

Fiscal Estimate Narratives
SWIB 6/19/2019

LRB Number	19-3060/1	Introduction Number	AB-0269	Estimate Type	Original
Description prohibiting the Investment Board from making investments in firearms companies					

Assumptions Used in Arriving at Fiscal Estimate

The State of Wisconsin Investment Board (SWIB) currently invests over \$100 billion of trust fund assets. Over 90% of these assets constitute the Wisconsin Retirement System (WRS) and are managed on behalf of 632,000 state and local employees and retirees. About 75% of the income of the WRS comes from investment returns. SWIB also invests the assets of several other smaller trust funds, including the cash management fund for the state and local governments. SWIB has investments in thousands of companies domiciled in the United States and throughout the world.

REQUIREMENTS THIS BILL PLACES ON SWIB

This bill prohibits SWIB, with some exceptions, from investing in securities of any company (including parent companies and subsidiary companies) that manufactures or imports firearms, ammunition, or firearms accessories.

Within 30 days after the effective date of this bill, SWIB must make its best efforts to identify firearms companies and make a list of these companies. For the purposes of attempting to identify "firearms companies" the bill requires SWIB, at a minimum, to contact a.) the Bureau of Alcohol, Tobacco, Firearms and Explosives, b.) nonprofit organizations, research firms and government entities, and c.) "other institutional investors known to the board to have undertaken to identify firearms companies." Under the bill, SWIB must update this list at least quarterly.

For each company included on this list, SWIB must send a written notice to the company informing the company that SWIB is prohibited from investing in the company and of the reason for this prohibition.

If at this time SWIB already maintains investments in companies included on the list, SWIB must divest itself of these investments within approximately six months. These investment prohibitions do not apply to investments made by external managers with whom SWIB has contracted, investments in index funds and other commingled instruments, and investments in private equity funds.

COSTS OF THIS BILL TO THE WRS TRUST FUND

SWIB estimates its Compliance, Legal, Corporate Governance, Public Equities, Internal Audit and Performance & Analytics Divisions would all have responsibilities carrying out the requirements of this bill. The initial administrative costs imposed by this bill would be approximately \$22,400 and the continuing administrative costs imposed by this bill would be approximately \$286,000 annually.

These costs would include doing the research to create the list of "firearms companies" and updating that list quarterly and sending written notice to companies included on that list. These costs would include developing new benchmarks to exclude firearms companies. SWIB estimates it would need two FTEs (one in the Compliance Division and another in the Performance & Analytics Division) to carry out these duties.

How "firearms accessories" would be defined impacts the fiscal effect of this proposal. If a firearm accessory is determined to be only something that may be attached to a firearm (like a scope or sling), it would include a number of companies. If the definition also includes items associated with the care and maintenance of a firearm (like cleaning materials or cases), it would include a larger number of companies. If the definition also includes items employed in conjunction with or related to using a firearm (like targets, hearing protection, apparel, or shooting benches), it would include a larger number of companies still.

While SWIB's portfolio of equity holdings varies, a conservative estimate is that SWIB owns at least 3,000 on any

given day. Given the breadth of some of these companies' operations, it is reasonable to assume that a substantial number of them, or their parent companies or subsidiaries, will fall under the definition of a firearm company.

The above cost estimates do not include the potential investment-related costs of this bill, which could be measured in millions of dollars given the size of SWIB's investments in potentially-affected companies. Those costs include the market impact cost of divesting in securities of affected companies within a relatively short period of time and the prohibition against investing in securities of companies that might earn profits for the trust funds, thereby reducing expected trust fund returns. These costs are not possible to estimate with any accuracy because of the nature of investing. However, these costs could be substantial and could affect contribution rates and post retirement annuity adjustments under the WRS. Most of the over 1500 employers who participate in the WRS are local governments, so increases in contribution rates would also increase local government costs.

SWIB receives no direct general purpose revenue from the state. All costs incurred by SWIB are paid from the income of the trust funds. Therefore, the costs imposed by the bill will result in lower net returns for the trust funds that SWIB manages.

SWIB has a fiduciary and statutory duty to the trust funds it manages to invest only in the interests of the trust funds. Section 25.15 (2)(c), stats., states that SWIB's standard of responsibility when it manages money and property is to "administer assets of each trust or fund solely for the purpose of ensuring the fulfillment of the purpose of each trust or fund at a reasonable cost and not for any other purpose." For example, the WRS trust funds are to be used only for the benefit of the over 632,000 participants in the WRS to help provide for their retirement security. The investment restrictions and the divestiture requirements imposed under the bill are not consistent with this purpose or with the purposes for which other trust funds managed by SWIB were created.

Long-Range Fiscal Implications