



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

December 7, 2011

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Investment Board: Annual Budget, Position, and Performance Report to the Joint Committee on Finance -- Agenda Item III

Under 2011 Wisconsin Act 32, the Executive Director of the State of Wisconsin Investment Board (SWIB), or his or her designee, is required to appear at the first quarterly meeting of the Joint Committee on Finance under s. 13.10 of the statutes in each fiscal year to provide an update of SWIB's budget changes, position authorization changes, assessment of the funds under management, and performance of the funds under management for the current and next fiscal year. The Committee deferred the first SWIB report under this provision to the December, 2011, s. 13.10 meeting. On November 17, 2011, in preparation for the SWIB presentation at the December, 2011, meeting, the Executive Director provided materials to the Committee related to Board operations (attached).

The reason for the required report relates to other Act 32 provisions that modified SWIB's authority with respect to the Board's budget and position levels.

Under prior law (s. 25.187(2)(c) of the statutes), the agency's budget for a fiscal year could not exceed the greater of the amount that the Board could have assessed the trust funds in the second year of the prior fiscal biennium or 0.0325% of the average market value of the assets of the funds at the end of each month between November 30 and April 30 of the preceding fiscal year. The average month-end market value of assets under management for the period November 30, 2009, through April 30, 2010, was \$78,835 million. Because 0.0325% of this amount (approximately \$25.6 million) was lower than the amount that the Board could have assessed the trust funds in the second year of the prior fiscal biennium (\$30,022,600), the budget authority for the 2010-11 base year was established at \$30,022,600.

Under these prior-law provisions, the actual budget levels for the 2011-12 fiscal year would have been determined by the greater of the amount that the Board could have assessed the trust funds in 2010-11 (\$30,022,600) or 0.0325% of the average month-end market value of assets

under management for the period November 30, 2010 through April 30, 2011. The actual budget levels for the 2012-13 fiscal year would have been determined by the greater of the amount that the Board could have assessed the funds in 2010-11 (\$30,022,600) or 0.0325% of the average month-end market value of assets under management for the period November 30, 2011, through April 30, 2012.

Under Act 32, the Investment Board is authorized to establish SWIB's operating budget each year and monitor the fiscal management of the budget. The prior-law provision that established SWIB's operating budget (s. 25.187(2)(c) of the statutes) was repealed. Further, SWIB's Executive Director is now authorized to create or abolish staff positions. In addition to the required annual report now before the Committee, Act 32 also requires that SWIB provide quarterly reports to the Department of Administration, the Co-Chairpersons of the Joint Committee on Finance and the Co-Chairpersons of the Joint Committee on Audit, identifying all operating expenditures and the number of full-time equivalent positions created or abolished during that quarter.

The intent of the Act 32 quarterly reporting requirement is assure that the executive branch and the Legislature is kept apprised of the status of SWIB's determinations of budget and position authority, given the Investment Board's authority to make these determinations under the Act 32 provisions. The annual appearance of SWIB officials before the Committee also serves this function and, in addition, provides Committee members with the opportunity to ask questions or request additional information from SWIB.

Prepared by: Art Zimmerman  
Attachment



November 17, 2011

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

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

Dear Senator Darling and Representative Vos:

2011 Wisconsin Act 32<sup>1</sup> requires SWIB's Executive Director to appear before the Joint Committee on Finance each year at a quarterly meeting under s.13.10 to provide an update on SWIB's operating budget changes, position authorization changes, assessment of the funds under management, and performance of the funds under management.

This reporting requirement was imposed together with other provisions of Act 32 that give SWIB's Board of Trustees additional flexibility to establish SWIB's operating budget and to approve staff positions.

I have attached copies of slides that I will discuss at the December 2011 s.13.10 meeting. I am submitting them so they can be distributed with other committee materials for this meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Bozarth", is written over a circular stamp or watermark.

