

STATE OF WISCONSIN

SENATE CHAIR
Howard Marklein

316 East, State Capitol
P.O. Box 7882
Madison, WI 53707-7882
Phone: (608) 266-0703



ASSEMBLY CHAIR
Mark Born

308 East, State Capitol
P.O. Box 8952
Madison, WI 53708-8953
Phone: (608) 266-2540

JOINT COMMITTEE ON FINANCE

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Howard Marklein
Representative Mark Born

Date: November 10, 2023

Re: SWIB Report to JFC

Attached is a report on all expenses charged to the trust funds under management and the number of full-time equivalent positions created or abolished during the quarter from the State of Wisconsin Investment Board, pursuant to s. 25.17(13m), Stats.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

HM:MB;jm



STATE OF WISCONSIN
INVESTMENT BOARD

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St. Finance

November 10, 2023

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

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

Senator Eric Wimberger, Co-Chair
Joint Legislative Audit Committee
P.O. Box 7882
Madison, WI 53707

Representative Robert Wittke, Co-Chair
Joint Legislative Audit Committee
P.O. Box 8953
Madison, WI 53708

Secretary Kathy Blumenfeld
Department of Administration
101 East Wilson Street
P.O. Box 7864
Madison, WI 53707

Dear Senator Marklein, Senator Wimberger, Representative Born, Representative Wittke and Secretary Blumenfeld:

State statutes require the State of Wisconsin Investment Board (SWIB) to report all expenses charged to the trust funds under management and the number of full-time equivalent positions created or abolished during the quarter¹. The information contained in this report is for the quarter ended September 30, 2023.

Total Cost of Management Summary	4Q 2022	1Q 2023	2Q 2023	3Q 2023	Trailing 4 Qtr Total	% of Total
Internal Operating Expenses						
Operating Budget Expenses	\$ 16,013,990	\$ 14,718,435	\$ 19,303,861	\$ 29,927,680	\$ 79,963,966	61.9%
Custodial, Investment Operations & Banking	1,961,451	2,057,242	1,723,893	2,137,630	7,880,216	6.1%
Legal	371,714	561,635	558,921	489,077	1,981,347	1.5%
Investment Research & Consulting	7,570,768	8,387,483	8,535,712	10,199,330	34,693,293	26.9%
Total Internal Operating Expenses	\$ 25,917,923	\$ 25,724,795	\$ 30,122,387	\$ 42,753,717	\$ 124,518,822	96.4%
Securities Lending Agent Expenses	\$ 1,125,732	\$ 1,455,665	\$ 1,064,140	\$ 971,498	\$ 4,617,035	3.6%
Total SWIB Operating Costs	\$ 27,043,655	\$ 27,180,460	\$ 31,186,527	\$ 43,725,215	\$ 129,135,857	100.0%
External Investment Management Fees						
Externally Managed Separate Account Fees						
Beta One & Other - Separately Managed	\$ 12,231,686	\$ 10,289,679	\$ 15,796,013	\$ 4,854,855	\$ 43,172,233	5.9%
Supplemental Information - External Fund Fees						
Real Estate	\$ 20,890,279	\$ 19,702,319	\$ 21,394,315	\$ 21,806,743	\$ 83,793,656	11.4%
Private Equity & Venture Capital	72,422,893	55,955,436	64,812,083	58,359,821	251,550,233	34.2%
Hedge Funds	61,423,994	52,940,887	56,693,136	93,214,422	264,272,439	36.0%
Beta One & Other - External Funds	15,891,147	55,999,027	3,082,375	16,839,386	91,811,935	12.5%
Total External Investment Management Fees	\$ 182,859,999	\$ 194,887,348	\$ 161,777,922	\$ 195,075,227	\$ 734,600,495	100.0%
Total Cost of Management	\$ 209,903,654	\$ 222,067,808	\$ 192,964,449	\$ 238,800,442	\$ 863,736,352	

¹Wisconsin Statutes Section 25.17 (13m): Investment-related costs and expenses charged to the WRS Trust Funds, State Investment Fund, State Life Insurance Fund, Historical Society Endowment Fund, Injured Patients and Families Compensation Fund and UW Trust Fund. Investment transaction expenses, such as trading commissions and interest expense, are included in investment returns, and therefore not included in this report.

