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☞ Details: Audit Report 04-13, An Evaluation: State of Wisconsin Investment Board

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Joint

(Assembly, Senate or Joint)

Committee on Audit...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
 - (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
 - (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Stefanie Rose (LRB) (September 2012)

State of Wisconsin Investment Board

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

MEMORANDUM

Date: May 17, 2005

To: Representative Suzanne Jeskewitz

From: Sandy Drew
Legislative & Beneficiary Liaison

Re: **Amendments to Budget**

I stopped in your office this morning hoping you would have a couple minutes so that I could update you on what we are doing to resolve some of the issues that the Legislative Audit Bureau raised in its last performance audit of SWIB. But with your busy schedule, Diane and I decided that it would be easier to send you a note.

We received a copy of the letter today that you and Senator Roessler sent to the Co-chairs of Joint Finance Committee (JFC). We very much appreciate your support for letting them know that you recommend raising the budget floor. Earlier this week we decided that we had to pursue a dual path – your letter and contacts with leadership and JFC members.

After many discussions and compromises in the last few days, we are proceeding with motions to raise the limit on external management to 20%, not the 25% that we had originally wanted, and to raise the floor to \$20.4 million beginning with fy 2007. That is the same amount that our budget will be for fy 2006 based on assets under management on April 30, 2005. We had originally suggested that the budget floor be set at the fy 2005 level of \$19.4 and indexed in succeeding years. Those are the recommendations you made to the Co-Chairs of JFC. After several discussions about what would likely garner the most support, we agreed to forego the indexing and to use fy 2006's budget as the floor. Given the volatility of the markets, we could realize no growth in assets this year and, subsequently, have the same budget for fy 2007.

We believe, Representative Jeskewitz, these amendments will give us the flexibility we need to deal with issues we currently face. We are very close to the 15% limit – 14.3% of the Fixed Fund assets at the end of April. Within the last two weeks, three portfolio managers have resigned – one to retirement and two to more lucrative positions. If we are unable to replace them, we could face considerable losses if forced to sell the investments and transfer the assets to a commingled fund rather than retain an external manager. As Dave Mills told you, we have been reluctant to add staff with the current floor of \$17.7. Raising it to the fy 2006 budget level will give us the comfort to add staff without fear that we may have to lay them off if the markets go down.

Thanks again for your support. Please call me if you have any questions (261-0182).

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WISCONSIN STATE LEGISLATURE





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

May 20, 2005

Mr. David Mills, Executive Director
State of Wisconsin Investment Board
121 East Wilson Street
Madison, Wisconsin 53702

Dear Mr. Mills:

Thank you for your letter, dated April 28, which communicates the annual report to the Legislature on the Investment Board's investment goals, long-term strategies and performance. This report also addresses a number of the findings and recommendations presented in the Legislative Audit Bureau's 2004 evaluation of the Investment Board (report 04-13).

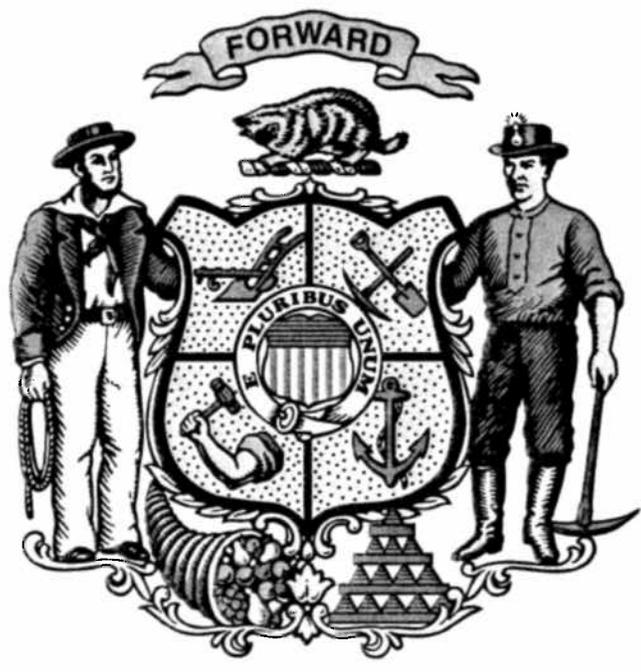
We appreciate your careful response to the Audit Bureau's recommendations in chapter 3 of the document. Thank you for your cooperation and assistance.

Sincerely,

Senator Carol A. Roessler, Co-chair
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

cc: Janice Mueller
State Auditor





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

May 25, 2005

Honorable Carol Roessler
Co-Chair, Joint Audit Committee
8 South, State Capitol
Madison, WI 53707

Honorable Suzanne Jeskewitz
Co-Chair, Joint Audit Committee
314 North, State Capitol
Madison, WI 53707

Dear Senator Roessler and Representative Jeskewitz:

Thank you for sending the letter to the Joint Committee on Finance Co-Chairs recommending that the floor for SWIB's operating budget be increased. As you probably already know, the Committee took executive action on SWIB's budget on Monday. Senator Darling introduced a motion that addressed the floor and a few other issues raised by the LAB performance audit. The Committee passed the motion on a 16-0 vote.