Keith Bozarth  
Executive Director

Attachments

cc: Bob Lang, Legislative Fiscal Bureau  
Scott Thornton, DOA Division of Executive Budget and Finance  
Joe Malkasian, Committee Clerk, Joint Committee on Finance

<sup>1</sup>Wisconsin Statutes Section 25.17 (13r)





# State of Wisconsin Investment Board

Annual Update on Investment Operations  
Joint Committee on Finance

December 2011



# Budget & Staffing

	7/1/2008 FY09	7/1/2009 FY10	7/1/2010 FY11	7/1/2011 FY12	10/31/11
Internal Asset Management	28.3%	44.2%	48.3%	55.4%	55.0%
External Asset Management	71.7%	55.8%	51.7%	44.6%	45.0%
SWIB Internal Staffing - FTE	124.25	124.25	125.25	125.25	136.60
Temporary Staff	<u>4.40</u>	<u>3.65</u>	<u>3.25</u>	<u>4.85</u>	<u>0.00</u>
Total	128.65	127.90	128.50	130.10	136.60
Budget/Internal Operating Expenses Assessed to Funds	\$27.7 M	\$26.8 M	\$29.4 M	\$30.0 M	\$30.0 M

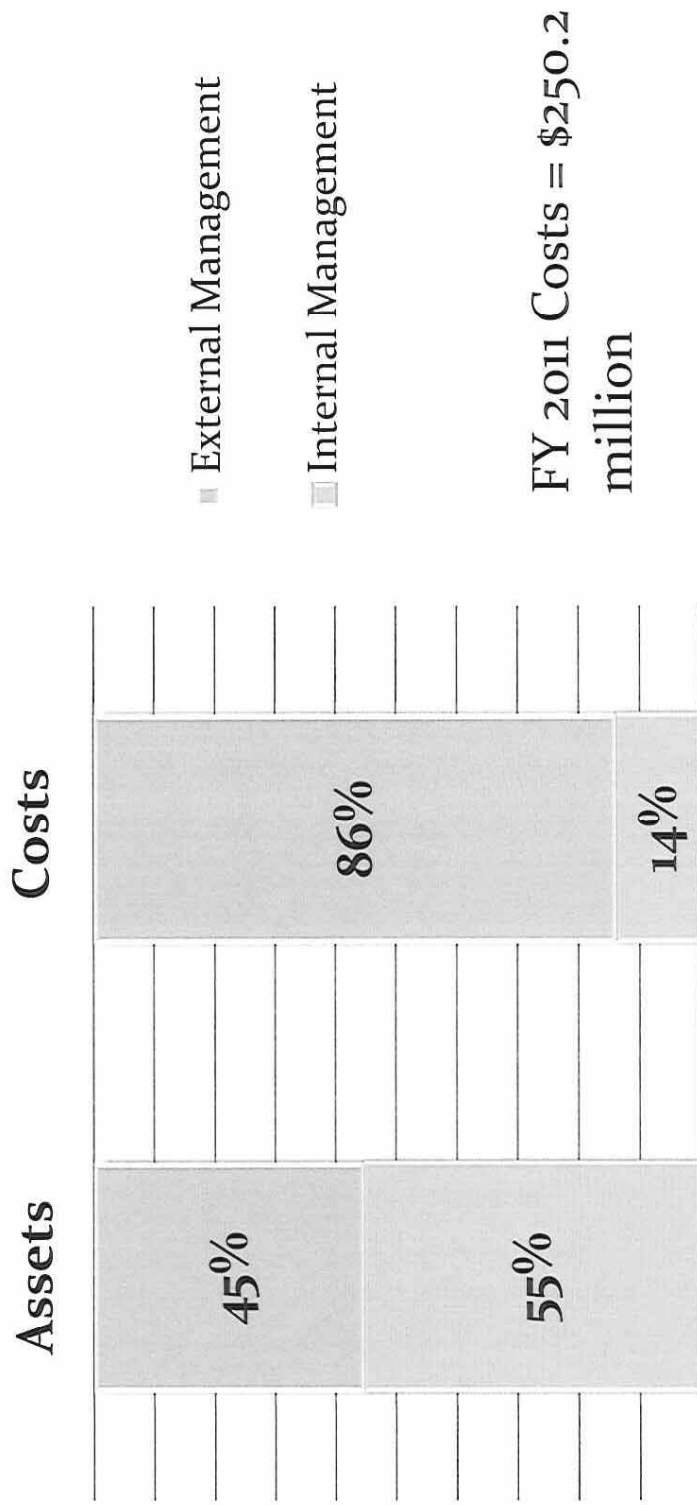
# Core Fund Investment Performance\*

	Calendar YTD Thru 10/31/11	One Year Thru 10/31/11	Three Years Thru 10/31/11	Five Years Thru 10/31/11	Ten Years Thru 10/31/11
Core Trust Fund	2.8%	5.9%	12.3%	3.2%	6.7%
Core Trust Fund Benchmark	2.3%	5.3%	11.3%	3.2%	6.4%
Russell 3000	0.5%	7.9%	12.3%	0.5%	4.4%
Barclay's Capital Gov't/Credit	7.6%	5.3%	9.4%	6.4%	5.5%