SWIB operating costs are charged to the trust funds under management. Externally managed fund fees for commingled assets are netted against investment returns generated by SWIB's external fund holdings. It is important to consider costs in the context of value-added investment returns. For example, during the five years ended December 31, 2022, after consideration of all expenses, costs, and fees, SWIB generated more than \$2.7 billion in additional profits beyond what would have been generated by the benchmark portfolio SWIB is measured against. These profits all go directly into the Wisconsin Retirement System for the benefit of its beneficiaries.


Attachment A provides a breakdown of the amount and percentage of assets managed under each type of dedicated and commingled account or partnership, and the change in the amount and percentage from the prior calendar quarter. As of September 30, 2023, SWIB's total authorized full-time equivalent positions are 290 as shown in the table below.

Assets Under Management & Positions		
	06/30/2023	09/30/2023
Internal Management	46.7%	45.5%
External Management	53.5%	54.5%
Total SWIB Positions	290	290

In addition, Attachment B provides details of the services provided to SWIB and their associated quarterly costs. For definitions of the expense categories presented in the Total Cost of Management Summary table, please refer to Attachment C.

As new investment strategies are implemented and markets continue to evolve, SWIB will continue evaluating the most efficient means to manage the trust fund assets. Please contact us if you have any questions or comments about this report.

Sincerely,



Edwin Denson
Executive Director/Chief Investment Officer

Attachments

cc: Members, Joint Committee on Finance
Members, Joint Committee on Audit
Robert Lang, Legislative Fiscal Bureau
Joe Chrisman, Legislative Audit Bureau

Total Assets Under Management

Wisconsin Retirement System (WRS)	12/31/2022		3/31/2023		6/30/2023		9/30/2023	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed Assets	\$46,587	37.9%	\$49,730	39.2%	\$50,868	39.5%	\$46,836	37.6%
Externally Managed Dedicated Assets	29,344	23.9%	29,282	23.1%	29,758	23.1%	29,716	23.9%
Externally Managed Commingled Assets	46,979	38.2%	47,809	37.7%	48,259	37.4%	47,996	38.5%
1. Passive Index	1,488	1.2%	1,168	0.9%	1,011	0.8%	916	0.7%
2. Limited Partnerships	31,719	25.8%	32,060	25.3%	32,894	25.5%	33,681	27.0%
3. Active Managed Commingled	13,772	11.2%	14,581	11.5%	14,354	11.1%	13,399	10.8%
TOTAL WRS Assets	\$122,910	100.0%	\$126,821	100.0%	\$128,885	100.0%	\$124,548	100.0%

State Investment Fund - Internally Managed	\$17,742		\$19,285		\$19,718		\$19,995	
Separately Managed Funds - Internally Managed	\$95		\$98		\$96		\$89	
Separately Managed Funds - Externally Managed	\$2,523		\$2,582		\$2,603		\$2,538	

Total SWIB Assets Under Management	\$143,269		\$148,786		\$151,302		\$147,170	
Total Internal Management	\$64,423	45.0%	\$69,113	46.5%	\$70,682	46.7%	\$66,919	45.5%
Total External Management	\$78,846	55.0%	\$79,673	53.5%	\$80,620	53.3%	\$80,251	54.5%

STATE OF WISCONSIN INVESTMENT BOARD
Expenses for All Funds Under Management
Quarter Ending September 30, 2023