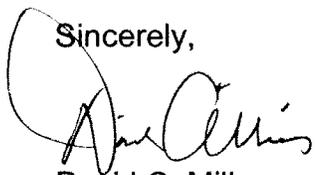
The amendment will re-set our budget floor at the FY06 authorized expenditure level (\$20,350,000). Originally, with your support, we asked for the floor to be re-set at the FY05 authorized expenditure level (\$19,400,000) and indexed to the national Employment Cost Index for future years. When it became apparent that the indexing feature would jeopardize the motion, we negotiated to re-set the floor at the higher FY06 level but remove the indexing feature. The motion also changes the way in which our expenditure authority is determined. Rather than using assets under management on April 30, now the average month end assets from the six months ending April 30 will be used. This means our operating budget will not be subject to a significant fluctuation in assets if a national or world event should dramatically affect the markets just before April 30.

Under the motion, the limitation on "outside" management also increases from 15 to 20%. Although we originally sought an increase to 25%, a compromise was necessary to gain the Committee's support. The motion also clarifies that the 20% limitation applies only to dedicated, separate accounts in which assets are held in SWIB's name (i.e. commingled funds and partnerships would henceforth clearly be outside the 20% limitation). The motion includes additional reporting requirements about expenditures and includes the Co-Chairs of Joint Audit Committee in those to whom the reports are to be sent.

Assuming the amendment remains in the budget, these changes represent a major step toward the flexibility that SWIB needs to always make the decisions we believe will result in the most favorable net return for the funds we invest.

Again, thank you for your help and support.

Sincerely,

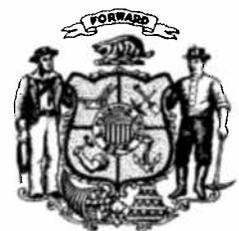
A handwritten signature in black ink, appearing to read "David C. Mills". The signature is written in a cursive style with a large, looping initial "D".

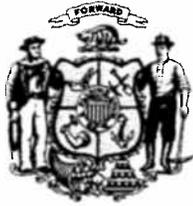
David C. Mills
Executive Director

c. Jan Mueller



WISCONSIN STATE LEGISLATURE





State of Wisconsin Investment Board

MAILING ADDRESS
PO BOX 7842
MADISON, WI 53707-7842

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

August 15, 2005

Senator Scott Fitzgerald, Co-Chair
Joint Committee on Finance
P.O. Box 7882
Madison WI 53707-7882

Representative Dean Kaufert, Co-Chair
Joint Committee on Finance
P.O. Box 8952
Madison WI 53708-8952

Senator Carol Roessler, Co-Chair
Joint Committee on Audit
P.O. Box 7882
Madison WI 53707-7882

Representative Suzanne Jeskewitz, Co-Chair
Joint Committee on Audit
P.O. Box 8952
Madison WI 53708-8952

Mr. Marc Marotta, Secretary
Department of Administration
101 East Wilson Street
P.O. Box 7864
Madison, WI 53707-7864

Dear Senator Fitzgerald, Senator Roessler, Representative Kaufert, Representative Jeskewitz and Secretary Marotta:

Attached is our quarterly report of all expenses that were charged directly to funds managed by the Investment Board. This report includes expenses incurred during the quarter ending June 30, 2005.

Section 25.17 (13m) requires that we provide this report on a quarterly basis. 2005 Wisconsin Act 25 expanded the reporting to include all direct charges and a breakdown of the amount and percent of assets managed under each type of dedicated or commingled account, including changes from the previous quarter. The act also added the Joint Audit Committee as a recipient of the report.

The statutes authorize the Board to employ special legal or investment counsel in any matter arising from the scope of our investment authority and to employ professionals, contractors or agents to evaluate or operate any property in which the Board has an interest. The Board may also contract with external advisers to manage various types of investments. Expenses for these services are charged to the current income of the fund for which the services are furnished.

The expenses in this report are reflected on an accrual basis, which lists costs when they are incurred rather than paid. Providing the information on an accrual basis provides a better picture of quarter to quarter trends in our use of services that are directly charged to the funds. (A negative charge typically indicates a downward adjustment to expenses accrued in a prior quarter or a refund of expenses that were prepaid and subsequently adjusted.) Attachment B provides a more detailed explanation of each category of charges.

In response to provisions in Act 25, we expanded our quarterly report to include a table that breaks down the amount and percentage of assets managed under each type of dedicated and commingled account or partnership. This information should make it easier for policy makers and fund

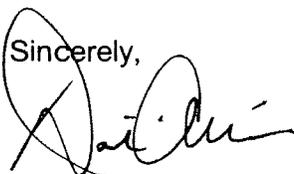
participants to understand changes in how investments are managed over time and the reasons for such changes.

The table (Attachment A) shows the amount and share of assets managed internally compared to various forms of external management. We used the quarter ending December 31, 2004, as the starting point as that was the period discussed in our annual goals and performance report to the Legislature earlier this year. The table highlights the following:

First Quarter 2005. The most significant management change in the quarter ending March 31, 2005 was a shift of approximately \$700 million from the internally managed global fixed income portfolio to an externally managed domestic fixed income index fund. This change was made to reduce an overweighting in global bonds after a significant run-up in those markets over the past several years. The index fund provides an efficient means to gain a broader exposure to the market with relatively low management fees. Other changes in values of assets managed internally or externally reflect market movement and other less significant management changes.

Second Quarter 2005. During the quarter ending June 30, 2005, the most significant change was a shift of \$300 million from external passive index portfolios (\$200 million from equities and \$100 million from fixed income) to an external actively managed multi-asset portfolio that can invest opportunistically across asset classes and markets. The multi-asset portfolio had an average annual return of 27.0% from inception in March 2003 through the end of 2004. In addition, cash in SWIB's internally managed international/global portfolios, which has consistently been managed by Mellon in SWIB's name and had been counted as being internally managed, was reclassified as being externally managed. Although the result of these actions as illustrated in Attachment A reduced the total for internal management by \$119 million (0.2% of the retirement funds) and increased dedicated external management by the same amount, there is no change in the way these funds are being managed. The classification of cash was changed effective April 1, 2005. Other changes in internal and external management reflect market movement and other less significant management changes.

