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ETF Offers Members More Choices for Learning About WRS Benefits

The primary goal of our 13 Outreach and Education specialists is to make sure Wisconsin Retirement System (WRS) members receive accurate, thorough and complete information about their benefits so they can make informed decisions.

These folks crisscross the state, going from Superior to Kenosha, from Platteville to Marinette, hosting large presentations in school auditoriums, cafeterias and other venues. They also provide, throughout the state, small group retirement appointments (8-12 attendees) to review individual retirement applications and explain next steps in the process. Members can also access benefits information on our website, where we provide brochures

and online videos, or call our Customer Service Call Center. To provide even more choices and learning opportunities, we have recently added webinars and statewide presentations for new and mid-career employees.

Webinars

ETF's live, online webinars are 30-minute presentations about a single topic of interest. They are conducted by an ETF specialist, using a slide show for visual support. Webinars can be viewed from any computer with speakers. Participants can submit questions to the specialist while the webinar is in progress. To date, we have conducted more than 30 sessions on such topics as returning to work

Opportunities continued on page 2

How is the Core Trust Fund Really Doing?

— Michael Williamson, SWIB Executive Director

With recent news about the U.S. stock market hitting record highs over the past months, some Wisconsin Retirement System (WRS) members have been asking us why the Core Trust Fund performance does not mirror the S&P 500.

The short answer is that the Core Trust Fund, like the majority of pension funds, is diversified and is invested in more than just stocks. The key to long-term investment gains has, and always will be, diversification. Thirty-four percent of the Core Fund is targeted to be invested in bonds. While bonds have performed excellently over the past few years, they have not performed well over the past few months. While this has had a negative impact on Core

Calendar Year-to-Date Preliminary Returns as of 7/31/2013

Core Fund	6.5%
Benchmark	6.1%
Variable Fund	16.0%
Benchmark	15.4%

Core, continued on page 10

Opportunities, continued from page 1

after retirement, the annual *Statement of Benefits* and effective rates and annuity adjustments. More than 1,300 people have participated in our webinars.

Beginning this fall, ETF specialists will conduct presentations designed for new and mid-career employees. Members who are more than five years from retirement will receive accurate information about their benefits early on, so they can make good, strategic decisions during the course of their careers. Topics include new vesting requirements, ways to enhance your retirement benefit, purchasing service, military service credit, Core Trust Fund and Variable Trust Fund, contribution rates, the importance of a beneficiary form and how to complete one, and how “life event” changes affect your retirement benefit.

Where can I find more information about ETF learning opportunities? See pages 6 and 7 for benefit presentations scheduled statewide this fall.



Janet, an ETF Outreach and Education specialist, conducts a live webinar on the annual *Statement of Benefits*.

In addition, monitor our website for the full slate of ETF learning opportunities and informational brochures and document. Find them all on our website at <http://etf.wi.gov>. Keep in mind that the absolute best way to stay current is to sign up for *ETF E-mail Updates*. When you register, check the box(es) for “Schedule of Presentations”. To sign up for this free service, see the red envelope icon on our website.

Legislative Update

— Tarna Hunter, ETF Legislative Liaison

On June 30, Governor Walker signed the biennial budget bill (2013 Wisconsin Act 20), which contains a number of provisions affecting the Wisconsin Retirement System (WRS). These include:



Tarna Hunter

An increase in the minimum break-in-service requirement from 30 to 75 days for WRS retirees who return to work. In addition, the law requires that a WRS annuity be stopped if a retiree returns to a WRS-participating employer and is expected to work at least two-thirds of full-time. This new law applies to any active WRS employee who terminates employment on July 2, 2013 or after.

The Joint Survey Committee on Retirement Systems reviewed an actuarial study to determine the impact on the WRS and voted 9-0 that the provisions in the budget as they relate to the WRS are good public policy.

Additional resources for ETF to modernize its benefits administration system. This initiative includes expanding customer service capabilities and providing secure online services for members.