EXPENSE CATEGORY	SERVICE PROVIDED	EXPENSES
<u>Internal Expenses</u>		
Staff Compensation	Staff Compensation	\$ 23,285,450
Fringe Benefits	Fringe Benefits	4,412,320
Supplies, Travel & Facilities	General Supplies & Services	2,229,910
Total Internal Expenses *		\$ 29,927,680
<u>Custodial, Investment Operations and Banking Fees</u>		
BNY Mellon Asset Servicing - Custody	Master Custody Services	\$ 510,135
BNY Mellon Asset Servicing - Investment Operations	Investment Operating Services	1,454,667
Markit NA	Investment Data Management Software	172,828
Total Custodial, Investment Operations and Banking Fees		\$ 2,137,630
<u>Legal Fees</u>		
Arentfox Schiff LLP	Legal Work for Investment Strategies	\$ 15,580
Axley Brynson, LLP	Legal Work for Investment Strategies	2,720
Chapman & Cutler LLP	Legal Work for Investment Strategies	59,440
Cox Castle & Nicholson LLP	Legal Work for Investment Strategies	1,937
DLA Piper LLP (US)	Legal Work for Investment Strategies	80,543
Godfrey & Kahn SC	Legal Work for Investment Strategies	13,135
Husch Blackwell	Legal Work for Investment Strategies	7,853
King & Spalding LLP	Legal Work for Investment Strategies	4,964
Lander & Rogers	Legal Work for Investment Strategies	1,320
Legal Services Expense Accrual	Legal Work for Investment Strategies	53,689
Purington Moody Weill LLP	Legal Work for Investment Strategies	99,615
Quarles & Brady	Legal Work for Investment Strategies	111,800
Reinhart Boerner Van Deuren SC	Legal Work for Investment Strategies	342
Rimon, P.C.	Legal Work for Investment Strategies	1,140
Shearman & Sterling LLP	Legal Work for Investment Strategies	35,000
Total Legal Fees		\$ 489,077
<u>Investment Counsel</u>		
12358433 Canada Inc.	Investment Consulting Services	\$ 147,713
20-20 Investment Association	Investment Membership	15,000
3x108 Fintech Consulting Limited	Investment Consulting Services	191,362
AE Business Solutions	Investment Consulting Services	22,900
Aksia LLC	Hedge Fund Investment Consulting	267,466
Alex Solutions	Research and Data Services	40,750
Algomi Corporation	Investment Consulting Services	2,251
Apex Systems	Investment Consulting Services	66,612
Aquafold	Investment Research Software	898
Arthur Selender	Investment Consulting Services	22,000
Backstop Solutions Group	Investment Software	98,875
Barclays	US Constituent Data	15,000
Barrons	Investment Research	122
BCA Research Inc	Global & Domestic Fixed Income Strategy Research	27,875
BITA Risk Limited	Risk Oversight Services	51,360
Bixby Research and Analytics LLC	Research and Data Services	33,333
Blacklight Technology Partners, LLC	Research and Data Services	28,500
Blackrock Financial Management Inc	Risk Services	80,000
Bloomberg Finance LP	Market, Company, Industry & Benchmark Information	1,351,367
BNY Mellon Asset Servicing - Eagle/Pace	Investment Consulting Services	26,900
Bridge Consulting Partners Ltd	Investment Consulting Services	273,240
Callan Associates Inc	Investment Consulting & Performance Benchmarking	6,250
Canoe Software Inc.	Investment Software	24,400
Capital Economics LTD	Market Research	5,125
CappThesis, LLC	Research and Data Services	2,500
Carahsoft Technology Corp	Investment Consulting Services	75,481
CBJL Incorporated	Investment Consulting Services	235,545
CBOE Global Markets, Inc.	Research and Data Services	1,620
CCG Data Solutions	Investment Consulting Services and Software	37,800
CFRA Research	Investment Research Services	23,793
Charles River System Inc	Portfolio Management Trading Software & Services	446,259
Consensus Economics Inc	Investment Research Services	36,000