We hope this report will give you a clearer picture of expenditures and how funds are managed. Please contact me, however, if you have any questions or comments about the report.

Sincerely,


David C. Mills
Executive Director

Attachments

cc: Members, Joint Committee on Finance
Members, Joint Committee on Audit
Robert Lang, Legislative Fiscal Bureau
Janice Mueller, Legislative Audit Bureau

Management of WRS Trust Fund Assets						
	December 31, 2004		March 31, 2005		June 30, 2005	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$20,855	29.8%	\$19,234	27.8%	\$19,392	27.7%
Externally Managed Dedicated Accounts	9,316	13.3	9,601	13.9%	9,775	14.0%
Externally Managed Commingled Accounts	39,835	56.9	40,229	58.3%	40,847	58.3%
1. Passive Index Funds	19,598	28.0	19,629	28.4	19,546	27.9
2. Enhanced Index Commingled Funds	15,660	22.4	15,846	23.0	16,131	23.0
3. Limited Partnerships	2,706	3.9	2,877	4.2	2,886	4.1
4. Actively Managed Commingled Accounts	1,871	2.7	1,877	2.7	2,284	3.3
TOTAL WRS Assets	\$70,006	100.0%	\$69,064	100.0%	\$70,014	100.0%

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending June 30, 2005

Attachment B



Custodial and Banking Fees

Bank of New York	State Investment Fund Custodial Services	\$41,250
Bankers' Bank	Wisconsin CD Program	2,500
Mellon Financial Services	Retirement System Custodial & Cash Management	1,293,020
US Bank	State Banking Services	<u>1,971</u>
Total Custodial and Banking Fees		\$1,338,741

Legal Fees, Services and Expenses

Calhoun Law Group, P.C.	Tax Counsel	\$850
Chapman & Cutler	Private Markets Investment Transactions	2,988
Cox, Castle & Nicholson	Real Estate Investment Transactions	1,318
Foley & Lardner	Private Markets Investment Transactions	2,243
Gonzalez Saggio & Harlan LLP	Real Estate Investment Transactions	(2,000)
Groom Law Group, Chartered	Fidiciary Counsel	17,125
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	158
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	(1,955)
Solheim, Billing & Grimker SC	Private Markets Investment Transactions	782
Stafford Rosenbaum, LLP	Securities Litigation	23,296
Wisconsin Department of Justice	Securities Litigation	<u>812</u>
Total Legal Fees, Services and Expenses		\$45,815

Investment Counsel

American Stock Exchange	American Stock Exchange Data	\$3,230
Analysis Group/Economics	Investment Management Consultant-Equity Exposure Reporting	20,000
BCA Publications	Global & Domestic Fixed Income Strategy Research	9,417
Bloomberg, LP	Market, Company, Industry & Benchmark Information	124,483
Board of Regents UW System	Corporate Governance Research	5,000
Bridge Information Services	Analytical News and Pricing Service	29,019
Call Street, LLC	Credit Analysis	1,251
Courtland Partners	Performance Monitor Reporting	60,000
Credit Sights	Credit Assessments	16,000
Data Broadcasting Corporation	Pricing Service	10,125
Dominion Bond Rating Service	Credit Ratings & Research Reports for Corporate Bond Issuers	962
Dow Jones & Co	Company and Industry News Service	8,505
Ennis, Knupp & Associates	Fiduciary & Governance Consulting	2,500
Factset Data Systems	Financial & Economic Database	74,025
Fitch Info., Inc.	Credit Rating Service	1,241
Gimme Credit	Credit Research	4,500
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	362,500
Heidrick & Struggles, Inc	Executive Director Recruitment	3,377
iMoneyNet, Inc	Money Market Fund Database	7,150
Instinet	Equity Trading Service	600
KMV, LLC	Moody's Credit Information	57,250
KPA Advisory Services	Investment Organization Consulting	4,000
Lombard Street Research	Global Economic Analysis	2,550
London Stock Exchange PLC	License to Use Foreign Security Numbers	242
MacGregor Group, Inc.	Electronic Trading Services	75,270
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axess Corporation	Bond and Yield Pricing	900
McLagan Partners	Compensation Comparison	6,000
Moody's Investor Service	Corporate Bond Credit Quality Screening	15,525
Morgan Stanley Capital International	Developed Markets Security Data	6,249
NASDAQ Stock Market	NASDAQ Stock Exchange Data	725

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending June 30, 2005

New York Stock Exchange	New York Stock Exchange Data	3,579
Options Price Reporting Authority	Quote System for Options Market	1,980
PCS Research Technology	Market Data, Research & Analysis	4,935
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,501
Reuters America Inc.	News, Economic & Company Research & Analytics	40,394
RiskMetrics	Volatility and Correlation Data for Value	6,875
Russell/Mellon Analytical Services	Fundamental and Quantitative Risk & Performance Analysis	10,000
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
SNL Financial	Customized Analysis of Bank Investments	6,497
Standard & Poor's	Industry & Corporate Research	29,633
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	198,750
Telerate	International Financial Data	(890)
Thomson Financial	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	58,490
Toronto Stock Exchange	Market Data/Traders	1,135
Trade Web	On-Line Fixed Income Trading Service	4,800
William F. Pridmore, Ltd.	Securities Lending Consulting	2,138
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	<u>86,499</u>
Total Investment Counsel		\$1,411,111

