Navigating the WRS Through a Changing Global Economy

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About SWIB
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1951
was the year Legislators voted to create SWIB and granted it authority to invest the State’s funds

$122.9 billion
in assets under management in the Wisconsin Retirement System, State Investment Fund & several separately managed trust funds

9-member
independent Board of Trustees govern SWIB

235
local fulltime positions, including investment management and investment services staff, help to manage the trust funds
About SWIB

62.6% of SWIB staff hold multiple degrees and/or CFA/CPA certification(s)

52% of total assets managed internally

$54 million in cost savings on average over peers in 2018 and $1.3 billion over the last 10 years
Trust Funds Invested by SWIB

- Wisconsin Retirement Trust Funds (WRS)
  - Core Trust Fund
  - Variable Trust Fund
- State Investment Fund
- Injured Patients & Families Compensation Fund
- State Life Insurance Fund
- State Historical Society Trust Fund
- University of Wisconsin System Trust Funds
Well Funded

- WRS is one of the only fully funded public pensions in the country
  - National average is 72.5%
- More than $108 billion in assets
- 8th largest public pension fund in the U.S.
  - Over 635,000 participants
  - More than 32,700 county employees
Economic Impact

• A well-funded and well-managed retirement plan is not only good for employees, but it’s also good for Wisconsin
  – 1 in 5 residents are either a WRS member or are affected by the WRS as a family member
  – Expenditures from public pensions supported over 54,000 jobs in Wisconsin that paid $2.4 billion in wages/salaries, & generated $1.5 billion in federal, state, & local tax revenues\(^1\)

\(^1\)Pensionomics 2018: Measuring the Impact of DB Pension Expenditures, report by the National Institute on Retirement Security.
Monthly Pension Payments by County

More than 85% of VRS pensions go to retirees living in Wisconsin

KEY:
County
$ Total Monthly Payments
# of Payees

(As of March 2018)

Source: Department of Employee Trust Funds
WRS Value to Wisconsin

• SWIB-generated investment returns account for approximately 75% of the income needed to fund the WRS. The public pension average is 62%\(^1\), which means that in Wisconsin, public employers and employees bear less of the burden than those in many other states.

• The WRS paid $5.6 billion in benefits in 2018. More than 85% of WRS pensions go to retirees living in Wisconsin.\(^2\)

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\(^1\) NASRA Issue Brief: Public Pension Plan Investment Return Assumptions, Feb. 2019
\(^2\) Pensionomics 2018 (Wisconsin), NIRS
WRS Value to Wisconsin

• Expenditures of WRS benefits support:
  – 54,141 jobs that paid $2.4 billion in wages and salaries
  – $7.4 billion in total economic activity in Wisconsin (each $1 of benefits paid supports $1.42 of total economic activity)
  – $1.5 billion in federal, state and local tax revenues.¹

• A strong WRS has been cited as a factor in Wisconsin’s recent credit rating upgrades.² Credit rating upgrades lower a state’s borrowing costs

¹ Pensionomics 2018 (Wisconsin), NIRS
² “Moody’s upgrades Wisconsin GO to Aa1; outlook stable,” Aug. 2017
SWIB Governance

- Nine member Board of Trustees
- Diverse backgrounds and meeting specific membership requirements specified by statutes
- Governor appoints Chair and Vice Chair; Secretary is elected by Trustees
- Four Trustee Committees
  - Audit and Finance
  - Strategic Planning and Corporate Governance
  - Compensation
  - Benchmark and Performance
- Two staff committees
  - Investment Committee
  - Enterprise Risk and Compliance Committee
SWIB Organizational Structure

- Trustees
- Internal Audit

Management Council

- Administration
  - Communications
  - Compliance
  - Corporate Governance
  - Finance & Enterprise Risk
  - Government Relations
  - Human Resources
  - Recruiting
  - Legal

- Operations & Technology
  - Operations
  - Information Technology
  - Performance
  - Data Management

- Investment Management
  - Asset & Risk Allocation
  - Public Fixed Income
  - Equities
  - Multi-Asset
  - Private Markets
  - Funds Alpha

- Agency Business
  - Project Management Office
  - Business Analyst
  - Business Strategy
  - Transition Management
  - Separately Managed Funds
Wisconsin Retirement System
Low Cost for Taxpayers

• State & local governments in Wisconsin spend 2.1% of their budgets on public pensions (WRS is largest)

• National average: 4.7%

2019 Performance – Core Fund

Preliminary as of 12/31/19

19.9%

Benchmark: 19.2%

5-Year
7.8%
Benchmark: 7.5%

10-Year
8.6%
Benchmark: 8.1%
2019 Performance – Variable Fund

Preliminary as of 12/31/19

28.6%
Benchmark: 28.3%

5-Year
9.8%
Benchmark: 9.7%

10-Year
11.2%
Benchmark: 11.0%
Investing in Wisconsin
A Trusted Partner: In-State Investing