The Governor vetoed a budget provision requiring the Group Insurance Board to implement a **tobacco use premium surcharge** for state employees in 2014 and 2015. He indicated the program would be administratively expensive and because of federal rules, the state was unable to design the program in a way that will achieve the desired outcome of fewer people using tobacco products and still be cost effective to administer.

The legislature is still in session. We will continue to monitor developments and provide updates as they occur. Watch ETF's website for the latest information and see the resources listed below.

For More Information

Legislative Update: ETF Summary of Act 20
Return to Work Frequently Asked Questions
Find them both at <http://etf.wi.gov>.

ETF Shares Strengths of Wisconsin's Pension System

Department of Employee Trust Funds (ETF) Secretary Robert Conlin recently wrote an editorial column published in the *Milwaukee Journal Sentinel* in response to national attention surrounding underfunded pensions in other states. Conlin's complete column can be found on ETF's website, <http://etf.wi.gov>. Here is an excerpt:

"...policymakers from states and cities with chronic pension underfunding issues may want to look to Wisconsin as they consider reforming their pension systems...the fact that Wisconsin is not facing a pension crisis like Illinois is the result of thoughtful program design and years of ongoing stewardship...Wisconsin's policy-makers have created and maintained a pension system with four critical elements that greatly improve the odds that the WRS will continue to be strong:

1. Contribution rates are set annually, by an independent board of fiduciaries.

2. The amounts required to be paid, from both employers and employees, are paid in full when due, not deferred to the future.

3. Investment risks are shared between governmental employees, employers and retirees.

4. The State of Wisconsin Investment Board has been granted the latitude to invest retirement funds prudently, without political interference or other limitations.

We must continue to act with vigilance and a commitment to sound funding and plan design principles so that Wisconsin can continue to lead the way."



Robert Conlin

Future Adjustments, Rates: Watch for Announcements

At this time of year Wisconsin Retirement System (WRS) members often want to know about future effective rates and annuity adjustments. The calculation of effective rates is a process you can follow, based on these three key announcements:

1. Calendar year 2013 State of Wisconsin Investment Board (SWIB) preliminary investment returns for the Core and Variable Trust Funds—announced by SWIB in January.

2. The actual Core and Variable effective rates for non-retirees—announced by the Department of Employee Trust Funds (ETF) in February.

3. The actual Core and Variable annuity adjustments for retirees—announced by ETF in March.

Core Fund investment gains and losses for any given year are "smoothed" (recognized) over the course of the next five years. This mechanism helps reduce large swings in annuities for retirees and contribution rates for employees and employers. The smoothing of the 2008 investment decline subsequently resulted in higher contribution rates for employers and employees and negative Core annuity adjustments for retirees.

The effects of the 2008 stock market crash are now behind us. As of December 31, 2012, the Core

Fund has deferred gains (earned from 2009-2012) of \$2.5 billion to recognize in future years, \$1.5 billion in 2013 alone. Although the year has not ended, we are cautiously optimistic that the combination of these deferred gains, 2013 investment returns and other actuarial factors will allow for a positive Core annuity adjustment this spring.

For More Information

When Should I Retire?

Active employees: Are you trying to decide whether it's better to retire at the end of 2013 or to wait until just after January 1? What would work best for you will depend on your own account history. Review the following ETF resources so you can make an informed decision, or call us at 1-877-533-5020.

- *ETF online webinars*—Four sessions are set for late September. Look for details and registration information on our website.
- *ETF videos and brochures*—Find them on the Core/Variable menu on our website at <http://etf.wi.gov>.

For Active Employees**Employer and Employee Contributions to Increase**

Contribution rates for most Wisconsin Retirement System (WRS) employees and employers will increase in 2014. The following rate increases were recommended by the WRS consulting actuary and approved by the Employee Trust Funds (ETF) Board:

- 0.7% for General employees
- 1.5% for Elected/Executive employees
- 0.7% for Protective employees covered by Social Security
- 1.7% for Protective employees not covered by Social Security

The **total contribution rates** are shown in the table above. In general, the total rate is split equally between the employee and the employer. This means general category employees will contribute .35% more of their salaries in 2014.