EXPENSE CATEGORY	SERVICE PROVIDED	EXPENSES
CoStar Portfolio Strategy	Real Estate Consulting & Research Services	23,613
CUSIP Global Services	Research and Data Services	16,250
Cutter Associates	Investment Organization and Systems Consulting	2,498
Dacheng Xiu	Investment Research	58,325
DiatomC LLC	Investment Consulting Services	88,040
Dow Jones News Service	Company and Industry News Services	409
DTCC – EPN	Trade Settlement Service	3,600
DTCC ITP LLC	Trade Settlement Service	2,341
Echios LLC	Consulting	19,034
EFront Financial Solutions Inc	Private Markets Portfolio Management Services	205,454
Elevation LLC	Research and Data Services	17,500
Ernst & Young LLP	Tax Compliance Services & Investment Consulting	56,143
eVestment Alliance LLC	Research and Data Services	76,457
FactSet Research Systems Inc	Financial & Economic Database	1,031,965
FIS Data Systems Inc.	Research and Data Services	22,442
Fitch Solutions Inc	Credit Rating Services	18,750
Funston Advisory Services LLC	Consulting Services	14,500
Gallagher	Insurance and Risk Management Services	15,875
Global Peer Financing Association	Investment Consulting	1,000
Goodbody	Investment Research	4,000
Green Street Advisor	Real Estate Analytics	29,263
Haver Analytics	Global Macroeconomic Research	29,688
Healthy Markets Association	Research & Data Service	20,000
Ice Data LP	Fixed Income Indices	63,200
iFathom Corporation	Investment Consulting	149,480
IHS Markit KY3P LLC	Risk Management Services	22,340
In Focus Information LLC	Private Placement Investment Research	1,500
InsiderScore LLC	Investment Research & Analytics	21,000
Institutional Investor	Investment Data and Research Services	19,500
Institutional Shareholder Services Inc	Proxy Voting Analysis	41,914
Intelligent Automation Consulting	Automation Consulting Services	6,000
Investment Research Expense Accrual	Investment Research	448,150
IPC Systems Inc	Trading Telecommunication System	10,920
JPSB Consulting Limited	Investment Consulting	123,780
Keystone Consulting Inc	Investment Information Technology Consulting Services	85,186
Knowledge Services	Recruitment and Staffing Services	54,400
Kreischer Miller LLP	Investment Consulting	10,500
Li Deng	Investment Consulting	5,000
Manalo Advisors Limited	Research and Data Services	3,750
Markit Group Limited	Investment Consulting Services	126,453
Markit-EDM Limited	Investment Consulting Services	194,508
McLagan Partners Inc	Investment Compensation Data and Analysis	25,000
Meketa Investment Group	Public Markets External Manager Consultant	69,228
MNI Market News	Research and Data Services	2,920
Moodys Analytics	Economic, Currency & Bond Analysis	85,334
MSCI - Barra	Research and Data Services	20,625
MSCI Inc - Risk Metrics Solutions	Research and Data Services	271,398
MSCI, Inc	Research and Data Services	113,798
MT Analytics ULC	Investment Consulting	127,920
My Data Outlet International, LLC	Research and Data Services	33,000
NEPC LLC	Investment Consulting Services	80,000
Newsfile	Investment Research	1,045
Nuware Technology Corp	Investment Information Technology Consulting Services	69,280
NYSE Market Inc	New York Stock Exchange Data	6,178
Oliver James	Investment Consulting Services	242,310
Options Price Reporting Authority	Quote System for Options Market	2,331
Oxford Economics USA INC	Research and Data Services	34,963
Pac-invest	Research and Data Services	13,716
PEI Media Inc	Private Equity Real Estate News	11,875
Pitchbook Data Inc	Research and Data Services	20,000
PremiaLab	Investment Research	13,750
Preyer	Investment Consulting Services	270,060
Quantum Research Consulting LLC	Investment Consulting Services	52,920
Refinitiv	Research and Data Services	242,681
RIMES Technologies Corporation	Research and Data Services	46,250
Russell Investment Group	Index Data	8,932
S&P Dow Jones Indices	Research and Data Services	56,309
S&P Global Market Intelligence	Industry & Corporate Research	160,220
Seaport Global Securities LLC	Research and Data Services	2,580

