

SWIB Beats Investing Benchmarks: Announces Incentive Compensation Awards Paid for \$1.2 Billion Earned Above Market Returns

Madison, WI (April 21, 2017) – State of Wisconsin Investment Board (SWIB) Trustees approved incentive compensation payments based on strong investment returns and cost controls that generated an additional \$1.2 billion in investment earnings above market returns over the past five years. The payments totaled \$13.8 million.

For the public employees of Wisconsin, SWIB is a unique asset and valuable partner. SWIB invests for the financial security of more than 600,000 individuals and 1,400 employers in the Wisconsin Retirement System (WRS). SWIB manages more than \$104 billion in assets, a majority of which includes the WRS. The WRS is the ninth largest U.S. public pension fund and the 25th largest public or private pension fund in the world.

The investment earnings above market returns and cost saving strategies are major reasons the WRS remains among the best-funded public pension systems in the country. Approximately 75 percent of WRS benefits paid come from investment earnings generated by SWIB. SWIB's investment performance also contributed to a positive annuity adjustment for the nearly 200,000 retirees of the WRS for the fourth consecutive year.

“At a time when many public pension funds are struggling with issues related to underfunding, the WRS remains among the few that are financially strong,” said SWIB Executive Director Michael Williamson. “One key reason is the investment management provided by SWIB.”

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, 2016. The five-year return for the Core Fund, the larger of the two WRS trust funds, was 8.1 percent, which was ahead of its benchmark of 7.7 percent.

SWIB keeps costs low because it hires the best people – based on their ability to meet aggressive investment targets and add value to the trust funds – to manage funds in house at a much lower cost. SWIB staff manages almost two-thirds of the assets of the WRS for one-fifth of what it would cost to pay external managers for the same work. SWIB's greater reliance on internal management saves \$75 million per year compared to what similar funds would pay to manage the same assets. This is more than SWIB's \$53 million total annual operating budget including all staff compensation.

“Using highly skilled investment professionals makes sense for Wisconsin rather than using high cost external managers. But you must provide competitive compensation if you want to compete in this market. Bottom line, you get what you pay for, and by virtually any measure, this plan is working,” said David Stein, chair of the independent SWIB Board of Trustees.

SWIB’s incentive compensation plan has proved to be effective in hiring and keeping well-trained and dedicated experts needed to maintain the retirement system and manage investment risk.

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, which excludes highly paid organizations on the East and West coasts. The plan is primarily focused on five-year returns, which is longer-term and aligns with the time period for calculating retiree adjustments.

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