Why are contribution rates increasing? While many factors affect WRS contribution rates, the increase is primarily due to the lingering effects of 2008's global economic meltdown. 2014 is the last year the investment declines will affect WRS contribution rates. Core Trust Fund investment results are distributed ("smoothed") over five years to soften the impact of year-to-year volatility of investments. This also helps to keep WRS contribution rates stable. For example, over

the past 25 years the rate for General category employees has deviated by just 2%.

The new rates go into effect January 1, 2014. Rates may be different for employees who have collective bargaining agreements. Other mandatory employer contributions for duty disability, the state's Accumulated Sick Leave Conversion Credit Program, or unfunded liabilities are not included and vary by employer.

WRS Contribution Rates (expressed as a percentage of WRS earnings)				
Employment Category	Total Rate 2013	Total Rate 2014	2014 Employee Contribution	2014 Employer Contribution
General/Teacher	13.3%	14.0%	7.0%	7.0%
Elected/Executive	14.0%	15.5%	7.75%	7.75%
Protective w/ SS	16.4%	17.1%	7.0%	10.10%
Protective w/o SS	19.0%	20.7%	7.0%	13.7%

For More Information

How are Contribution Rates Determined?
WRS News, January 2012

Employee Contributions and WRS Investments
(ETF video). Find it in ETF's Video Library at <http://etf.wi.gov/webcasts.htm>.

ETF Webinars-Contribution Rates
Sessions set for November and December. Register on our website at <http://etf.wi.gov>.

BOARD CORNER**Teachers Retirement Board: Nominations Sought for Two Seats**

The process to elect two teachers to serve on the Teachers Retirement (TR) Board has begun. The terms of current TR Board members Betsy Kippers and Mary Jo Meier expire in May 2014. Any active teacher participant in the Wisconsin Retirement System (WRS), except those employed by the Milwaukee Public School District, may run for one of the two open seats. The five-year terms begin May 1, 2014. Request a nomination packet by writing to: TR Board Liaison, P.O. Box 7931, Madison, WI 53707-7931; or send an e-mail to BoardElections@etf.state.wi.us. Com-

pleted nomination papers must be received by the Department of Employee Trust Funds (ETF) by 4:30 p.m., November 1, 2013.

New in 2014: ETF is exploring options to conduct paperless board elections. Watch for more information and instructions in January. This change will not affect the nomination process. For information on the WRS governing boards, including current board rosters, board member responsibilities, meeting schedules and agendas, go to http://etf.wi.gov/gov_boards.htm.

Studies Gauge Americans' Attitudes Towards Retirement and "Retirement Readiness"

According to Wisconsin law, the purpose of Wisconsin's public employee trust fund is to aid public employees in protecting themselves and their beneficiaries against the financial hardship of old age. To that end, we will periodically present news and information that is relevant to that statutory purpose and of interest to Wisconsin Retirement System (WRS) members.

What are your thoughts about your own retirement? How concerned are you about meeting your retirement financial goals? How much will you need to retire and will you have enough? These were among the questions asked and topics explored in recent nationwide studies designed to gauge attitudes toward retirement and "retirement readiness" in general.

It appears as though Americans are thinking about retirement and the need to help people achieve some level of financial security. In its research, as reported in *Pensions & Retirement Security 2013*, the National Institute on Retirement Security (NIRS) found that Americans:

- remain highly anxious about their retirement prospects, despite stabilization of financial markets, declining unemployment and increased consumer confidence;
- are highly supportive of pensions and see them as a way to improve retirement readiness; and
- would support Congressional action to provide all Americans with access to a new type of privately run pension plan.