Real Estate Investment Management Services ⁽¹⁾

Apollo Advisors IV	Real Estate Management Services	\$84,942
Bristol Group, Inc.	Real Estate Management Services	121,053
Capital Trust	Real Estate Management Services	146,759
Comerstone Real Estate Advisors	Real Estate Management Services	112,740
Essex VFGP	Real Estate Management Services	164,993
Fortress Investment Corp	Real Estate Management Services	537,585
Goldman Sachs & Co.	Real Estate Management Services	460,663
Guggenheim Structured Real Estate Fund	Real Estate Management Services	187,500
Heitman Capital Management Corp.	Real Estate Management Services	50,360
Hudson Advisors	Real Estate Management Services	557,708
JP Morgan Investment Management Inc.	Real Estate Management Services	221,170
Kensington Realty Advisors	Real Estate Management Services	98,147
Koll Bren Realty Advisors	Real Estate Management Services	176,779
Landmark Realty Advisors	Real Estate Management Services	40,809
Lazard Freres	Real Estate Management Services	114,771
MMA Realty Capital	Real Estate Management Services	387,000
Morgan Stanley	Real Estate Management Services	302,979
Northwestern Mutual Life	Real Estate Management Services	58,675
Prudential	Real Estate Management Services	36,624
Rockpoint Group LLC	Real Estate Management Services	93,493
Rockspring Property Investment Managers	Real Estate Management Services	56,670
RREEF	Real Estate Management Services	243,151
Security Capital	Real Estate Management Services	815,604
Sentinel Realty Advisors Corp.	Real Estate Management Services	214,513
UBS Realty Investors	Real Estate Management Services	50,908
Westbrook Real Estate	Real Estate Management Services	<u>331,217</u>
Total Real Estate Investment Management Services		\$5,666,813

⁽¹⁾ Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Private Equity Management ⁽²⁾

3I Europe	Private Equity Management	\$204,900
Alchemy Partners	Private Equity Management	116,500
Alta Communications IX LP	Private Equity Management	166,300
Ampersand	Private Equity Management	266,800

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending June 30, 2005

Apollo Investment Fund IV LP	Private Equity Management	59,300
Apollo Investment Fund V LLP	Private Equity Management	5,500
Apollo Invt Fd III LP	Private Equity Management	38,800
Ares Management	Private Equity Management	167,600
Ashmore Asian Opp Fund	Private Equity Management	114,300
Asia Recovery	Private Equity Management	205,700
Baird Capital Partners II	Private Equity Management	7,500
Baird Venture Partners	Private Equity Management	123,800
BC European Capital	Private Equity Management	159,200
Bear Stearns	Private Equity Management	105,200
Boston Millennia	Private Equity Management	125,000
Capital International Global	Private Equity Management	47,100
Capital Res Partners IV LP	Private Equity Management	101,800
Capital Resource Lenders III	Private Equity Management	28,500
Carlyle Asia Ltd.	Private Equity Management	125,000
Carlyle Partners IV, L.P.	Private Equity Management	183,300
Charterhouse	Private Equity Management	340,000
Coller International	Private Equity Management	153,400
Comerstone Equity IV LP	Private Equity Management	71,600
Cypress Advisors, LP	Private Equity Management	108,600
Davis Tuttle Venture Prtns LP	Private Equity Management	31,800
East Europe Frontiers Fd Plc	Private Equity Management	1,400
EI Dorado Ventures	Private Equity Management	387,500
Energy Income Fd	Private Equity Management	52,000
Essex VFGP	Private Equity Management	112,500
Facilitator Fund LP	Private Equity Management	60,200
FFC Partners II, L.P.	Private Equity Management	145,900
First NIS Regional Fd Shs	Private Equity Management	6,400
Fortress Invest Fund II LLC	Private Equity Management	62,500
Frazier	Private Equity Management	294,800
Frontenac	Private Equity Management	292,700
Graphite	Private Equity Management	308,600
GS Special Opptys Asia Fd LP	Private Equity Management	23,600
Harbourvest International	Private Equity Management	1,085,900
Horizon Partners, Ltd	Private Equity Management	8,000
IGP II	Private Equity Management	165,200
Industrial Growth Partners	Private Equity Management	1,300
IT 2000 Invt Enterprise LLP	Private Equity Management	18,100
Joseph, Little, John & Levy, Inc.	Private Equity Management	3,400
Kelso Investment Assoc VI, LP	Private Equity Management	31,800
Kelso Investment Association V, LP	Private Equity Management	19,300
Kelso Investment VII LP	Private Equity Management	101,700
Kohlberg Kravis Roberts & CO	Private Equity Management	274,500
Lake Pacific Partners, LLC	Private Equity Management	297,500
Latin America Ent Fund Manager	Private Equity Management	93,700
Lone Star Fund IV LP	Private Equity Management	109,700
Mason Wells Partners I, LLC	Private Equity Management	188,900
Mayfield XI LP	Private Equity Management	35,800
Pennisula Fund	Private Equity Management	242,700
Pioneer Poland US LP SWIB	Private Equity Management	5,700
Providence V	Private Equity Management	109,400
Prudential	Private Equity Management	6,400
Recovery Equity	Private Equity Management	13,200
Seaport Capital Partners II	Private Equity Management	(3,264,200)

