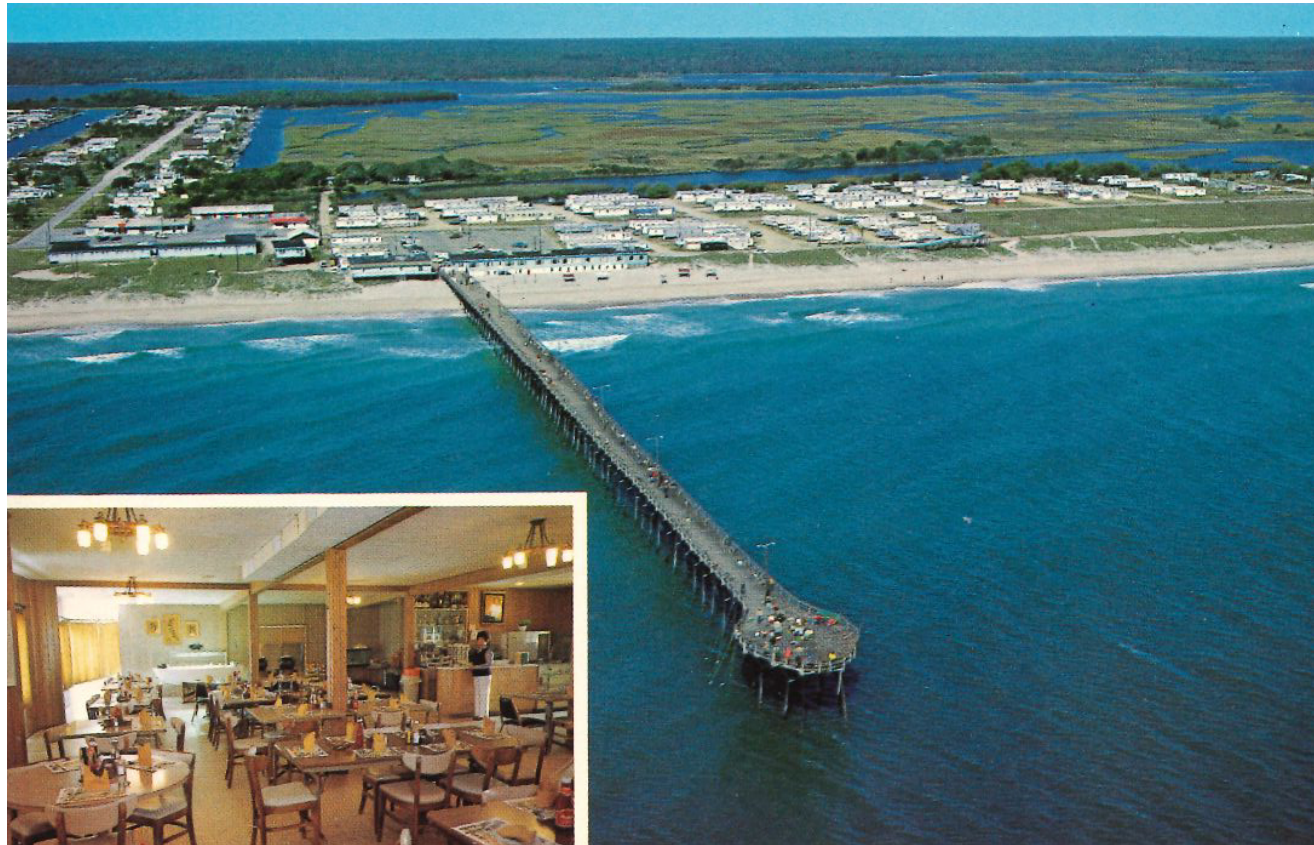
Hurricane Hazel Inflicts Damage



Hurricane Floyd- 10 Hours Before NC



Everything Was Gone



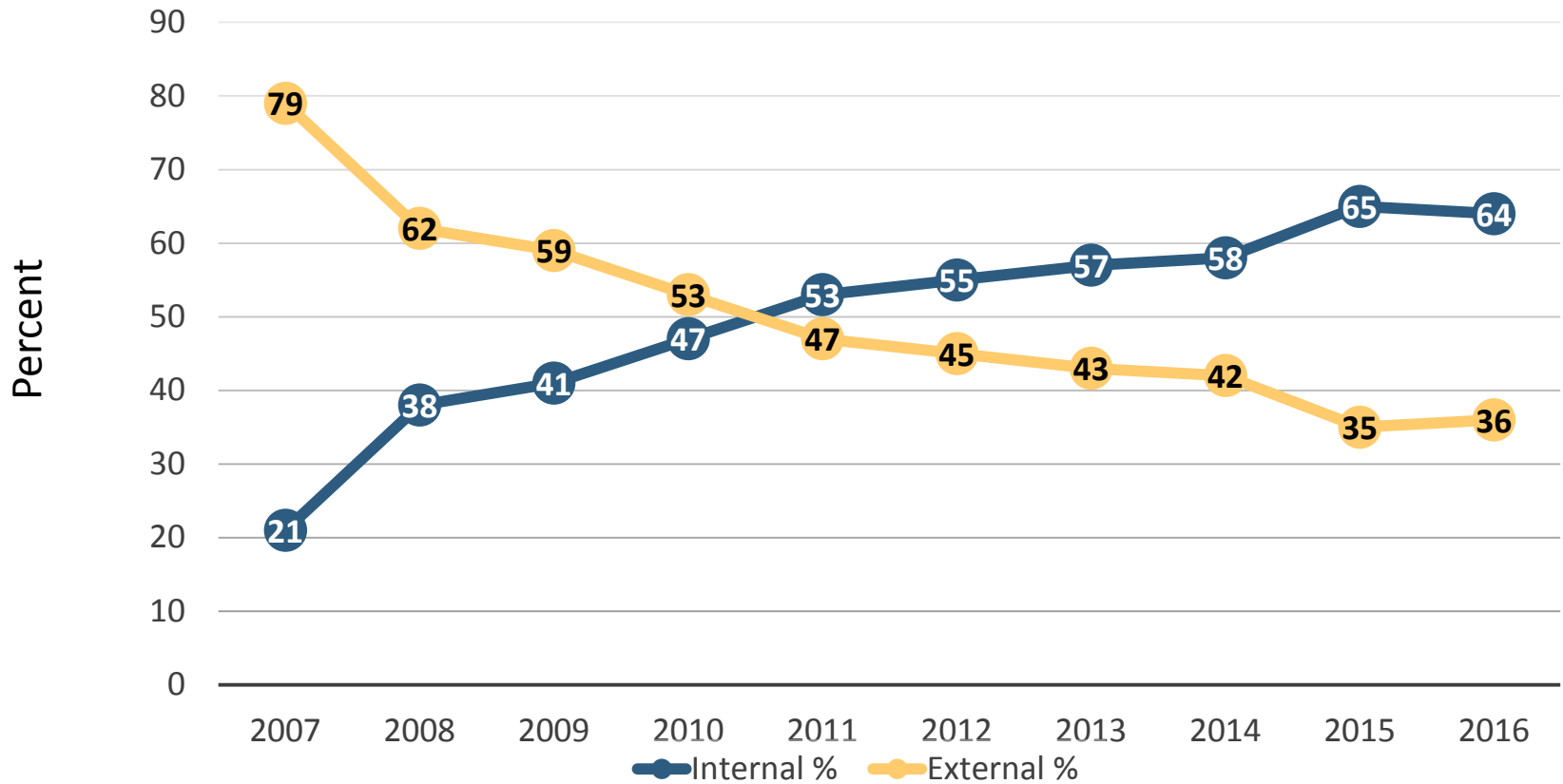
Contributing to a Secure Future

\$42 billion

SWIB's approach has added extra value over the past 20 years.



Internal vs External Management



Percentages shown as of December 31, 2016

SWIB Internally Manages High % of Assets

	Fund Name	Percent of Assets Managed Internally	Total Assets Managed Internally in Millions	Total Pension Funds
1	Georgia Teachers	100%	\$66,981	\$66,981
2	CalPERS	69%	\$211,512	\$305,199
3	Wisconsin	63%	\$61,141	\$96,962
4	NY Teachers	62%	\$66,737	\$107,042
5	NY common	55%	\$101,495	\$184,461
6	CalSTRS	46%	\$88,449	\$193,154

Source: *Pensions & Investments Magazine* February 2017

Internal/External Assets & Costs

- An average of 62% of internally managed assets account for 22% of management costs
- When using external managers, we negotiate lower fees than our peers
- Among its peer group, SWIB's total costs were second lowest

Internal Management Saves Money

\$344 million

Over the past 10 years, SWIB's greater reliance on internal management has saved more when compared to other public pension funds.



Highly Qualified Staff

- Incentive compensation is a true pay-for-performance plan
- Focuses on long-term results
- Implemented by Board of Trustees
- Establishes median pay of a defined peer group, excluding East & West coasts
- Plan is achieving desired results

Working for the WRS & You

\$1.1 Billion

Reducing costs, negotiating lower fees & investing in low-cost assets combined with the performance of investment strategies have added value over the past five years to the trust funds, which benefits the over 600,000 WRS participants.



Looking Forward

- U.S. stock prices have hit all-time highs
- Strong equity returns & low volatility is not sustainable
- Eurozone & Japan appear to have skirted deep downturn
- Disposable income highest on record

Looking Forward

- U.S. productivity in 4th quarter worst in five years
- U.S. economy added 235,000 new jobs in February
- Labor costs in 2016 rose the fastest in 9 years
- Markets will remain challenging
- We can achieve 7.2% over the long-term
- The WRS will remain financially health

Thank You

Contact Us:

Beneficiary Hotline: (800) 424-7942

Website: www.swib.state.wi.us

Email: info@swib.state.wi.us