\* Preliminary

# Internal and External Assets & Costs

## Fiscal Year 2011

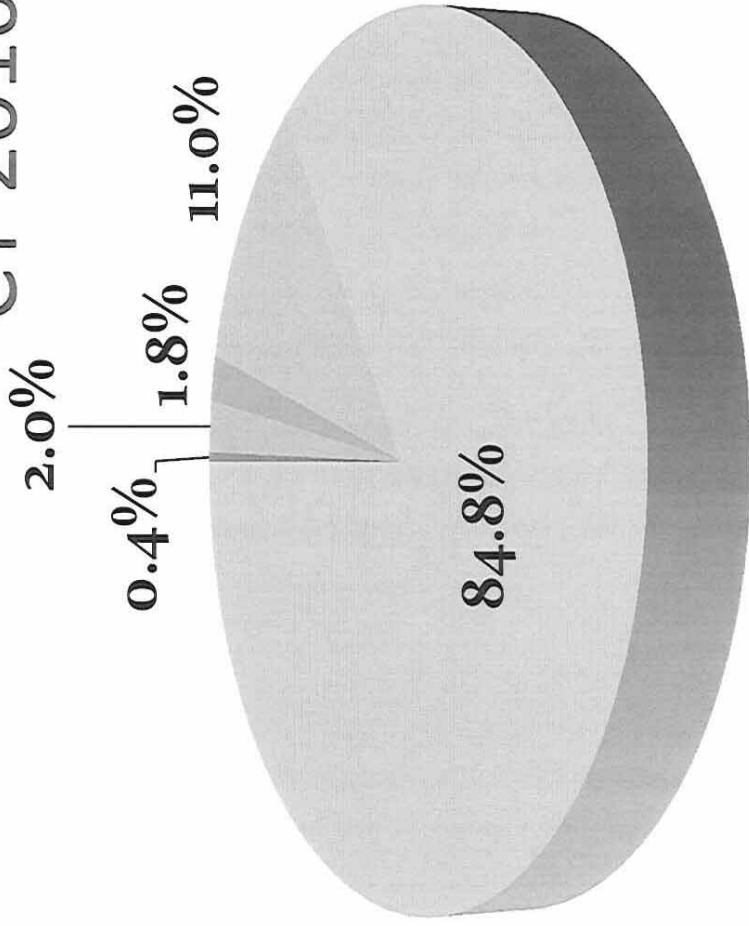


The cost to externally manage 45% of assets under management represents 86% of SWIB's total costs. Internal management is less expensive.