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending June 30, 2005

SKM Equity Fund III, LP	Private Equity Management	96,500
Sprout	Private Equity Management	31,300
Stonington Partners	Private Equity Management	7,000
SUN Capital Partners	Private Equity Management	8,100
SUN Capital Partners LP	Private Equity Management	7,800
TCW Special Placement III SWIB	Private Equity Management	1,200
TD Capital	Private Equity Management	147,400
Thomas H Lee Manager's V, LLC	Private Equity Management	(183,300)
Venture Investors	Private Equity Management	113,600
Windpoint Partners II	Private Equity Management	1,800
Windpoint Partners III LP	Private Equity Management	1,500
Windpoint Partners IV LP	Private Equity Management	173,400
Windpoint Partners V LP	Private Equity Management	134,800
Windward Capital Partners II LP	Private Equity Management	49,700
WLR Recovery Fund L P	Private Equity Management	13,100
Xylem II L P	Private Equity Management	16,900
Total Private Equity Management		\$4,974,400

(2) Expenses for private equity management fees are estimated and adjusted annually based upon committed capital or assets under management, determined by management contract terms. Total committed capital includes management fees. All capital contributions to the limited partnership must first be returned to the limited partners before any incentive fees are paid to the general partner.

Index, Enhanced and Commingled Fund Fees

Barclays Global Investors	Quantitative/Enhanced & Index Fund Management	\$9,676,867
Boston Company, The	Equity Emerging Market Management	579,311
Capital Guardian Trust Co.	Global High Yield Fixed Income Management	329,417
Grantham Mayo Van Otterloo	Equity and Fixed Income Emerging Market Management	805,508
T. Rowe Price International, Inc.	International Emerging Market Management	844,639
UBS Global Asset Management	Multi-Asset Management	472,284
Total Index, Enhanced and Commingled Fund Fees		\$12,708,025

Public Market Active Management Fees

Acadian Asset Management Inc.	International Equity Active Management	\$459,699
Alliance Bernstein	International Equity Active Management	1,131,894
American Century Investment	International Equity Active Management	210,661
Baillie Gifford Overseas, Ltd.	International Equity Active Management	26,908
Brandywine Asset Management	Global Fixed Income Active Management	284,674
Bridgewater Associates	Global Fixed Income Active Management	582,215
Capital Guardian Trust Co.	International Equity Active Management	48,006
Fidelity Management Trust Co.	International Equity Active Management	633,872
Grantham Mayo Van Otterloo	Large Cap Quantitative Management	282,892
Loomis, Sayles & Co., L.P.	High Yield Fixed Income Active Management	420,704
LSV Asset Management	International Equity Active Management	1,177,461
Morgan Grenfell Asset Management	Global Fixed Income Active Management	434,271
Morgan Stanley Asset Management, Ltd.	International Equity Active Management	898,613
Salomon Brothers	Emerging Market Fixed Income Active Management	403,436
Standish Mellon Asset Mgmt LLC	Cash Management Service	76,833
UBS Global Asset Management	Global Fixed Income Management	249,942
Total Public Market Active Management Fees		\$7,322,082

Total Quarterly Charges to Funds

\$33,466,787

STATE OF WISCONSIN INVESTMENT BOARD
Report of Direct Charges to All Funds Under Management – Accrual Basis

Appendix
Direct Charge Explanations

Custodial & Banking Fees

Bank of New York: Provides custody (safekeeping, income collection and pricing of securities) in the State Investment Fund. Charges are based on a flat fee.

Wisconsin Certificate of Deposit Program: Under a contract with SWIB, Bankers' Bank administers the program under which the State Investment Fund purchases certificates of deposit from Wisconsin-based banks and thrifts. Most administrative costs are paid by the participating banks. SWIB's expenses are \$2,500 per quarter to help underwrite other administrative costs such as insurance that SWIB requires to be purchased.

Mellon Financial Services: Provides master custody services (safekeeping of assets, income collection, valuations and accounting) for public and private domestic and foreign securities in the Wisconsin Retirement System (WRS) and smaller funds. In addition, SWIB receives performance measurement and analytical services from Russell/Mellon through its custodial contract with Mellon. Mellon serves as the official book of record for SWIB's accounting and performance measurement functions. Mellon provides the data and analytical tools used by SWIB for compliance and risk management. The fees are calculated and are detailed in the negotiated fee schedule based on the different countries in which SWIB invests, the amount of assets in custody, and the analytical tools which SWIB uses.

US Bank: The State of Wisconsin has contracted with US Bank to be the state's working bank. The fees paid to US Bank by the State Investment Fund (SIF) reflect bank service charges that are not directly applicable to the fund participants. These fees are distributed to the fund participants through the monthly SIF earnings process.

Legal Fees, Services and Expenses

Under authority delegated by the Attorney General, pursuant to s. 25.18 (1) (a) of the Statutes, SWIB may employ legal counsel for any matters arising out of the scope of its investment authority. This includes legal services relating to bankruptcies, class actions, private markets transactions, fiduciary advice, securities law, investment litigation, and other similar matters. Capitalized fees incurred during the asset acquisition process are reported separately as a charge against the value of the asset. The Attorney General annually reviews and approves a list of law firms to provide investment legal services to SWIB and reviews related legal fees.

Investment Counsel

Current law gives SWIB the authority to employ investment counsel in any matters arising out of the scope of its investment authority. Investment research and services provided include global market, industry, economic and company information, financial and performance analytics, news information, pricing and exchange data, credit ratings, financial modeling, economic forecasting, trading services and a variety of Board consultation. These services enable SWIB to perform due diligence on current and future holdings and assist in monitoring investments.

