



## State of Wisconsin Investment Board

### Background

The State of Wisconsin Investment Board (SWIB) invests assets for the Wisconsin Retirement System (WRS). SWIB also managed the State Investment Fund and five other funds, as of December 2017. SWIB is governed by a [nine-member Board of Trustees](#).

To fulfill our statutory requirements, we conducted a management audit of SWIB by analyzing investment returns, assessing expenses, examining staffing levels, assessing staff retention, and reviewing the investment of assets in Wisconsin. We also responded to concerns reported to our Fraud, Waste, and Mismanagement Hotline about hiring practices.

### Key Findings

As of December 2017, SWIB managed [\\$117.0 billion](#) in assets for the State. The WRS Core Fund and Variable Fund exceeded five-year benchmarks with average annual investment returns of [8.6 percent](#) and [13.3 percent](#), respectively. However, the Core Fund's investment return [did not meet the long-term expected rate-of-return](#) assumption of 7.2 percent on a 20-year basis in 2016 or 2017. The Core Fund's five-year investment return [ranked ninth among ten large public pension plans](#).

We also found:

- SWIB projects that it may earn investment returns [between 6.2 percent and 6.8 percent annually for the next five to seven years](#). Although the asset allocation SWIB established for the Core Fund is intended to protect WRS participants from a large market downturn, [we recommend that SWIB conduct additional "stress tests"](#) that focus on the effect of sustained market downturns and certain other conditions.
- From 2013 through 2017, [SWIB's annual expenses increased by 21.7 percent](#). After considering the effect of increases in assets managed by SWIB, we found the increase in annual expenses was attributable to higher management fees paid to external investment managers for more-complex investment strategies, an information systems implementation, and the hiring of additional staff.
- As of December 2017, [SWIB had 188.0 authorized full-time equivalent \(FTE\) positions](#) and also had [40 contracted staff positions](#). The Board authorized an additional 15.0 FTE positions in June 2018 to begin converting contracted staff positions to FTE positions.
- Board policies [do not require SWIB to seek additional approval](#) when actual expenses are projected to exceed the approved total budget amount.
- For 2017 performance, SWIB staff received [\\$29.4 million in salaries and fringe benefits](#) and [\\$11.5 million in bonuses](#).

### Recommendations

We [recommend](#) the State of Wisconsin Investment Board work with the Board of Trustees, as appropriate, to conduct additional stress tests of the WRS and report the test results; track future technology project expenses through a centralized process; develop policies to require Board approval for expenses that exceed the total budget; identify in reports whether investment returns include management fees and other investment expenses; report investment returns that include management fees and investment expenses to the Board; and revise its hiring policy to ensure it equally considers all qualified applicants.