NIRS also analyzed Federal Reserve data to look for trends in, among other things, how well prepared Americans are for retirement. Among the findings reported in *The Retirement Savings Crisis: Is It Worse Than We Think?*:

- About 45% of working-age households have no retirement account assets. However, those that have such account assets have significantly higher wealth than households that do not.
- The average working household has virtually no retirement savings. The median account balance is \$3,000 for all working households and \$12,000 for near-retirement households.
- Of those between 55 and 64 years of age, one-third have no retirement savings.

Other experts have been analyzing the "retirement gap" facing many Americans. The Center for

Retirement Research at Boston College, for example, found that American households collectively have a \$6.6 trillion gap between what they *currently* have and what they *should have right now* in order to maintain living standards in retirement. In addition, the Transamerica Center for Retirement Studies says that 44% of American workers have not yet developed a strategy to reach their retirement goals.

As WRS members know, a well-designed pension plan can play a key role in helping people financially prepare for retirement. Interestingly, this also continues to be the case even in the private sector. Although many private sector employers have closed their pension plans, a sizeable number of private sector employers still provide pensions to their employees. As NIRS reported in *Pensionomics 2012*, more than \$426 billion in pension benefits were paid to nearly 19 million retired Americans in 2009. Of that \$426 billion:

- more than \$171 billion in pension benefits were paid to 8.4 million private sector retirees;
- about \$187 billion in pension benefits were paid to some 8 million retired employees of state and local government employers.

For many members, a WRS pension is *the* cornerstone of their retirement savings plans. As the statutes remind us, though, it is just one component of an overall retirement savings strategy. In future editions of *WRS News*, we will provide information and ideas to help you think about how to plan for your own retirement financial security.

For More Information

National Institute on Retirement Security
<http://www.nirsonline.org>

Center for Retirement Research at Boston College
<http://crr.bc.edu>

Transamerica Center for Retirement Studies
<http://www.transamericacenter.org>

New! Presentations for New and Mid-Career Employees

The Department of Employee Trust Funds (ETF) now offers statewide benefit presentations designed for new and mid-career employees. If you are **more than five years** from retirement, this presentation is for you. Receive accurate information about Wisconsin Retirement System benefits early on, so you can make good, strategic decisions during the course of your career. Topics include new vesting requirements, ways to enhance your retirement benefit, purchasing service, military service credit, Core Trust Fund and Variable Trust Fund, contribution rates, the importance of a beneficiary form and how to complete one, and how “life event” changes affect your retirement benefit.

Presentation Schedule

(Presentations run from 6:30 p.m. to 7:30 p.m., unless otherwise indicated. In the event of severe weather, listen to local radio stations for possible cancellations.)

Appleton	Thurs., Sept. 19	Fox Valley Technical College, 1825 Bluemound Dr., Appleton; Room E130AB/CD, West Lot Entrance #10
Ashland	Wed., Oct. 9	Wisconsin Indianhead Technical College-Ashland, 2100 Beaser Ave., Ashland; Conference Center Rooms 305-307
Eau Claire	Mon., Oct. 7	UW-Eau Claire, 77 Roosevelt Ave., Eau Claire; Dakota Ballroom (340)
Fond du Lac	Thurs., Nov. 14	Moraine Park Technical College, 235 N. National Ave., Fond du Lac; Cafeteria A-109
Green Bay	Mon., Nov. 11	Northeast Wisconsin Technical College, 2740 W. Mason St., Green Bay; GBSC128, Executive Dining Room
Janesville	Tues., Sept. 3	Blackhawk Technical College, 6004 S. County Rd. G, Janesville; Room 1400B (North Commons)
La Crosse	Wed., Sept. 11	UW-La Crosse-Centennial Hall, 1725 State St., La Crosse; Room 1300 (Hall of Nations)
Marinette	Tues., Sept. 24	Marinette High School, 2135 Pierce Ave., Marinette; WJ Jones Auditorium
Pewaukee	Mon., Dec. 16	Waukesha County Technical College, 800 Main St., Pewaukee; Richard T. Anderson Education Center
Platteville	Wed., Nov. 6	Platteville High School, 710 E. Madison St., Platteville; Auditorium
Racine	<i>Date and place to be determined. Please check ETF's website or call us at 1-877-533-5020</i>	
Rhineland	Tues., Sept. 3	Nicolet Area Technical College, 5350 College Dr., Rhineland; Learning Resource Center Theater
Rice Lake	Wed., Nov. 6	UW-Barron County, 1800 College Drive, Rice Lake; Blue Hills Lecture Hall
Stoughton	Tues., Sept. 10	Stoughton High School, 600 Lincoln Ave., Stoughton; Cafetorium
Wausau	Wed., Nov. 13	Northcentral Technical College, 1000 Campus Dr., Wausau; Auditorium
Wisconsin Rapids	Wed., Nov. 6	Mid-State Technical College, 500 32nd St. N., Wisconsin Rapids; Auditorium

