

Sen. Cowles: Audit recommends improvements for SWIB

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MADISON - Yesterday, the nonpartisan Legislative Audit Bureau (LAB) released its biennial management audit of the State of Wisconsin Investment Board (SWIB) as report 22-8.

SWIB invests assets for the Wisconsin Retirement System (WRS), the State Investment Fund (SIF), and four other funds. As of December 2021, assets managed by SWIB totaled \$165.7 billion, of which \$147.2 billion were WRS assets. As of December 2021, the WRS Core Fund exceeded its five-year benchmark, but the WRS Variable Fund did not. However, the Core Fund's 20-year investment return exceeded the 6.8 percent long-term expected rate-of-return assumption as of December 2021. LAB found the Core Fund's five-year investment return ranked third among nine large public pension plans that it reviewed.

Although SWIB indicated its goal is to increase the percentage of assets managed internally, LAB found the proportion of assets SWIB managed internally decreased from 64.0 percent in December 2017 to 53.3 percent in December 2021. SWIB's expenses increased by 64.3 percent from 2017 to 2021. LAB found that the increases in SWIB expenses were primarily attributable to an increase in management fees SWIB paid to external investment managers and a growth in the total amount of assets SWIB managed. In addition to these expenses, some private equity and real estate investments incur performance fees in the form of carried interest, which totaled \$1.3 billion in 2021. Including carried interest costs, SWIB's total investment expenses for each \$100 of assets managed increased from \$0.61 in 2017 to \$1.25 in 2021.

The Board of Trustees authorized an additional 55.0 full-time equivalent (FTE) positions during 2020 and 2021. As a result, SWIB had 290.0 authorized FTE positions as of December 2021, which included 106.0 FTE positions for investment management staff. In addition, SWIB had 23.4 contract staff positions as of June 2022. For 2021 performance, 217 staff were awarded bonuses totaling \$24.0 million, the highest total bonuses awarded in the five-year period from 2017 through 2021. The amount of bonuses awarded increased by \$2.5 million from the prior year even though the five-year excess return increased from 0.38 percent to 0.43 percent and the one-year excess return declined.

“Despite SWIB’s continued success and the ongoing strength of the WRS, there are some findings in this audit that are concerning. While I recognize the complexity of their work and the need for flexibility, this agency has added over 100 new staff positions with plans for more in coming years. Furthermore, the percentage of assets managed externally has increased, which increases costs. This is also coupled with SWIB indicating that they don’t believe they will be able to meet the long-term rate of return assumption in future years and lack a strategic plan to benchmark its target internally managed assets. While SWIB often operates at a distance from the Legislature, I think the recommendations from this audit should be implemented quickly to reverse these trends,” said Senator Robert Cowles (R-Green Bay).

“Historically SWIB does a fantastic job managing a large amount of assets, but at the same time we must recognize the areas that need improvement. While I recognize that the current economic conditions must allow for some leniency, we must ensure that SWIB is operating as efficiently as possible as with any organization. I believe the recommendations offered by LAB are useful and should be implemented by SWIB to remain a trusted entity that ensures continued financial success for Wisconsinites.” said Representative John Macco (R-Ledgeview).

LAB reported that Project Centum, one of several IT projects SWIB has initiated in recent years, is behind schedule and over budget. Overall, LAB makes 13 recommendations to SWIB for improvements, including recommending that SWIB increase the accessibility of its Board meetings to the public.