# All Funds - Total Cost of Management

CY 2010

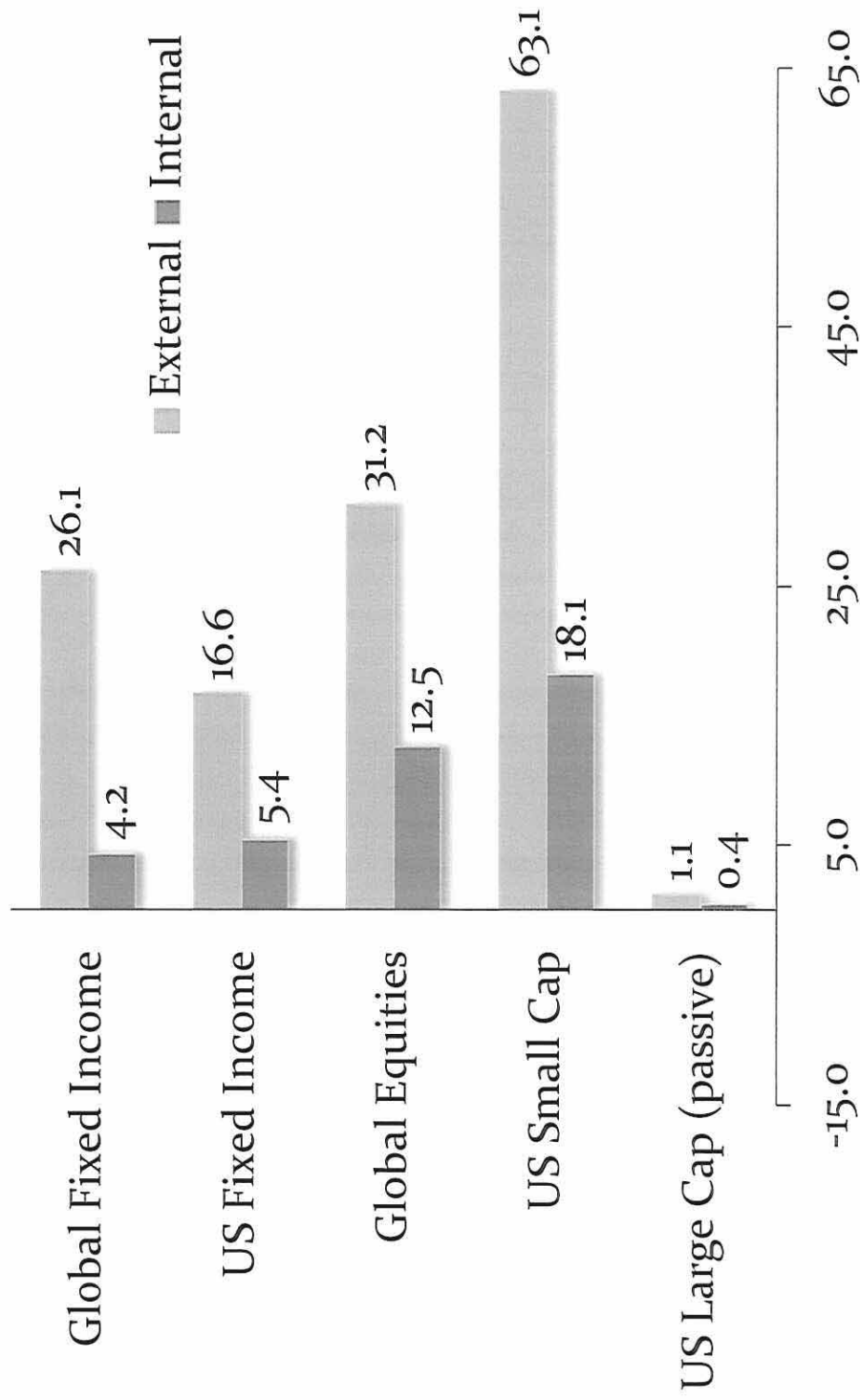


- Asset Custody
- Research & Data Services
- Consulting
- Operating Costs
- External Management

**Total Cost of Management  
for All Trust Funds in CY  
2010 = \$244.4 million**

# WRS Internal vs. External\* Costs

CY 2010 (in basis points)



\* External basis point fees are based on CEM Benchmarking, Inc. median costs for large public fund peers. CY 2010 is most recent data.



## Managing Compensation

- Significant portion of staff pay depends on performance – aligns interest
- Primary focus on 5-year results, not 1-year
- All staff are “at-will”
- Compensation consultant advises Board of Trustees
- SWIB compensation benchmarked to banks, insurance companies and pension funds (excludes east and west coast financial centers)



## Comparison with Peers\*

- SWIB 5-year policy return exceeded U.S. median and peer median
- SWIB 5-year value added equal to peer median
- Total risk in line with U.S. median
- Cost of management lower than peer benchmark cost by \$27 million
- 2010 Outperformance (12.4% - 12.2% = 0.2%) provided \$137.2 million from active management

\*Report prepared by CEM Benchmarking Inc. on Core Fund investment benchmarking results for five year period ending December 2010.



## Practical Effects

- Added 32 jobs in Wisconsin
- Transferred over \$21 billion to internal management
- Transfer saves ~\$14 million annually in net costs
- Managing all public market assets externally would cost ~\$35 million more annually