Fall Schedule

Presentations for Employees Nearing Retirement

The Department of Employee Trust Funds (ETF) offers statewide benefit presentations designed for employees who are nearing retirement. If you are **within five years** of retiring, this presentation is for you. Learn about topics that help you make important decisions when you retire. Topics include annuity options, return-to-work rules, annuity adjustments, Core Trust Fund and Variable Trust Fund, the importance of a beneficiary form and how to complete one, purchasing service, the difference between a joint survivor and a beneficiary, and how “life event” changes affect your retirement benefit.

Presentation Schedule

(Presentations run from 6:30 p.m. to 8:30 p.m., unless otherwise indicated. In the event of severe weather, listen to local radio stations for possible cancellations.)

Fond du Lac	Thurs., Oct. 17	Moraine Park Technical College, 235 N. National Ave., Fond du Lac; Cafeteria A-109
Green Bay	Mon., Sept. 9	Northeast Wisconsin Technical College, 2740 W. Mason St., Green Bay; Lecture Hall SC132
Kenosha	Thurs., Oct. 3	Gateway Technical College, 3520 30th Ave., Kenosha; Madrigano Aud.
Madison	Mon., Nov. 18	Madison College-Truax, 1701 Wright St., Madison; Mitby Theater
Milwaukee	Wed., Nov. 13	UW-Milwaukee, UW-M Student Union, Ballroom West, 2200 E. Kenwood Blvd., Milwaukee
Platteville	Wed., Sept. 25	Platteville High School, 710 E. Madison St., Platteville; Auditorium
Rhineland	Wed., Sept. 11	Nicolet Area Technical College, 5364 College Dr. & Hwy G., Rhineland; The Nicolet Theatre
River Falls	Thurs., Oct. 24	Meyer Middle School, 230 N. Ninth St., River Falls; Auditorium
Superior	Mon., Oct. 7	Wisconsin Indianhead Technical College, 600 N. 21st St., Superior; Conference Center (C107 & C108)
Wisconsin Rapids	Tues., Sept. 24	Mid-State Technical College, 500 32nd St. N., Wisconsin Rapids; Auditorium



Thank You for Taking Our Survey

To the more than 12,000 members who have taken our customer satisfaction phone survey: *Thank you!* We offer the survey to all members who call the Department of Employee Trust Funds (ETF). In general, we want to find out what callers think about the overall quality of the service our representatives provide. More than 99% of those already surveyed agreed—or strongly agreed—that staff were doing a good job. Listen for your survey opportunity at the end of your call if you contact ETF. We will continue to use what we learn in order to meet your needs and keep your high levels of satisfaction.

ETF Seeks Persons with Abandoned WRS Accounts

The Department of Employee Trust Funds (ETF) is looking for individuals age 70 and older who have “abandoned” Wisconsin Retirement System (WRS) accounts. The list of members known to have abandoned accounts has been updated with the names shown below. These WRS members or their heirs have ten years after publication to apply for the benefit.

