

# SWIB REPORT

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## SWIB was ready for recovery

The Wisconsin Retirement System trust funds experienced large gains in 2009 after one of the worse market downturns since the 1930s.

The Core Fund ended the year with a 22.4 percent return. The Variable Fund, with 33.7 percent, had its largest return since the WRS was formed in 1982. SWIB was well positioned to take advantage of the market recovery because we rebalanced to our long-term stock targets when the markets were at their lowest levels. SWIB surpassed the one-year performance benchmarks for the Core Fund (19.9%) and the Variable Fund (32.0%).

SWIB's outperformance of benchmarks generated over \$1.2 billion in added gains to the trust funds in 2009.

The Core and Variable Funds both ended the year ahead of their ten-year benchmarks, and the Core Fund is ahead of its five-year benchmark.

"There are still challenges ahead," said chief investment officer David Villa, adding, "Our outlook for 2010 remains cautious."

While the economy seems to be moving in the right direction, U.S. economists have said they are unsure how strong the recovery will be. The demand for goods and services and the condition of the labor market are important factors in the recovery.

### Calendar Year - to - Date Preliminary Returns

*Ending 2/28/10*

<b>Core Fund</b>	<b>-0.9%</b>
Benchmark	-0.9%
<b>Variable Fund</b>	<b>-1.6%</b>
Benchmark	-1.7%

## Study ranks WRS as national leader

A new study of public pension systems by the Pew Center on the States, a non-profit research organization, gives Wisconsin high marks for the Wisconsin Retirement System.

According to the report, "In 2000, just over half the states had fully funded pension systems. By 2006, that number had shrunk to six states. By 2008, only four—Florida, New York, Washington and Wisconsin—could make that claim."

Pew calls Wisconsin a "national leader in managing its long-term liabilities for both pensions and retiree health care and other benefits." The study also praises Wisconsin for its unique design.

"It has funded nearly 100 percent of its total pension bill—well beyond the 80 percent benchmark that the U.S. Government Accountability Office says is preferred by experts—by consistently meeting its actuarially required contributions. Wisconsin has developed a creative way to share some of the risk of investment volatility with employees, substituting a dividend process in lieu of standard cost-of-living increases."

A link to the report and a Wisconsin fact sheet is available on SWIB's homepage at <http://www.swib.state.wi.us/Default.aspx>

### Contact SWIB

121 E. Wilson St.  
Box 7842, Madison, WI 53707  
[www.swib.state.wi.us](http://www.swib.state.wi.us)  
[info@swib.state.wi.us](mailto:info@swib.state.wi.us)  
Hotline: (800) 424-7942  
(Madison) 267-0957

### 2010 Board Meetings

March 16 & 17  
April No Meeting  
May 11 & 12  
June 9  
July No Meeting  
August 4  
September 14 & 15  
October 6 & 7  
November 10  
December 8

*Dates may change. Agendas are posted on our website.*



## *A more global perspective*

# Multi-stage initiative completed

At the end of 2009, SWIB went global -- taking a more global perspective on investing. Investing in international markets has been part of SWIB's strategy for decades. However, several years ago SWIB began an initiative to reorganize its approach to investing in public equity (stock) markets to better reflect the global economy.

After a year of planning and implementing enhancements in trading systems and foreign currency management, the final stage of the project was completed on time in December. The result was the creation of a flagship global equity portfolio and combination of SWIB's domestic sector portfolios and international portfolios into global sector portfolios.

The transition is the culmination of more than three years of work involving over \$6.0 billion in assets and more than 30 staff across SWIB. In 2007, SWIB began the initiative when it realigned



its three large company domestic stock portfolios into portfolios that cover market sectors. By merging its domestic and international equities portfolios, SWIB is able to cover the markets more efficiently and identify investment opportunities more readily. SWIB has targeted 28% of Core Fund assets for investment in domestic equities and 25% in international equities.

## SWIB's work includes key national issues

SWIB's duties managing the WRS trust funds sometimes involve being active at a national level. Such commitments recently took three of SWIB's top managers to Washington to address global economic issues, corporate governance, regulatory issues and other concerns facing public funds.

David Villa was among three public fund chief investment officers invited to a meeting with representatives of the National Intelligence Council, the CIA Economic Security Group and the Treasury to discuss global economic and financial analysis. The agencies were interested in comparing the approach of some of the leading public fund practitioners to their own in hopes of validating and improving their own processes.

Continuing her work with the Council of Institutional Investors and Public Company Accounting Oversight and International Accounting Standards boards, Gail Hanson, SWIB deputy executive director, has been active in a number of national issues. Her role includes being a voice of public pension funds in the national debate on corporate governance and regulatory issues as well as the efforts to improve accounting standards.

Executive director Keith Bozarth visited

members of the Wisconsin congressional delegation to convey SWIB's views on some of the financial reform proposals currently under debate. The focus of the meetings were SWIB's long-standing support for: 1) greater transparency in the trading of derivatives, the credit ratings process, and other market activities, 2) a greater role for shareholders in the election of corporate board members, and 3) providing adequate resources for the Securities and Exchange Commission and other regulatory agencies to protect the interests of investors.

## 2010 asset allocation approved

SWIB Trustees approved new strategic asset allocation targets for the Core Trust Fund to be implemented over the course of the next year. With this strategy, SWIB's goal is to reduce risk through less exposure to public equities (stocks); provide better diversification with increased allocation to lower-return and lower-risk assets (fixed income); and achieve the actuarial expected rate of return over the long term. More information about the changes resulting from this annual review will be forthcoming in the May issue.