• SWIB’s goal is to generate solid returns for the WRS through strategic & targeted investments
  – Many investments lead to economic development & job creation

• As of June 30, 2019, SWIB had total investments of over $577 million in companies with a significant presence in the state
  – Investments are made in private equity/venture capital/debt, fixed income, public equities, real estate, multi-asset & short term funds

• Including investments in companies with some level of presence and over 20 employees, this amount increases to $22.6 billion
Dedicated In-State Portfolios

- While maintaining its fiduciary duty to manage the WRS trust funds, SWIB has identified good local investment opportunities
- SWIB has two dedicated portfolios that focus on Wisconsin
  - Wisconsin Private Debt Portfolio
  - Wisconsin Venture Capital Portfolio
Wisconsin Private Debt Portfolio

- Origins date back to the 1960s
- Since 1983, the portfolio has invested over $2.1 billion in 237 loans
  - Current loans outstanding to Wisconsin companies total just under $500 million
- Over 90% of loans have been to companies that are headquartered in, have operations in, or intend to invest the proceeds in Wisconsin
- Average annual loan pacing is approximately $70 million with an average loan size of $9 million
Private Debt Portfolio Investments

CityForest Corporation
Ladysmith, Wisconsin

- Manufacturer of tissue parent rolls selling into the converter market for napkins, paper towels, and bath tissue
- CityForest significantly expanded production capacity partially funded by a loan from Enron Corp
- Enron’s subsequent bankruptcy jeopardized the company’s future, local ownership and local jobs
- Working with the company and bankruptcy courts, SWIB provided financing to acquired Enron’s notes at a significant discount to face value
- A few years later, CityForest was able to refinance SWIB conventionally at a much lower financing rate
- SWIB’s loan ensured CityForest’s long term viability as a company while generating good risk adjusted returns for the WRS

Wisconsin Whey Protein
Darlington, Wisconsin

- Producer of cheese, whey protein and lactose for sale into the food and nutraceutical industry
- Operated by a strong management team, the company was growing rapidly and adding on new state-of-the-art production capacity
- SWIB worked with Wisconsin Whey to come up with a creative financing solution to complete the expansion
- SWIB’s loan allowed Wisconsin Whey to complete its projects which will lead to additional jobs positively impacting the local community while generating a good risk adjusted returns for the WRS
Wisconsin Venture Capital Portfolio

• Launched in 1999 investing in early stage funds & companies
• Approximately $420 million committed/invested over 18 years in funds and companies
  – Over 40% specifically targeted towards in-state investing
• 85% of the funds invest in Wisconsin
• 81% of the direct company investments are in Wisconsin
• SWIB’s annual Wisconsin investments average approximately 10% of the institutional opportunities
Venture Capital Portfolio Investments

NeuWave Medical

- Founded by a UW radiologist and a UW-Madison engineering professor
- Minimally invasive ablation technology for soft tissue lesions in the liver, kidney and lung
- SWIB and syndicate partners invested the first institutional dollars in 2009 (only a few employees at the time)
- SWIB and syndicate partners invested follow-on capital for clinical studies and commercialization
- Growing to over 100 employees, NeuWave was acquired in 2016 by Ethicon (J&J Medical Devices)
- Today, NeuWave still maintains significant operations in Madison
- NeuWave’s founding team started a new company developing tumor location technology used in lumpectomies
- SWIB’s investment helped create a lasting Wisconsin company while generating good risk adjusted returns for the WRS

Pinstripe

- Founded by two women entrepreneurs with significant backgrounds in staffing services
- Pinstripe was started to create a world class recruitment process outsourcing (RPO) business
- SWIB and syndicate partners invested the first institutional dollars into Pinstripe in 2005 (only a handful of employees at the time)
- SWIB and syndicate partners invested follow-on capital for growth and expansion
- In 2012, early investors exited the business through a growth round financing led by Accel-KKR
- Today, Pinstripe, n/k/a Cielo, is a world leading strategic RPO company located in over 95 countries with over 2,000 employees
- SWIB’s investment helped create a lasting Wisconsin company while generating good risk adjusted returns for the WRS
SWIB Intangibles

- SWIB is involved in business activities around the state working with, and investing in, both mature and start-up companies
- SWIB positively impacts the Wisconsin business/start-up community in multiple ways in addition to investment activity
  - Participation in annual Madison Chamber Pressure Chamber event
  - Participation on panels/discussion on venture capital and private debt
  - Host venture capitalists from around the country to spend time in Madison/Wisconsin to learn more about the State’s start-up community and network
  - Involved in the Badger Fund manager selection committee leading to seven new early stage managers and over $90 million of early stage capital in Wisconsin
  - Connect Wisconsin companies to outside Wisconsin venture managers
  - The Wisconsin Private Debt Portfolio will also help companies seek financing (whether SWIB participates or not)
- A healthy State economy is beneficial for SWIB’s Wisconsin portfolios
Thank You

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