STATE OF WISCONSIN INVESTMENT BOARD
Report of Direct Charges to All Funds Under Management – Accrual Basis

Real Estate Investment Management Services

SWIB hires real estate advisors to assist with sourcing analysis, due diligence and management of real estate investments. SWIB also invests in funds, typically limited partnerships. Each fund either has a general partner or engages a fund manager with delegated authority to make real estate investments for the fund. Real estate advisory fees are usually based on a percentage of assets under management. Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Private Equity Management Fees

SWIB invests in private equity funds, typically limited partnerships that in turn make individual private equity investments. Each fund is managed by its general partner or fund manager with delegated authority. Fees are established as a percentage of the capital committed to each fund or partnership. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Public Market Active Management Fees

Within broad guidelines established by SWIB, these managers have been delegated authority to determine strategy and purchase securities in SWIB's name under a separate and distinct account. This relationship is used primarily in the management of international equity and fixed income investments. Fees are typically assessed as a percentage of the market value of assets under management and may include other factors.

Standish Mellon: Standish Mellon invests the cash from the externally managed portfolios and internally managed international equity portfolios that have yet to be invested in stocks or bonds. Due to settlement times around the globe, these funds cannot be effectively managed in the State Investment Fund. The fees are negotiated as part of the custodial contract.

Indexed, Enhanced and Commingled Fees

SWIB has investments in a number of externally managed funds that seek to replicate the returns of a particular public market index (such as the Russell 3000) or seek to enhance the return from a particular public market index through the use of quantitative models or other strategies. SWIB's investments are commingled with other investors', and the underlying securities are owned in the name of the fund manager. Fees are typically based on a percentage of assets under management and may include other factors, such as performance.

Asset Specific Charges

Asset specific charges include expenses that are directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are netted in gross returns of the asset, consistent with standard industry practices.

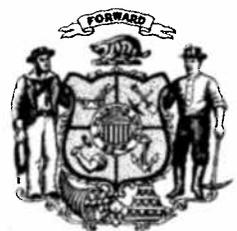
STATE OF WISCONSIN INVESTMENT BOARD
Report of Asset Specific Charges and Capitalized Legal Fees - Accrual Basis
Quarter Ending June 30, 2005

Charge Category	Service Provided	Charges
Legal Fees, Services and Expenses		
Axley Brynelson	Private Placements and General Legal Advice	\$14,435
Chapman & Cutler	Private Markets Investment Transactions	29,312
Jones, Day, Reavis & Pogue	Private Markets Investment Transactions	41,755
Mallon & Johnson P.C.	Securities Litigation	2,636
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	27,000
Quarles & Brady	Litigation & Private Markets Investment Transactions	6,767
Solheim, Billing & Grimker SC	Private Markets Investment Transactions	15,806
Stafford Rosenbaum, LLP	Securities Litigation	1,104
Total Legal Fees, Services and Expenses		\$138,814
Investment Counsel		
Kirk M. Warshaw LLC	Amigo Closing & Escrow Calculations	26,356
Total Investment Counsel		\$26,356
Internal Management		
Ernst & Young LLP	Audit & Accounting	177,500
Terzo & Bologha, Inc.	Appraisal	19,800
Total Internal Management		\$197,300
Total		\$362,471

This table includes expenses that are capitalized at the time of acquisition or directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are reflected in the value of the asset or netted in gross returns of the asset, consistent with standard industry practices.



WISCONSIN STATE LEGISLATURE





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

November 2, 2005

Mr. David Mills, Executive Director
State of Wisconsin Investment Board
121 East Wilson Street
Madison, Wisconsin 53703

Dear Mr. Mills:

Thank you for your letter, dated September 28, 2005, in which you updated the Joint Legislative Audit Committee on the status of the actions taken by the State of Wisconsin Investment Board (SWIB) in response to the various recommendations offered by the Legislative Audit Bureau in report 04-13.

We have reviewed your letter, and the attached table, which indicates the current implementation status of each recommendation. We appreciate your efforts to apprise us of the agency's responsiveness to the audit findings, and we are encouraged by your report. It is our expectation that the Legislative Audit Bureau will also assess SWIB's progress in implementing the recommendations from report 04-10 and report its findings to the Joint Legislative Audit Committee in its next management audit of SWIB.

Thank you for your cooperation.

Sincerely,

Senator Carol A. Roessler, Co-chair
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

cc: Janice Mueller
State Auditor





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

April 26, 2006

Mr. David Mills, Executive Director
State of Wisconsin Investment Board
121 East Wilson Street
Madison, Wisconsin 53702

Dear Mr. Mills:

We have reviewed your statutorily required annual report to the Legislature, which is dated March 31, 2006, on the State of Wisconsin Investment Board's (SWIB's) investment goals, strategies, and performance. This report was helpful in informing our understanding of the underlying philosophy and approaches SWIB employs to make investment decisions. We appreciate the recent changes made to the report's format and we found the more concise presentation to be quite clear.

SWIB's successful performance in 2005 is noteworthy and we were impressed by the performance of the private market investments. We understand that the Legislative Audit Bureau will review the management of the private market investments as part of its biennial management audit, which is currently underway. We look forward to its assessment of the adequacy of SWIB's policies and procedures to guide prudent and appropriate investments in this area of higher risk.

Thank you for your efforts to provide a meaningful and timely report to the Legislature.

Sincerely,

Senator Carol A. Roessler, Co-chair
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

cc: Janice Mueller
State Auditor



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SWIB sidesteps contribution law, audit finds

But agency says it had authority to make additional retirement payments

By **KATHLEEN GALLAGHER**
kgallagher@journalsentinel.com

Posted: Nov. 22, 2004

The State of Wisconsin Investment Board has been making retirement contributions that are higher than one state law allows for up to seven senior managers, according to a Legislative Audit Bureau report released Monday.