EXPENSE CATEGORY	SERVICE PROVIDED	EXPENSES
SEI Investments	Research and Data Services	22,736
Sharp Decisions Inc	Investment Information Technology Consulting Services	74,824
SimCorp Data & Performance Capitalized Expenses	Investment System	(250,295)
SimCorp Implementation Capitalized Expenses	Investment System	(2,666,288)
Simcorp USA, Inc.	Investment System	3,170,582
Simmons & Simmons	Global Regulatory Services	6,874
Snowflake Inc	Research and Data Services	50,000
Solve Advisors Inc	Investment Research	10,000
Spherion	Recruitment and Staffing Services	11,786
Statista	Investment Research	177
StepStone Group	Private Equity Consulting Services	223,483
StepStone Group Real Estate	Real Estate Consulting Services	60,777
SWIFT SC	Research and Data Services	544
SystemsAccountants	Investment Information Technology Consulting Services	80,640
Taranis, Inc.	Investment Information Technology Consulting Services	60,060
Telsey Advisory Group	Consumer Sector Research	18,750
The Financial Times Limited	Investment Research	425
The Nasdaq Stock Market, LLC	Research & Data Services	6,300
Toronto Stock Exchange	Market Data	19,536
Totem Macro LLC	Research and Data Services	45,000
TradeWeb	On-Line Fixed Income Trading Services	10,826
Unit4 Business Software Inc	Financial & Administration Services System	77,019
Urban Land Institute	Investment Consulting Services	1,200
Verity LLC	Research Management System	54,433
Verus Advisory Inc	Benchmarking Consulting Services	2,500
Virtu ITG Analytics LLC	Trading Transaction Cost Analysis	20,500
Visible Alpha LLC	Research and Data Services	19,950
WIPFLi LLP	Income Tax Preparation Services	1,150
Wolverine Execution Services LLC	Options Trading Platform	1,395
WorldBridge Partners Inc	Recruitment Consulting	176,800
Total Investment Counsel		\$ 10,199,330
<u>Separate Account Public Market Management Fees</u>		
Alliance Bernstein	Public Market Management Fees	\$ (1,795,982)
Blackrock	Public Market Management Fees	1,275,775
Dodge and Cox	Public Market Management Fees	730,482
Driehaus Private Equity	Public Market Management Fees	293,016
eSecLending	Public Market Management Fees	4,044
Fidelity Investments	Public Market Management Fees	1,334,827
Parametric	Public Market Management Fees	587,752
Prudential Global Investment Management (PGIM)	Public Market Management Fees	142,139
Robeco	Public Market Management Fees	12,453
Wellington Trust Company	Public Market Management Fees	2,270,350
Total Separate Account Public Market Management Fees		\$ 4,854,855
<u>Securities Lending Agent Fees</u>		
BNY Mellon Asset Servicing	Securities Lending Agent Fees	\$ 971,498
Total Securities Lending Agent Fees		\$ 971,498
Total Quarterly Charges to Funds		\$ 48,580,070

*All costs reported are on an accrual basis except for internal operating costs which are on a cash basis of accounting. Negative expense amounts are due to accrual adjustments and/or other miscellaneous adjustments.

Explanation of Expenses

Internal Operating Expenses

Internal operating expenses consist primarily of staff compensation and fringe benefits. SWIB employs a staff of professional investment and support staff to manage trust fund assets. Other internal operating expenses consist of office equipment, supplies, business travel, information technology equipment and services, and general services.

Custodial & Banking Fees

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

BNY Mellon: Provides master custodial and administrative services (safekeeping of assets, income collection, valuations and accounting) for public and private domestic and foreign securities in the Wisconsin Retirement System (WRS), the SIF, and the other separately managed trust funds. In addition, SWIB receives performance measurement and analytical services through its contract with BNY Mellon, which serves as the official book of record for SWIB's accounting and performance measurement functions. BNY Mellon provides data and analytical tools used by SWIB for compliance and risk management. These include global collateral management, data management, and hosting services. Fees for these services are established by contract.

US Bank: The State of Wisconsin contracted with US Bank to be the state's working bank. The fees paid to US Bank by the SIF reflect bank service charges that are not directly applicable to the fund participants.

Legal Fees, Services, and Expenses

Under authority delegated by the Attorney General, pursuant to s. 25.18 (1) (a) 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.

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 consultations. These services enable SWIB to perform due diligence on current and future holdings and assist in monitoring investments.

Securities Lending Agent Fees

Securities lending programs generally earn income through the reinvestment of cash collateral posted by borrowers and through the collection of fees for loans where non-cash collateral is posted. SWIB's securities lending income is shared with the agent to pay the costs associated with the administration of the program. Securities lending agent fees are reported as expenses.

Externally Managed Separate Account Fees

External asset managers have been delegated authority within guidelines established by SWIB to determine investment strategy and purchase securities in SWIB's name within a SWIB account. Fees are typically assessed as a percentage of the market value of assets under management and in some cases, fees are based on investment performance.

External Funds Fees

SWIB invests in separate legal entities managed by external investment managers to gain exposure to select strategies including Public Markets, Private Equity, Venture Capital, Real Estate and Hedge Funds. In exchange for their investment management services, the external managers charge a fee within the entity they manage. Fees are typically assessed as a percentage of the market value of assets under management, commitments, and in some cases are based on investment performance. While the fees charged to these external vehicles do not meet the statutory definition of a cost or expense to SWIB, they are currently included in SWIB's total cost of management. Accordingly, these fees are reported as supplemental information. Beginning in 2023, External Funds Fees for private markets are reported on a net fee basis rather than gross. Net fees reflect fee offsets, waivers, and deferrals.