

FY 2010 Annual Report



Message from the Chair



Since 2007, we have significantly increased the share of investments managed by SWIB's own professional investment staff and reduced reliance on outside investment firms. Our staff now internally manages nearly 50 percent of our stock and bond holdings, almost double the average for large public pension funds according to recent national surveys.

The net annual savings to the Wisconsin Retirement System (WRS) from active internal management currently exceeds \$26 million and is growing. Active internal management costs in the public markets for the five years ending December 31, 2009, averaged just seven basis points of assets under management, only one-quarter the cost of external management. More importantly, two recent reports from industry experts—one specifically about SWIB and the other regarding a group of large public pension funds—observed that investment results from internal management have been as good as or better than those of external management after costs.

Some public markets, such as economically emerging countries, are less suited to internal management because having staff in country can be an important part of the investment process. In private markets like venture capital and real estate, it is impractical for SWIB and most public pension funds to staff up to the level needed to internally select and manage a large portfolio of start-up companies or individual properties. Even so, SWIB staff has an important role in these markets because they select and monitor the external managers or general partners that make investments on our behalf.

Building a robust and successful internal management program requires the ability to attract and retain experienced staff. The trust funds have benefited financially from the decisions of Wisconsin policymakers and WRS leaders to support adding the staff and offering the compensation necessary for SWIB to sustain and expand low cost internal management. In fact, the cumulative added return from our internal investments in stocks and bonds over the five years ending December 31, 2009, was over \$200 million after costs.

By being directly engaged in the markets, SWIB's internal management program also helps the WRS in other important ways. SWIB is more informed in setting overall long-term strategy and can be more nimble in the volatile financial markets that continue to challenge investors.

James A. Senty, Chair