

Senate Bill 380... relating to reports required to be submitted by the investment board and contracting with outside investment advisors for certain investments.

<p>BILL SPONSORS</p>	<p>Introduced by Senator Schultz Cosponsored by Representative Montgomery</p>
<p>BILL HISTORY</p>	<p>Senate Bill 380 was introduced on 01-08-04.was read first time and referred to committee on Agriculture, Financial Institutions and Insurance A public hearing was held on -1-13-04. An executive session was held on 01-20-04 The committee recommended SB 380 for passage on a vote. Ayes 5, Noes 0.</p>
<p>LRB ANALYSIS</p>	<p>Current Law: Under current law, SWIB is required to submit an annual report, no later than January 1 of each year, to the Joint Legislative Audit Committee, the Joint Committee on Finance, and to the legislature on SWIB's annual investment goals and long-term investment strategies. Also under current law, SWIB may contract with outside investment advisors for the investment of SWIB-managed assets in real estate, mortgages, equities, debt of foreign corporations, and debt of foreign governments. Currently, no more than 15 percent of the total assets of the fixed retirement investment trust or 15 percent of the total assets of the variable retirement investment trust may be delivered to outside investment advisors.</p> <p>Proposed Changes: This bill provides that this report is to be included in another report relating to investments that SWIB must submit each year no later than March 31. The bill also permits such investments to be made not only in the debt of foreign corporations and governments, but in any debt.</p>
<p>FISCAL EFFECT</p>	<p>Indeterminate.</p>
<p>SUPPORT</p>	<p>The following person/people appeared in favor of this bill: (1) Sandy Drew, State of Wisconsin Investment Board</p> <p>The following person/people registered in favor of this bill: (1) Senator Dale Schultz, (2) Georgia Maxwell WI Credit Union League, (3) Jeremy Levin, WI State Medical Society.</p> <p>No one registered their support for the bill with the State Ethics Board, who did not testify or register at the public hearing.</p> <p>No one registered their intention to lobby on SB 3080 who did not take a position on the bill.</p>
<p>OPPOSITION</p>	<p>No on appeared in opposition to this bill. No one registered in opposition to this bill.</p> <p>No on registered opposition for the bill with the State Ethics Board.</p>
<p>CONTACT</p>	<p>John O'Brien, Committee Clerk, Sen. Agriculture, Fin. Inst. & Insurance.</p>
<p>DATE</p>	<p>01-21-2004</p>

State of Wisconsin Investment Board

P.O. Box 7842, Madison WI 53707 (608) 266-2381

MEMORANDUM

Date: January 8, 2004
To: Senator Dale Schultz
From: Sandy Drew
Re: **SB 380**

Here are the bullet points you requested describing what the bill does and why SWIB requested the changes:

1. Current law requires SWIB to submit a report to the Legislature on January 1 on the Investment Board's investment goals and strategies and a second report by March 31 that describes progress in meeting its goals, performance and Wisconsin investments. The bill combines the two reports into one with a March 31 due date.
 - For the past several years, SWIB has combined the two reports into one as the Trustees normally do not adopt the asset allocations, which reflect the goals and strategies for the year, until the January or February board meeting.
 - The Legislature has not objected to receiving the one detailed report that combines all required information rather than two individual reports.
 - The combined report makes it easier to understand the relationship between our strategies and our performance.
2. Current law allows SWIB to contract with external managers to invest the assets in certain types of investments, including "foreign" corporate and government debt. Because of the restriction to "foreign" debt, it precludes externally-managed domestic (US only) debt investments. Since this statute was enacted in 1987, the investment industry has moved away from using dedicated domestic and foreign bond portfolios toward global (combined US and foreign) investment portfolio mandates. The bill makes it clear that use of such investment mandates for externally managed fixed income portfolios is permitted.
 - SWIB is clearly authorized to use internally-managed bond portfolios that invest on a global basis. This would make internal and external statutory investment authority consistent.
 - The Patients Compensation Board is interested in having the ability to have SWIB contract with an external manager to manage their assets in a fixed income (debt) fund that may include both domestic and global companies. Because of current law, the option is not available to them.
 - Current law prohibits SWIB from having more than 15% of the assets of the Wisconsin Retirement System actively managed by external managers. This change will have no effect on that limitation.



State of Wisconsin Investment Board

MAILING ADDRESS
PO BOX 7842
MADISON, WI 53707-7842

121 EAST WILSON ST
MADISON, WI 53702
(608) 266-2381
FAX: (608) 266-2436

January 13, 2004

Honorable Dale Schultz, Chair
Senate Committee on Agriculture, Financial Institutions & Insurance
And
Honorable Phil Montgomery, Chair
Assembly Committee on Financial Institutions
State Capitol
Madison WI 53702

Subject: Senate Bill 380 and Assembly Bill 740

Dear Senator Schultz and Representative Montgomery:

Thank you for agreeing to hear Senate Bill 380 and Assembly Bill 740. These bills were introduced at the request of the State of WI Investment Board (SWIB) and will make two changes to current law:

1. Combine two statutorily required reports into one; and
2. Authorize the Board to contract with external managers to invest in all types of debt, not just foreign debt.