For the last three years, the investment board has invoked a provision of another state law that allows agencies to make additional retirement contributions. That enabled the board to get around a state law that allows higher retirement contributions only for 11 investment director positions, the report said.

The additional contributions totaled almost \$122,000 for the three years they've been paid, according to the report.

The investment board has been making additional contributions for as many as six additional portfolio managers and for the agency's human resource director.

The board's executive director, David C. Mills, defended the practice.

"There's no question that our compensation plan allows the board the authority to make additional retirement contributions," he said. "The audit bureau is saying we don't know if this was the intent of the Legislature."

Mills has been the agency's executive director since June. He was named interim director in December, shortly after former executive director Patricia Lipton announced her retirement.

The investment board made the additional retirement contributions because it had as many as 17 people who were performing similar portfolio manager duties, but only 11 positions which qualified for the higher retirement contributions, Mills said.

The agency made additional contributions to the human resources director because that person is a member of the board's senior management team, all of whom receive the higher retirement benefit, he said.

"We certainly recommend they discontinue the practice of paying additional retirement contributions for staff," State Auditor Janice Mueller said. "Their only other option is to pursue statutory change if they believe additional executive positions are warranted."

The investment board, however, will make additional retirement payments for 2004 because the affected employees were told they would receive them, Mills said. The board will bring a proposal regarding the contributions to the Legislature that will be influenced by a survey it is conducting to determine how other state agencies handle such issues, he said.

While the report raised some questions, it wasn't nearly as harsh as the drubbing state auditors handed down three years ago when they criticized the agency's sloppy due diligence in its alternative investment portfolio and for too much intervention by the board's directors in individual investment decisions.

"There have been marked improvements, and that's what you always want to see," said Sen. Carol Roessler (R-Oshkosh), co-chair of the legislative audit committee.

The report on the agency, which manages \$64.6 billion for state employees, public school teachers and most municipal workers in Wisconsin, said it paid \$1.8 million in bonuses for 2003, nearly triple the amount it paid in 1999, when moves by the state Legislature and the governor allowed the investment board to increase bonuses. The higher bonuses moved the board's total compensation to almost 75% of its private-sector peer group in 2003, up from 53% before the bonus rules were changed.

State auditors recommended the agency be vigilant about bonus programs, but noted that the higher compensation may have helped the board recruit and retain experienced staff.

The audit report also raised questions about whether the investment board should review its practices regarding "performance recognition payments," which are made throughout the year at the executive director's discretion to support staff to reward work on specific projects.

State auditors said they found that 14 of the 21 employees who received these awards in 2002 also received bonuses, and in one case an award and a bonus were given for the same activity.

Mills, who has not given any performance recognition payments since he took the helm, said the investment board is going to "take great pains to make sure we are never recognizing the same performance twice."

From the Nov. 23, 2004, editions of the Milwaukee Journal Sentinel
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Investment Board fares well in audit

Judy Newman Wisconsin State Journal
November 23, 2004

It's hard to complain when the agency charged with managing public employee pension funds brings back double-digit returns.

And the Legislative Audit Bureau aired few gripes about the state Investment Board, in a report released Monday. That's a big change from an audit in 2001 that criticized the board for getting relatively skimpy returns, for some big losses in Korean investments and for a possible conflict of interest by a couple of board trustees.

"It's nothing like it was a few years ago," said Sen. Carol Roessler, R-Oshkosh, co-chair of the Legislature's Joint Audit Committee. "There's been a marked improvement."

In 2003, the state's Fixed Retirement Trust Fund had a 24.2 percent return and the Variable Fund had a 32.7 percent return - some of the best results in the past 20 years for the pension funds, which cover about 500,000 current and former public employees. The board managed \$69.1 billion in assets, as of Dec. 31, 2003.

Its expense for using investment managers hired from outside companies has gotten costly, though, the audit said. External costs hit \$140.2 million in 2003 and represented 89.5 percent of the board's expenses.

The board also spent \$13.2 million last year for paying its staff, an increase of \$5 million, or 61 percent, over 1999 levels. Much of the increase is due to a restructured compensation plan that took effect in 2000; salaries and bonuses are now at a level that's 74.3 percent of the amount paid to the board's private-sector peer group.

"Our recruitment (and) retention are good," Roessler said. "They've been on the upswing and that's very positive as well."

The audit was mildly critical of the use of a second type of bonus to some board staff members and of additional retirement benefits paid to six portfolio managers and the human resource director. They shouldn't have been entitled to those enhancements, the audit said.

The report also took issue with four signing bonuses granted since 2000, totaling more than \$250,000, given to new staff members without the

knowledge or approval of the board's trustees. One director received a \$54,000 signing bonus and left nine months later but was allowed to keep the bonus, the audit said.

Board executive director David Mills said the audit was "very fair, balanced and offers some good constructive recommendations that board and staff will work to implement."

Return to story

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STATE OF WISCONSIN
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STATE OF WISCONSIN
INVESTMENT BOARD

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sandy.drew@swib.state.wi.us



WISCONSIN STATE LEGISLATURE



SWIB

1

quant. II x passive funds

making Δ's to simplify

Retirement contributions

- mgt & II investment
- director pos's
- circumvent

15% limit for ret. funds

only 10.1% net def.

more compreh. descriptive
reports

all ready impl. in 4th quarter
report

go through competitive procurement
do they have resources
to procure

D. Mills -

fair & constructive audit

pg. 2
top of LAB peer groups 2
last to first for 10 peer
systems since 2001 and

1. chosen asset mix
2. level active mgt
3. assets managed internal
vs. external

12:10 CR
left

final recomm. in April

enough flexibility while
maintaining

last sept a dozen strategic
initiatives

bonus program 3
Its coming describing Δ's
changes meritorious

Key features - all comm.

