

SWIB Beats Investing Benchmarks: Announces Incentive Compensation Awards Paid for Earnings Above Market Returns

Madison, WI (April 13, 2018) – State of Wisconsin Investment Board (SWIB) Trustees approved incentive compensation payments based on strong investment returns that generated an additional \$759 million in investment earnings above market returns over the past five years. The payments totaled \$11.6 million.

With more than \$117 billion in total assets, SWIB is an independent state agency responsible for managing assets of the Wisconsin Retirement System (WRS), the State Investment Fund – a pool of cash balances – in addition to six separately managed funds. A majority of the assets under management are of the WRS, the ninth largest U.S. public pension fund and the 25th largest public or private pension fund in the world. SWIB invests for the financial security of more than 622,000 individuals and 1,500 employers in the WRS.

Sophisticated investment management strategies, forward-looking technologies and strong internal asset management helped SWIB generate earnings above market returns. SWIB's investment performance contributed to continued stable contribution rates for WRS active employees and a positive annuity adjustment for the nearly 200,000 retirees of the system for the fifth consecutive year. The investment earnings combined with SWIB's cost saving strategies are major reasons the WRS remains among the best-funded public pension systems in the country. Over the past ten years of the WRS, approximately 70 percent of revenues needed to fund the WRS comes from the investment earnings.

“At times since the Great Recession, the financial markets have been volatile with dramatic swings that have proven challenging for many investors,” said SWIB Executive Director Rick Smirl. “We have met that challenge head on with elite investment management and cost saving measures that underscore our commitment to helping provide a strong financial future for the beneficiaries of the funds entrusted to us.”

Through a disciplined, prudent and innovative approach to market opportunities, SWIB has provided consistent, long-term performance that has financially benefited the WRS. SWIB beat its one-, three-, five-, and ten-year benchmarks for the Core Fund as of December 31, 2017. The five-year return gross of fees for the Core Fund, the larger of the two WRS trust funds, was 8.6 percent, which was ahead of its benchmark of 8.2 percent.

SWIB's cost optimization efforts include managing almost two-thirds of WRS assets in-house for multiples less of what it would cost to pay external managers for the same work. SWIB hires highly qualified investment professionals based on their ability to meet aggressive investment targets and add value to the trust funds. SWIB's greater reliance on internal management saves about \$72 million per year compared to what similar funds would pay to manage the same assets. This is more than SWIB's \$55.7 million total annual operating budget including all staff compensation.

"Managing a successful lower cost internal management program requires the ability to attract, hire, and retain qualified professionals," said David Stein, chair of the independent SWIB Board of Trustees. "Trustees have worked with a consultant to put in place an incentive compensation program that motivates staff to earn the highest possible returns at reasonable costs and controlled levels of risk, and aligns with the interest of the WRS. SWIB's compensation plan has resulted in the creation of a talented and skilled workforce."

Incentive compensation is the pay-for-performance part of employee compensation and is based on an employee's contributions to overall success of the organization and trust fund performance after costs. Incentive compensation is earned by staff only when they add value to the trust funds because the incentives are based on performance compared to benchmarks, a practice used industry wide. SWIB Trustees have implemented a compensation plan that targets total compensation at the median pay of an approved peer group. The plan is primarily focused on five-year returns, which is longer term and aligns with calculating retiree adjustments.

For more information about SWIB, visit www.swib.state.wi.us.