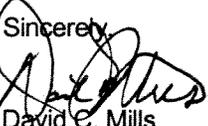
Currently, SWIB is required annually to submit to the Legislature a report on investment goals and strategies by January 1 and a performance report by March 31. For the past four years, the Board has combined the two reports into one and submitted it in March. The Board usually goes through an annual allocation review and does not finally determine how it will allocate assets or make changes to its overall investment goals and strategies until the January or February Board meeting. By that time, the Board knows the performance from the prior year and can consider the performance results when making any changes in strategies for the upcoming year. Because performance is so closely tied to the investment goals and strategies, combining the two reports provides a more informative total assessment to the Legislature.

Under current law, SWIB may contract with external investment advisers to invest assets in real estate, mortgages, equities, and foreign debt, but the authority does not include domestic debt. The proposed change will allow SWIB to contract with external managers to invest in all types of debt, including US, foreign or global (which includes both US and non-US debt), but makes no other changes to the Board's authority. It also does not change the current 15% maximum of assets that can be actively invested by outside managers.

The Patients' Compensation Fund Board, whose assets SWIB also manages, supports this change as they would like the opportunity to have some of the fund's assets invested in an external fixed income fund, which would likely contain both domestic and international investments.

Thank you for your time and your support.

Sincerely,


David C. Mills
Executive Director

State of Wisconsin Investment Board

P.O. Box 7842, Madison WI 53707 (608) 266-2381

MEMORANDUM

Date: January 13, 2004

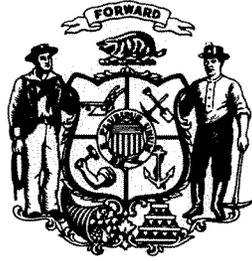
To: Senate Committee on Agriculture, Financial Institutions and Insurance
Assembly Committee on Financial Institutions

From: Sandy Drew, Legislative & Beneficiary Liaison ^{SD}

Re: **SWIB's Activities to Protect Fund Assets**

Knowing of your interest, I want to briefly update you on SWIB's most recent corporate governance activities to protect funds under our management:

1. SWIB tightened its Proxy Voting Guidelines to place emphasis on auditor independence, separating holders of the board chair and CEO positions, supporting board independence and diversification, allowing shareholder access to the proxy to nominate alternate director candidates, strengthening independent audit, nominating and compensation committees, expensing stock options and withholding votes for directors where serious governance shortcomings exist.
2. We now post all proxy votes on the agency's website. (SWIB is one of a handful of funds that does this.)
3. SWIB began participating in a US and non-US institutional shareholder group that is coordinating trans-Atlantic efforts on corporate governance, particularly relating to executive compensation, quality of directors and long-term performance sustainability.
4. SWIB submitted comments to the Securities and Exchange Commission supporting shareholders' access to the proxy to nominate alternate director candidates. (A copy of the letter is on SWIB's website.)
5. We provided comments to the Public Accounting Oversight Board supporting a proposed rule tightening the standards for internal control audits.
6. The agency sponsored the third annual Directors' Summit in conjunction with the University of Wisconsin School of Business.
7. SWIB established a "Focus List" of companies. (These are companies in which SWIB owns significant shares but has identified corporate governance issues that may affect the value of the shares. For these companies, SWIB will meet individually with each to negotiate governance improvements.)
8. We contacted all external managers to determine their involvement, if any, in late trading and market timing practices and are currently awaiting their responses.
9. SWIB successfully won a corporate fraud settlement on the eve of trial against Anicom. The University of Chicago will feature the case this spring as an innovative model for obtaining recoveries in corporate fraud litigation.
10. We appealed a Minnesota trial court judge's decision in the Rainforest Café appraisal case, which dealt with the share price in a buyout situation. We also continue to pursue the WorldCom suit filed by SWIB and the Milwaukee City pension fund and continue to confer regularly with plaintiffs' counsel in the Enron case. (SWIB is a member of the plaintiffs' class in the suit against Enron.)
11. SWIB has continued active participation in the Council of Institutional Investors.



**Senate Committee on Agriculture, Financial Institutions
and Insurance**

Room 18 South State Capitol, PO Box 7882, Madison WI 53707-7882
(608) 266-0703

Senator Dale W. Schultz, Chairman
Committee Clerk, John O'Brien

COMMITTEE BALLOT

January 14, 2004

Senator Dale Schultz
Room # 18 South
State Capitol
Madison, WI 53707-7882

From;
Senator Dale Schultz, Chairman

Dear Senator Schultz,

On Tuesday January 13th, 2004 our committee held a public hearing on Senate Bill 380, relating to: reports required to be submitted by the investment board and contracting with outside investment advisors for certain investments.