If you know the whereabouts of anyone on this list, please ask them or their heirs to contact ETF. Inquiries must include the member’s complete name (published name, current and prior name), date of birth, Social Security number and the year the name was published. Find the complete list at http://etf.wi.gov/news/abandoned_wrs.htm. Sorry, we cannot accept telephone calls regarding these accounts.

Successes Noted

In 2012, the Department of Employee Trust Funds successfully located the owners of 185 potentially abandoned accounts. Overall, staff reviewed 265 accounts, with a combined value of \$3.1 million!

Agro, Karin B	Dewey, Daniel	Jackson, Celesta L	Padegimas, Stanley J
Ahmann, Margaret A	Dooley, Ardell E	Jaacks, Janice L	Paul, Marlys M
Ahrens, George J	Drecktrah, Sandra J	Karina, Edward N	Quiroga, Angel
Altendorf, Karlheinz	Duggan, Stephanie M	Knurr, Jane D	Redmond, Helen B
Barth, Robert L	Dykes, James T	Larson, Gary R	Rochwerger, Bonnie L
Baxa, Jon E	Eades, Elmer L	Leber, Mary D	Rutkowski, Susan M
Benavidez, Octavio C	Enos, Joseph C	Lillie, Juli A	Schneidewind, Clarence
Berry, Robert M	Fancher, Nancy C	Mann, John R	Schreck, Natalie F
Buffa, Jay G	Filip, Theresa M	Martin, Donald E	Simms, Joan C
Burkhalter, Lyle C	Florence, Beverly D	Mccarty, James R	Simons, Harry L
Clipp, Felton	Fogarty, William G	Means, George A	Stillwell, Mary J
Clumpner, Jill S	Goodman, John F	Mendez, Norma V	Strom, Sr., John M
Colquitt, Sandra C	Guan, Shuqin	Meyer, Charlotte M	Taylor, Emma J
Connaghan, James J	Hansen, Sharon A	Mundt, Mariann L	Thrall, John F
Cowan, Roger L	Hardin, Linda	Murph, Joan A	Wang, Jin F
Davis, Gerald W	Harnack, James H	Myers, Dale G	Wertz, Dennis G
Deber, Charles M	Havens, Donna M	Nicholson, Francis H	Williams, Marie A
Deweese, Donald J	Helman, Karen M	Osman, Yehia M	

Get Monthly Updates on Preliminary Investment Returns

If you are interested in keeping up to date on preliminary investment returns for the Wisconsin Retirement System (WRS) trust funds—along with other important information from the State of Wisconsin Investment Board (SWIB)—sign up for *ETF E-mail Updates*.

Registration for this free e-mail notification service is easy and quick. Look for the red envelope icon on ETF’s website, <http://etf.wi.gov>. On the Quick Subscribe page, select “SWIB News”. You can also choose a variety of topics on WRS retirement and other benefit programs. Join the more than 25,000 subscribers who have already signed up for this great service!



ETF E-mail Updates subscribers can choose from more than 20 different topics. Shown is a notification about preliminary SWIB investment returns.

Diversification Helps Stabilize Core Fund Returns

When people want to know how their retirement investments are performing they turn to the stock markets. When stocks are up, returns should be up, right? In the past, investing in a majority of stocks was somewhat predictable because historically, markets tend to be cyclical and decline after a few years of strong performance. However, in the past few years, massive market moves over brief periods of time—sometimes daily—reflect a different financial landscape that is far from predictable.

In today's financial climate, a diversified portfolio is the key to protecting the trust funds from the extreme market swings. The State of Wisconsin Investment Board (SWIB) uses diversification in its investment strategy to help stabilize Core Fund returns and, in turn, contribution rates and annuity adjustments.

