

### SWIB Announces 2018 WRS Preliminary Returns

**Madison, WI (January 18, 2019)** – Even with an extremely volatile end of the year for U.S. financial markets, the State of Wisconsin Investment Board’s (SWIB’s) disciplined and innovative investment strategy helped provide moderate protection to the Wisconsin Retirement System’s (WRS) primary trust fund.

SWIB today announced preliminary 2018 year-end returns for the WRS, the state’s public employee retirement plan, which is one of the best funded in the nation. The Core Fund, the larger of the two WRS trust funds with more than \$93 billion in assets, ended the year with a preliminary gross return of -3.3 percent and preliminary five-year and 10-year gross returns of 5.2 percent and 8.8 percent, respectively. SWIB performed better than its performance benchmarks for all these periods. To help ensure the pension fund can meet its obligations, SWIB focuses on the long term and not only short-term results. SWIB’s preliminary ten-year gross return of 8.8 percent exceeds the long-term WRS investment target that was recently lowered from 7.2 percent to 7.0 percent.

U.S. financial markets struggled at the close of 2018. In October, the Dow Jones Industrial Average and the S&P 500 suffered significant losses, wiping out all gains for the year. Last month, the S&P 500 dropped more than 9.0 percent resulting in the index’s worst December performance since 1931 and worst annual performance since 2008. Emerging market stocks suffered the biggest losses in 2018. The MSCI Emerging Markets Index finished 2018 down 14.6 percent.

“Despite the challenges presented by financial markets at times over the past ten years, SWIB’s investment management delivered returns that have met the WRS objectives, maintained consistent contributions, and preserved the WRS’ fully funded status,” David Villa, SWIB executive director and chief investment officer, said. “The robust and sophisticated investment strategies we have put in place are working to protect and grow the WRS assets over the long term.”

Historically, markets tend to be cyclical and decline after a few years of strong performance. SWIB’s strategy is designed to weather a variety of economic environments and provide the best value to all WRS participants in the long run across all market environments, both strong and weak. SWIB diversifies its assets among many types of public and private investments, optimizes its costs (which saved it \$90 million over its peers in 2017 and \$1.3 billion over the last 10 years) and actively manages its assets to grow and protect the WRS assets. When looking over a 20-year period

through December 31, 2018, SWIB's active management and its diversified holdings generated \$43.7 billion dollars for the Core Fund above what SWIB would have earned by simply investing in a low-cost passive portfolio consisting of 60 percent global equities and 40 percent global sovereign bonds, assuming no contributions or withdrawals.

"Since the Great Recession, the financial markets have transitioned from a low interest rate environment that has helped fuel returns to a more normal interest rate environment," Villa said. "Going forward we see further tightening of the monetary policy, which means it will become harder to make money. Over the past several years, SWIB has put in place an investment strategy that takes into account both our shared-risk system and our fully funded status. We balance maximizing our returns without taking outsized amounts of investment risk. Our strategy is designed to provide the Core Fund with moderate protection from another dramatic downturn while still earning reasonable returns."

The Variable Fund, an optional stock-only fund with more than \$7 billion in assets, ended the year with a preliminary gross return of -7.9 percent and a five-year preliminary gross return of 5.9 percent and ten-year preliminary gross return of 11.6 percent.

The Department of Employee Trust Funds will determine annuity adjustments for the Core Fund and the Variable Fund in March after an actuarial analysis is completed. Investment performance also affects contribution rates for public employees and employers. Rates for 2020 will be set in June.

## **About SWIB**

SWIB's strong management of the WRS trust funds has helped fuel one of the only fully funded public pensions in the country for more than 632,000 current and former employees of state agencies, the university system, school districts and most local governments. The WRS is the 8<sup>th</sup> largest U.S. public pension fund and 25<sup>th</sup> largest public or private pension fund in the world. SWIB provides a strong, steady economic pillar for the state of Wisconsin by growing the trust funds under its management, managing risk, and optimizing costs over the long term. As of December 31, 2018, the WRS accounts for approximately 90 percent of the more than \$110 billion of total assets under management at SWIB. In addition to the \$100.7 billion in WRS trust funds, SWIB also serves the state by investing the State Investment Fund, University of Wisconsin System Trusts Funds, Injured Patients fund and other funds.

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