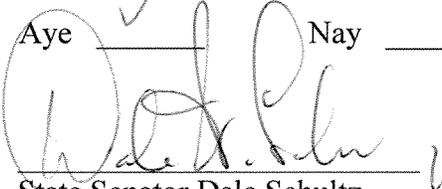
Based on the testimony received by the committee during the public hearing, the Chair respectfully requests your vote on a motion of passage of Senate Bill 380.

Please return this ballot to our office by Tuesday January 20th, 2004.

Thank you.

Aye

Nay


State Senator Dale Schultz

1/14/03
Date



**Senate Committee on Agriculture, Financial Institutions
and Insurance**

Room 18 South State Capitol, PO Box 7882, Madison WI 53707-7882
(608) 266-0703

Senator Dale W. Schultz, Chairman
Committee Clerk, John O'Brien

COMMITTEE BALLOT

January 14, 2004

Senator Neal Kedzie
Room # 313 South
State Capitol
Madison, WI 53707-7882

From;
Senator Dale Schultz, Chairman

Dear Senator Kedzie,

On Tuesday January 13th, 2004 our committee held a public hearing on Senate Bill 380, relating to: reports required to be submitted by the investment board and contracting with outside investment advisors for certain investments.

Based on the testimony received by the committee during the public hearing, the Chair respectfully requests your vote on a motion of passage of Senate Bill 380.

Please return this ballot to our office by Tuesday January 20th, 2004.

Thank you.

Aye X Nay

Neal J. Kedzie
State Senator Neal Kedzie

1/14/04
Date



**Senate Committee on Agriculture, Financial Institutions
and Insurance**

Room 18 South State Capitol, PO Box 7882, Madison WI 53707-7882
(608) 266-0703

Senator Dale W. Schultz, Chairman
Committee Clerk, John O'Brien

COMMITTEE BALLOT

January 14, 2004

Senator Julie Lassa
Room 3 South
State Capitol
Madison, WI 53707-7882

From;
Senator Dale Schultz, Chairman

Dear Senator Lassa,

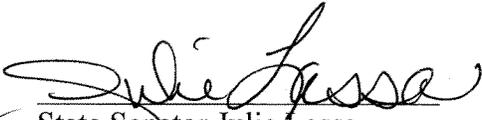
On Tuesday January 13th, 2004 our committee held a public hearing on Senate Bill 380, relating to: reports required to be submitted by the investment board and contracting with outside investment advisors for certain investments.

Based on the testimony received by the committee during the public hearing, the Chair respectfully requests your vote on a motion of passage of Senate Bill 380.

Please return this ballot to our office by Tuesday January 20th, 2004.

Thank you.

Aye X Nay


State Senator Julie Lassa

 1/20/04
Date



**Senate Committee on Agriculture, Financial Institutions
and Insurance**

Room 18 South State Capitol, PO Box 7882, Madison WI 53707-7882
(608) 266-0703

Senator Dale W. Schultz, Chairman
Committee Clerk, John O'Brien

COMMITTEE BALLOT

January 14, 2004

Senator Dave Hansen
Room # 319 South
State Capitol
Madison, WI 53707-7882

From;
Senator Dale Schultz, Chairman

Dear Senator Hansen,

On Tuesday January 13th, 2004 our committee held a public hearing on Senate Bill 380, relating to: reports required to be submitted by the investment board and contracting with outside investment advisors for certain investments.

Based on the testimony received by the committee during the public hearing, the Chair respectfully requests your vote on a motion of passage of Senate Bill 380.

Please return this ballot to our office by Tuesday January 20th, 2004.

Thank you.

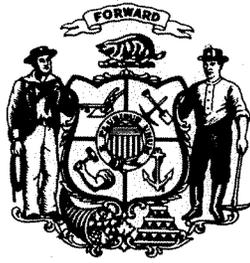
Aye _____ Nay _____

Dave Hansen

State Senator Dave Hansen

1.14.04

Date



**Senate Committee on Agriculture, Financial Institutions
and Insurance**

Room 18 South State Capitol, PO Box 7882, Madison WI 53707-7882
(608) 266-0703

Senator Dale W. Schultz, Chairman
Committee Clerk, John O'Brien

COMMITTEE BALLOT

January 14, 2004

Senator Ron Brown
Room # 104 South
State Capitol
Madison, WI 53707-7882

From;
Senator Dale Schultz, Chairman

Dear Senator Brown,

On Tuesday January 13th, 2004 our committee held a public hearing on Senate Bill 380, relating to: reports required to be submitted by the investment board and contracting with outside investment advisors for certain investments.

Based on the testimony received by the committee during the public hearing, the Chair respectfully requests your vote on a motion of passage of Senate Bill 380.

Please return this ballot to our office by Tuesday January 20th, 2004.

Thank you.

Aye X Nay



State Senator Ron Brown

 1/14/04
Date