While we cannot control the market, we can manage investment risk and that is central to our work. Because a majority of the risk to the Core Fund comes from stocks, SWIB has diversified the fund by investing about 50% of the fund in stocks, which is a reduction from about 56% at the beginning of 2008. Currently, Core Fund stocks are divided roughly evenly between U.S. and international stocks, and 34% in bonds. Diversification of stock investments is also based on company size, industry and location. To help manage the effects of market swings on the Core Fund, we rely on other types of investments as well, including real estate, private equity and hedge funds.

SWIB's investment strategy takes into account that in some years there may be investment gains while in other years there may be losses. The overall goal is to earn the assumed rate of return of 7.2% to help maintain the pension system. Based on modeling and analysis prepared by SWIB's asset allocation consultant, 7.2% appears to be a reasonable objective over time. The Core Fund's 10-year

return as of May 31, 2013, was 8.1%. Like most pension funds, the Core Fund depends mainly on a mix of stocks and bonds to earn sufficient funds for the retirement system. This decision is based on meeting the long-term objectives of the WRS, rather than the short-term fluctuations in the market and it has served us well—helping the WRS remain fully funded.

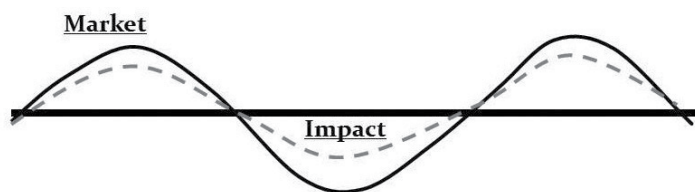
Because it is not possible to effectively “time the markets” in response to short-term economic developments, SWIB's investment strategy has helped stabilize the Core Fund. The Core Fund has generated negative returns in just six of the last 30 years and has exceeded its benchmarks for the one-, three-, five-, and ten-year returns. However, certain economic developments can have an immediate affect on the Core Fund, as is the case now, with stocks performing well and bonds struggling.

Typically, bond prices go down when interest rates go up. Bond market interest rates spiked in June, causing bond values to decline. Analysts were expecting the rate changes to happen over the course of a year, not within a few days. Federal Reserve comments about trimming stimulus efforts triggered the market's reaction.

In addition to bond market interest rates spiking, while performance of U.S. stocks is strong, the performance of international stocks is almost flat and fixed income returns are negative. U.S. and international stocks each account for 25% of the Core Fund, while bonds make up 34% of the fund.

Reducing Fund Volatility

The goal is to stabilize the effects of returns on the WRS



Slight reduction in performance in times of strong stock markets

Better protection against worst outcomes

Core, continued from page 1



Michael Williamson

Fund performance since January, it still makes sense to stay the course. It helps to look a bit deeper and revisit the purpose of the retirement trust funds. The system is healthy and among the best-funded public pension funds in the country. There are reasons for that. One is the shared risk and reward feature built into the system's design. The downside is that some retirees have given back dividends while employees and employers are paying higher contributions.

Another reason is SWIB's long-term investment strategy. SWIB's fiduciary duty is to manage the WRS money solely to provide returns for our participants. SWIB makes Core Fund investment decisions based on earnings over time, meaning 50 years or more, to help provide money for present and future retirees. When we invest for the long-term, we generally consider each member's career (30 years) and retirement (20+ years). SWIB seeks to earn 7.2% with the least amount of risk over time. That target is the WRS actuary's recommendation for sustaining the system looking forward. To get there, we need the kind of return that stocks can provide.

However, there is another very important aspect to investing the fund. As we mentioned

earlier, SWIB must consider risk. While stocks will outperform bonds over the long term, the stock market will experience wide swings both up and down over the short term. We look for ways to balance those fluctuations. One reason is that thousands of retirees are affected by short time performance because of the system's five-year smoothing. Since the financial crisis of 2008, we have become even more sensitive to the potential losses that can occur with stocks over the short-term.

