



WISCONSIN STATE LEGISLATURE

Joint Audit Committee

Committee Co-Chairs:

State Senator Robert Cowles

State Representative Samantha Kerkman

NEWS RELEASE
FOR IMMEDIATE RELEASE
November 24, 2020

For More Information Contact:
Senator Cowles ~ 800.334.1465
Representative Kerkman ~ 888.529.0061

Audit Recommends Improvements for SWIB

MADISON – Today, the nonpartisan Legislative Audit Bureau (LAB) released its biennial management audit of the State of Wisconsin Investment Board (SWIB) as report 20-23.

SWIB invests assets for the Wisconsin Retirement System (WRS), the State Investment Fund (SIF), and four other funds. As of December 2019, assets managed by SWIB totaled \$128.8 billion, 90.5 percent of which were assets of the Core Fund and Variable Fund of the WRS. The investment return for the five-year period ending in December 2019 was 7.8 percent for the Core Fund and 9.8 percent for the Variable Fund. Both funds exceeded their one-year and five-year benchmarks as of December 2019. However, the Core Fund's 20-year investment return has not met the return assumption since 2015. LAB found the Core Fund's five-year investment return ranked fifth among ten large public pension plans that it reviewed.

LAB also found SWIB's annual expenses increased by 48.3 percent from 2015 to 2019. After considering the effect of increases in assets managed by SWIB in 2018 and 2019, LAB found that the increases in SWIB expenses were primarily attributable to an increase in management fees paid for external investment management expertise. Although SWIB indicated its goal to increase the percentage of assets managed internally, LAB notes that the percentage of assets SWIB managed externally increased from 36.0 percent in December 2017 to 46.5 percent in December 2019. When comparing SWIB costs to its costs benchmark, SWIB had savings of approximately \$0.10 per \$100 of assets managed in 2013, but the level of savings has been trending downward since that year and was approximately \$0.05 per \$100 of assets managed in 2018.

“While this audit doesn't ring any alarm bells, it does illustrate the importance of keeping a consistent eye on multiple components of SWIB reporting and benchmarks,” said Rep. Samantha Kerkman (R-Salem Lakes). “The increase in costs underscores the importance of transparency in netting out all costs. Also, being mindful of potential future pressure to increase contributions, the broadening of stress-testing needs to be considered.”

The Board of Trustees authorized an additional 47.0 full-time equivalent (FTE) positions during 2018 and 2019. As a result, SWIB had 235.0 authorized FTE positions as of December 2019, which included 86.0 FTE positions for investment management staff. In addition, SWIB had 25 contracted staff positions as of August 2020. SWIB paid \$34.3 million in salaries and fringe benefits to staff in 2019. For 2019 performance, 172 staff were awarded bonuses totaling \$13.9 million, the highest total bonuses awarded in the five-year period from 2015 through 2019.

SENATOR COWLES

P.O. Box 7882 • Madison, WI 53707-7882
(608) 266-0484 • Fax: (608) 267-0304

REPRESENTATIVE KERKMAN

P.O. Box 8952 • Madison, WI 53708-8952
(608) 266-2530 • Fax (608) 282-3661

LAB recommends that SWIB expand on the manner in which it reports investment returns, improve its reporting to the Board of Trustees on carried interest information, continue to assess and reduce its contracted positions, and take steps to improve its overall data management. LAB also notes the Legislature could consider creating a statutory requirement for SWIB related to performing and reporting the results of stress tests of the WRS.

“There have been a handful of findings in recent audits at SWIB relating to data management and the accuracy and timeliness of their data and its reporting. I think that LAB has provided some very important recommendations in this audit report to help improve the collection and governance of data which will help mitigate any potential discrepancies in the future. Ensuring sufficient data is collected, maintained, secured, and reported is paramount for this institution to make the decisions it needs to regarding the state’s investments,” said Senator Robert Cowles (R-Green Bay).

Copies of LAB’s report (report 20-23) may be obtained from its website at www.legis.wisconsin.gov/lab or by calling (608) 266-2818. Report concerns related to state government activities to LAB by calling the toll-free hotline at 1-877-FRAUD-17.

-###-