Inv. bnd - more senior
portfolios than stat.

end of Nov. - 2 things w/
agreement of the

1. pay in Dec. '04 - b/c worker
full yr.

2. appraised impacted indiv.
no further ret. contr

then go to legis - pop.
coverage

despite equity issue -
not include HR

SWIB 1/13/05

- Sensitive to performance; staff focused on bench marks, rather than absolute numbers
- Salary/Bonuses - we have great people & heavily sought after
 - ↳ peer groups - our goal to pay median (peer group is from Midwest, not East Coast) we are not at median
 - ↳ key to grow analysts - if we can get them hooked on Madison, we have a good record of keeping top talent
- * Jan - Ex-officio member of SWIB's audit committee (& State Controller)
- Board committed to Best Practices - and that it starts at the top
 - ↳ more ^{business} open sessions
 - ↳ 9 Board Members - some appointed, 2 elected by members (the Retirement Board & School Board), 1 local unit of govt rep, other 5 appointed by Gov. - staggered terms
 - ↳ Board members leave political affiliations at the door.
- SWIB - ETF's investment manager
- \$520M more in 2004 than market performance
- Board approved a 4% increase for certain employees - based on performance - 2.8% for investment ~~staff~~ ^{support} staff (had not received same increases other state employ received in last few years)
- * • Would like an opportunity

SWIB

- contact Budler/Richfield city clerks - any questions?

12/11
OIC - good
MA - good

Audit - SWIB

- Kathleen Gallagher - MSS reporter

- Compensation

↳ 75% or less than peers

- Recommend

↳ bonuses should only be based on ~~overall~~ performance

→ hiring alot of consultants - alot of money \$140M in 2003 - 90% of costs

↳ varies widely among public pension funds

↳ not critical about use of outside advisors, for the most part LAB feels o.k. w/ SWIB's use of contractors

? Bill? 2%? changed percent?

?? SWIB may ask for statutory changes

- past audits, LAB very critical of SWIB - not so this time

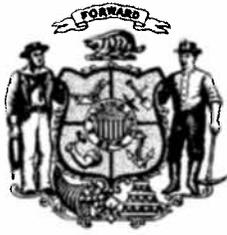
- compliance issue

→ top executives have hire retirement factor

↳ now going to lower ranks w/ stat. authority

Hearing
early
next
year

**
page
60

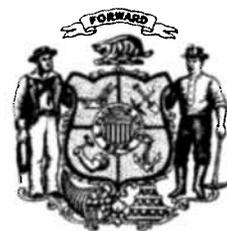


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For further assistance, please contact the reference desk at (608) 266-0341 or email lrb.reference@legis.wisconsin.gov.

State of Wisconsin - Legislative Reference Bureau
1 East Main Street, Suite 200
Madison, WI 53703



**Report 04-13
November 2004**

An Evaluation

State of Wisconsin Investment Board

2003-2004 Joint Legislative Audit Committee Members

Senate Members:

Carol A. Roessler, Co-chairperson
Robert Cowles
Alberta Darling
Jeffrey Plale
Julie Lassa

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
Samantha Kerkman
Dean Kaufert
David Cullen
Mark Pocan

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to leg.audit.info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab.

State Auditor - Janice Mueller

Audit Prepared by

Diann Allsen, Director and Contact Person
Sherry Haakenson
Xia Cha
Bethany Winker

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Appendices

Appendix 1—Investment Board Organization Chart

Appendix 2—Performance of Fixed and Variable Retirement
Trust Funds' Asset Classes

Appendix 3—Bonus Award Process for Investment Staff

Response

From the Executive Director of the State of Wisconsin Investment Board



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

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MADISON, WISCONSIN 53703
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November 22, 2004

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed an evaluation of the State of Wisconsin Investment Board, as directed by s. 25.17(51m), Wis. Stats. As of December 31, 2003, the Investment Board managed a total of \$69.1 billion in investments that included assets of the Wisconsin Retirement System, the State Investment Fund, and five smaller insurance and trust funds.

Despite negative returns from 2000 through 2002, the Investment Board continues to exceed its long-term actuarial investment expectations for the Fixed Retirement Trust Fund. In 2003, both retirement funds—the Fixed Retirement Trust and the Variable Retirement Trust—outperformed their benchmarks, and the Fixed Retirement Trust Fund's 2003 performance ranked highly among ten pension funds surveyed for one- and five-year periods.

The Investment Board's costs to manage investments have increased from \$87.4 million in 1999 to \$156.7 million in 2003, or by 79.3 percent. Most of the increase is related to increased costs paid to external investment managers and advisors. In addition, a new compensation plan has increased salaries and bonuses for the Board's 100.5 unclassified staff. We include a recommendation for the Investment Board to regularly evaluate the added value provided by external investment managers relative to their costs and in comparison to other investment options.

Currently, the Investment Board's budget for internal operating costs and the percentage of investments that may be externally managed are limited by statute. Under these limits, investment management decisions are not necessarily driven by the most cost-effective options available. In light of increasing costs and increasing use of external managers and advisors, changes to these limits may be warranted to further promote the most effective use of resources and to increase accountability over the Investment Board's costs.

We appreciate the courtesy and cooperation extended to us by the Investment Board. A response from the Board's Executive Director follows the appendices.

Respectfully submitted,

Janice Mueller
State Auditor

JM/DA/ss