To help lessen the impact of volatile stock markets on employees, employers and retirees, we have adjusted our approach, but did not radically change our investment strategy. SWIB reduced stock investments by about six percent and added more bonds as well as other types of investments. So, the real answer is that the Core Trust Fund performance does not mirror the S&P 500 because the investments are not the same.

When we invest for the long-term, we generally consider each member's career (30 years) and retirement (20+ years). SWIB seeks to earn 7.2% with the least amount of risk over time. That target is the WRS actuary's recommendation for sustaining the system looking forward.

The Core Fund investment strategy is designed specifically to keep the fund healthy for the long run. When the stock market is running hot, like it has been recently, the Core Trust Fund will always lag behind. Similarly, if it takes another deep dive, then our members will have more protection than the market

will afford. I firmly believe that we have a duty to manage the trust funds well for each and every participant. Choosing a diversified investment strategy is one way we fulfill that duty. *(See page 9 for more about diversification of the Core Fund.)*

Want to Learn More about WRS Investments?

The State of Wisconsin Investment Board (SWIB) is responsible for investing the assets of the Wisconsin Retirement System. Call the SWIB Beneficiary Hotline at 1-800-424-7942 or email info@swib.state.wi.us if you have questions regarding investments of the trust funds or investment performance.

CIO Gets Global Look at Investment Industry Challenges

State of Wisconsin (SWIB) chief investment officer David Villa knows the investment industry is rapidly changing on a global basis. That is why he is working with investment leaders on a global level to discuss common issues that challenge large institutional asset holders like SWIB.

“We are working to build a robust financial portfolio that will achieve the target returns in different market conditions,” Villa said. “It is important to be part of the broader international economic and financial discussion with high caliber professionals.”

One way Villa is connecting with investors across the globe is through the 300 Club. The mission of the 300 Club is to raise awareness about the potential impact of current market thinking and behaviors and to call for immediate action.

“I’m delighted to be joining the 300 Club at a time when the investment industry faces a unique set of questions and challenges,” Villa said. “The ever-changing environment in which we operate means we cannot rely on the perceived wisdom of yesterday, but must instead develop new solutions to manage risk and ultimately ensure that investors receive the best possible outcomes.”

The members of the 300 Club are focusing on challenges such as asset allocation and manager selection. “These are some of the issues we must continuously address to insure the WRS can meet its obligations today and in the future,” Villa said.



David Villa

SWIB Moves Forward with New Venture Capital Funds

The State of Wisconsin Investment Board (SWIB) is moving forward on creating its own venture capital fund in partnership with the Wisconsin Alumni Research Foundation (WARF) and is also helping the State of Wisconsin create its first venture capital fund.

Called 4490 Ventures, a reference to the 44° north latitude and 90° west longitude lines that approximate the center of the state of Wisconsin, the fund will target early-stage information technology companies primarily in Wisconsin.

The intent of this private \$30 million fund, funded jointly by SWIB and the Wisconsin Alumni Research Foundation (WARF), is to generate investment returns and build value for state retirement fund participants and WARF’s primary beneficiary, the University of Wisconsin-Madison.

“We are in the final stages of selecting a manager for the fund,” Chris Prestigiacomo, SWIB private markets portfolio manager, said. “We are

hoping to have that person selected and in place by fall and to launch the fund in early 2014.”

SWIB will also provide expertise in the creation of a \$25 million state-funded venture capital fund-of-funds. The \$25 million of state funds, set aside in the 2013-15 biennial state budget, does not include any Wisconsin Retirement System (WRS) funds. SWIB’s role in the fund is to lend expertise by providing three representatives to serve on the five-member committee charged with selecting a fund manager. The other two committee members will come from the state Department of Administration.

“Although we will not be investing directly into the fund, SWIB expects to benefit from being involved by getting to know the fund-of-funds investment manager and identifying possible investment opportunities that would benefit the WRS,” Prestigiacomo said.

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