



May 21, 2021

Senator Robert Cowles, Co-Chair
Joint Legislative Audit Committee
PO Box 7882
Madison, WI 53707-7882

Representative Samantha Kerkman, Co-Chair
Joint Legislative Audit Committee
PO Box 8952
Madison, WI 53708-8952

Dear Senator Cowles and Representative Kerkman,

As recommended by the Legislative Audit Bureau (LAB) in its evaluation (report 20-23) of the State of Wisconsin Investment Board (SWIB), we have prepared this report for the Committee's review. As detailed below, SWIB has addressed all of LAB's recommendations.

Recommendation: *Expand the manner in which SWIB reports investment returns.*

Since the report, SWIB has started reporting year-to-date and one-year returns net of all fees and costs on its website, in press releases, in its annual report to the Legislature, and in quarterly Board presentations. In addition, SWIB has started reporting returns for all other time periods net of external manager fees. SWIB has also started including 20-year returns in its annual report to the Legislature, in quarterly Board presentations and in other public presentations.

Recommendation: *Obtain carried interest amounts in a timely manner and report them annually to the Board of Trustees.*

SWIB obtains carried interest amounts from its external managers and reports them to the Board of Trustees on an annual basis. 2018 and 2019 carried interest amounts were reported in September 2020, and 2020 carried interest amounts are expected to be reported in September 2021. This timing lag results from the schedule on which private funds issue their annual audited financial statements to investors. SWIB has enhanced its process for tracking and reporting carried interest amounts, which it will use for the 2020 data to ensure timeliness and accuracy.

Recommendation: *Continue to assess its contracted positions and take steps to convert more to FTE positions.*

SWIB has been focused on reducing contracted positions since 2018 and has been reporting data on contracted positions to the Board of Trustees since December of that year. From 2018 through March 2021, SWIB has reduced contracted positions from 33.9 to 19 and will continue to assess opportunities to convert contracted positions to FTEs on an ongoing basis. That being said, SWIB will likely always have some level of contracted positions to address specific projects or short-term staffing gaps. Each contracted position is generally reviewed every three to six months for the continued necessity of the role.

Recommendation: *Review and assess the status of its overall data management, implement improvements, and develop a plan and timeline to improve its data management maturity.*

SWIB has reviewed its overall data management and reported to the Board of Trustees in March 2021 regarding its current maturity level and its plan and timeline to reach the target maturity. Since 2017, SWIB has made enhancements in the areas of data centralization, data delivery, data ownership, data controls and data architecture to ensure the collection and use of comprehensive and accurate data. In addition, internal audit reviewed data management in 2017, and all items from that audit have been marked complete. Data Management is expected to be further enhanced by the completion of two ongoing technology projects.

Additional Topic: *Stress Testing*

While there was no recommendation for SWIB pertaining to stress testing, the LAB report did have a section on the topic. SWIB has performed detailed stress testing since 2005, including comprehensive stress testing of a variety of market scenarios covering over 90% of potential outcomes. Stress testing focuses on both long- and short-term market changes, includes analysis of sustained market downturns, and addresses contribution rates, annual annuity adjustments, and our fully funded status. SWIB conducts much of its long-term stress testing with the ETF actuaries every two years (next planned for October 2021). Following the report, SWIB created a new tab on its public website to house the results of the joint SWIB-ETF stress testing going back to 2013 (www.swib.state.wi.us/stresstesting).

I hope this information has been helpful. We appreciate the work of the LAB audit team in covering so many important topics in this report. Thank you for your time and the opportunity to provide you with further information about SWIB.

Sincerely,



Edwin Denson
Executive Director/Chief Investment Officer

Cc: Joe Chrisman, State Auditor
David Stein, Chair, SWIB Board of Trustees