

# SWIB REPORT

August 2010 :: Published For Wisconsin Retirement System Participants

## Markets Adjust to Global Economic Change

The Core Trust Fund returns ended the first seven months of 2010 on a slightly positive note. However, there are still a lot of challenges ahead and the outlook for the rest of the year remains cautious due to the slow U.S. recovery and other concerns.

U.S. unemployment rates and lower consumer spending are two issues that are affecting domestic markets. There are also growing concerns about the world economy and that financing through extraordinary levels of global debt is not a sustainable long-term growth strategy. As a result, markets continue to be volatile.

Some experts advise that this challenging environment may be the “new normal” because of changes in the fundamental structure of the global economy. The financial crisis that started in the U.S. in 2007 moved quickly throughout the world, confirming



Calendar Year - to - Date Preliminary Returns	
Ending 7/31/10	
<b>Core Fund</b>	<b>1.9%</b>
Benchmark	2.1%
<b>Variable Fund</b>	<b>-0.4%</b>
Benchmark	-0.5%

how much more interconnected the global economy has become. While the U.S. economy seems to be moving in the right direction, economists 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.

What does this mean to SWIB and the WRS?

Some experts expect that we are facing a prolonged period of slower economic growth, market volatility and lower expected investment returns. Because of the design of the WRS, an extended period of lower returns could directly impact participants, especially retirees.

SWIB will face significant challenges as markets continue to adjust. Certainly SWIB needs the tools and ability to be nimble. We are seeking investment strategies that help limit the risk of volatile stock markets and inflation. SWIB is also looking for more ways to operate more cost efficiently, including even greater use of staff to manage WRS assets in house to reduce reliance on more expensive investment management firms.

## SWIB's Budget Goal: Continue Internal Management Savings

SWIB's 2011-13 biennial state budget request seeks to continue the cost savings and improved investment returns from more internal management of investments. SWIB's budget is funded entirely by trust fund earnings. The budget request includes no additional spending authority or staff positions.

Annual costs to manage the Wisconsin Retirement System (WRS) trust funds would be an estimated \$26 million more if internally managed stock and bond portfolios were managed by investment

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# Schooff named to Board

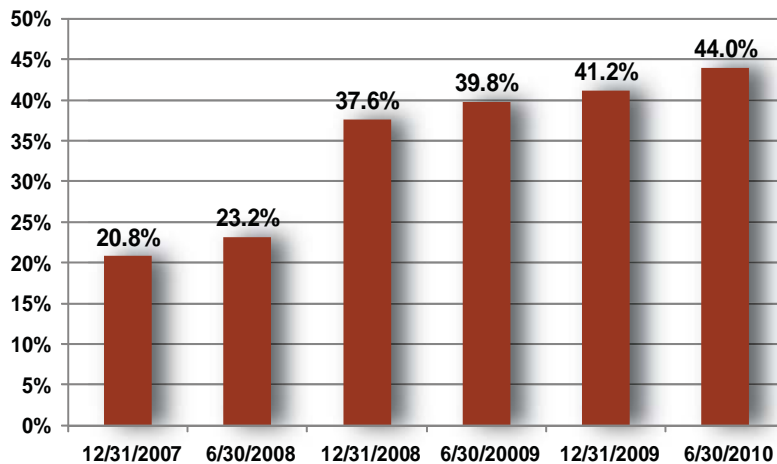
**Daniel J. Schooff**, newly appointed secretary of the Department of Administration, replaces Michael Morgan as a member of the SWIB Board of Trustees. Schooff previously served as the agency's deputy secretary and administrator for the Division of Energy. He also served as executive assistant at the Public Service Commission. The Beloit resident served three terms in the Wisconsin State Assembly. Schooff received a bachelor of arts degree from the University of Wisconsin - Madison.



Daniel J. Schooff

If you would like to learn more about the Trustees visit <http://www.swib.state.wi.us/Trustees.aspx>

## Share of WRS Assets Managed Internally



*The amount of asset's managed internally has increased significantly with the addition of resources since December 2007.*

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firms. This cost saving has grown by \$6.4 million since December 31, 2007, as the share of retirement fund assets managed internally more than doubled (from 21% to 44%) due to greater budget and position authority. SWIB will be exploring opportunities to increase savings in 2011-13.

Independent studies determined that SWIB implemented the significant increase in internal management with less support resources than its peers and that SWIB's total expenses (SWIB operations plus costs of outside services) are lower than its peers pay to manage similar assets.

Internal managers contributed greatly to the Core Fund outperforming its benchmark by \$1.2 billion in 2009. SWIB's internal staff also launched several initiatives to further limit SWIB's exposure to the continuing risk of volatile stock markets.

# Award-winning writer to speak

Award-winning journalist and author **James B. Stewart** will speak at SWIB's annual reception on September 14. A writer for "*The Wall Street Journal*" and "*Smart Money*", Stewart is known for combining the skills of an investigative reporter with the style and sensibility of a novelist as he examines events in finance, law and politics. His presentation title is "Back From the Brink: How We Survived the Financial Crisis and What It Means for the Future."

The event is cosponsored by the CFA Society of Madison. Stewart is scheduled to speak at 4 p.m. in the auditorium at the University of Wisconsin - Madison Fluno Center for Executive Education, 601 University Avenue, Madison. A reception at the Fluno Center will begin at 5 p.m. Both are open to public. Reservations are encouraged and can be made by calling (608) 267-3175 by Friday, September 3.

A graduate of Harvard Law School, Stewart is the author of the national best sellers "*Blind Eye*", an investigation of the medical profession, "*Den of Thieves*" about Wall Street in the 1980s, and "*Blood Sport*", about the Clinton White House.

### 2010 Board Meetings

- September 14 & 15
- October 6 & 7
- November 10
- December 8

*Dates may change. Agendas are posted at <http://www.swib.state.wi.us/meetings.aspx>.*