

# SWIB REPORT

August 2009 :: Published For Wisconsin Retirement System Participants

## Markets Show Improvements

The Wisconsin Retirement System trust funds continued their upward trend into August, reflecting improved returns in U.S. and international markets.

There are indications that financial markets seem to be anticipating an economic recovery. However, industry experts continue to debate the market's ability to sustain improvement and the expectation of a slow recovery. As of early August, the broad U.S. equity markets were up nearly 50% since the low point on March 9, 2009. The year-to-date performance of the trust funds through July was aided by corporate bonds, which returned nearly 11% since the beginning of the year, and international stocks, which outperformed U.S. stocks.

SWIB has also continued to implement investment strategies designed to help reduce risk, lessen the impact of market volatility and reduce management costs.

Calendar Year-to-Date Preliminary Returns Ending 7/31/09	
<b>Core Fund</b>	<b>10.7%</b>
Benchmark	9.4%
<b>Variable Fund</b>	<b>17.1%</b>
Benchmark	15.9%

## CIO Attends White House Meeting

David Villa, SWIB's chief investment officer, was among 19 pension plan representatives invited to join a recent White House forum on financial regulatory reform. The group met with Diana Farrell of the National Economic Council and Michael Barr of the Department of the

Treasury to share institutional investors' views of proposed regulatory reforms.

Representatives expressed the need for long-term investors, including pension plans, to be an active part of the reform process. Priorities listed by the group included enhanced transparency, concerns about credit rating agencies and including corporate governance as part of the reform process.

"We got their attention about some very important issues," says Villa. "The CIOs represented about \$1 trillion and millions of participants and it was important to have them speaking as a group to Treasury."

## Financial Crisis Indicates Need for Reform

OTS...FDIC...OCC...  
CFTC...SEC...FHFA.

If this were a quiz, how many could translate these abbreviations into the names of financial regulators? Most people would be able to identify the Federal Deposit Insurance Corporation (FDIC) as the insurer of bank deposits, but the roles of the other regulators are less well known. You might be surprised to know that banks are able to choose among four bank regulators to oversee their operations.

It may not be surprising that in the midst of the current financial crisis there is a call for regulatory reform. On June 17, 2009, President Obama unveiled the Treasury white paper titled "Financial Regulatory Reform: A New Foundation." During the press conference the President spoke of the proposal as "a sweeping overhaul of the financial regulatory system."

Déjà vu may have been the response to those who follow reform proposals as less than 18 months earlier former Treasury Secretary Henry Paulson introduced the "Treasury Blueprint for Financial Regulatory Reform."

These reform proposals have raised the question "Is the

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# New SWIB website debuts

SWIB will launch its newly enhanced website September 1. The website has incorporated new features for easier access to information. In addition, the Internet site includes more information about investment strategy. Please visit our website at [www.swib.state.wi.us](http://www.swib.state.wi.us). Your comments about the site welcomed.



## Reform Needed *Continued from page 1*

regulation inadequate or have the regulators failed to adequately carry out their responsibilities?"

The Council of Institutional Investors teamed up with the CFA (Chartered Financial Analyst) Institute Centre for Financial Market Integrity to form an investors working group (IWG) to provide an unbiased investors' view on the U.S. system of financial regulation. The working group was comprised of investors, academics and former regulators and co-chaired by Arthur Levitt, Jr. and William Donaldson, both former chairs of the Securities and Exchange Commission (SEC). The IWG recommendations "U.S. Financial Regulatory Reform: The Investors' Perspective" were released on July 15, 2009. (See article at right. A link to the report is available on the SWIB website at <http://www.swib.state.wi.us>).

Bills on regulatory reform and corporate governance are finding their way through Congress. As the asset manager of the Wisconsin

Retirement System (WRS), SWIB is monitoring the progress of regulatory reform proposals and making its voice heard with Congress and the Administration. We have communicated our views in letters addressed to the leadership of Congress, the Treasury and the SEC as well as the Wisconsin Congressional delegation.

A top priority for SWIB is that financial institutions provide more complete disclosure of their activities so that investors are more able to assess the risks to which these institutions are exposed. We support regulatory changes which we believe will have a positive impact on our ability to invest assets in the best interest of WRS members.

## Annual Reception Set for September 8

Francois Trahan, chief investment strategist and executive managing director at investment research firm ISI will present "Laying the Foundation of the Next Asset Bubble" at the annual reception on Tuesday, September 8 at 4 p.m. in the Lecture Hall at Madison Monona Terrace. Hors d'oeuvres will be served after the presentation and, in accordance with state law, there will be a nominal fee of \$10. R.S.V.P. by calling Annette Wiemann at (608) 267-3175.

# Group Proposes Changes to Improve Market Regulation

In its recently released report, the Investors' Working Group (IWG) proposed regulatory changes that include:

- a Systemic Risk Oversight Board with full-time members who are independent of governmental agencies and financial institutions;
- minimum underwriting standards for mortgage originators;
- greater transparency and improved capital requirements for over-the-counter derivatives (that caused significant losses for AIG);
- and, corporate governance reforms that give shareholders a greater say on election of directors and executive compensation.

In addition, the IWG recommended: allowing regulators to fully exercise their authority without political interference; enhancing independence through stable, long-term funding of regulatory agencies; and encouraging regulators to acquire a deeper knowledge and expertise of the industries that they regulate.