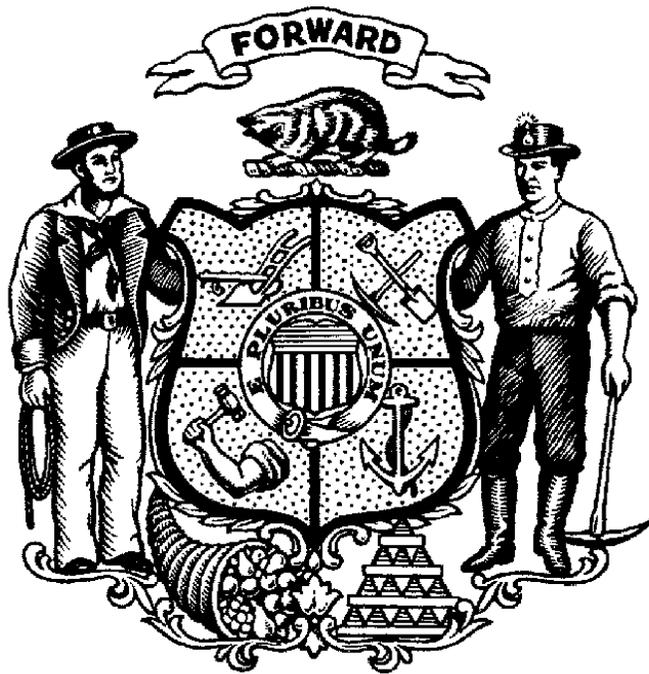


# State of Wisconsin

## Investment Board



Agency Budget Request

2021 – 2023 Biennium

September 15, 2020

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Date: September 10, 2020

To: Joel Brennan, Secretary  
Brian Pahnke, Administrator, Executive Budget & Finance  
Department of Administration

Robert Lang, Director  
Legislative Fiscal Bureau

From: David Villa, Executive Director / Chief Investment Officer  
Investment Board

Re: **2021-23 Biennial Budget Request**

Attached is SWIB's budget submission for the 2021-23 biennium. Our budget is funded entirely by charges to the funds under management (program revenue) and we seek a \$5,220,000 increase in budget authority and 33 staff positions as part of the biennial budget request. Under Wis. Stats. 25.187(2)(b), the Board of Trustees may establish the operating budget each fiscal year and monitor the fiscal management of the operating budget. The annual operating budget is developed to provide the necessary resources to manage trust fund assets and for the Board to fulfill its fiduciary duty to manage the assets in the best interest of the beneficiaries.

#### **Performance Goals and Achievements**

SWIB has surpassed most of the performance goals established in our 2019-21 biennial budget request. As can be seen in the attached Performance Measures, SWIB's Net of Fee performance exceeded investment benchmarks for the one-, five-, and ten-year periods ending December 31, 2019, for the Core Fund and the Variable Fund that make up the Wisconsin Retirement System (WRS). The WRS funds represent approximately \$112.5 billion, or 89 percent, of the total assets managed by SWIB of \$126.3 billion as of June 30, 2020. From 2009 through 2018, net investment income earned by SWIB approximated 79 percent of total funding for the WRS. That figure for the U.S. public pension system as a whole averaged 59 percent during the same time period, which indicates that in Wisconsin public employers and employees bear less of the burden than those in most other states. The WRS is one of the few fully funded public pension plans in the U.S.

SWIB's goals for the next biennium include continuing to realize external asset manager fee savings by increasing its ability to manage assets internally where appropriate and further reducing volatility of assets under management by implementing new, diversified investment strategies.

**Budget Flexibility Leads to Net Cost Savings**

With the support of the Governor and the Legislature, SWIB has used the budget flexibility granted by the Legislature to build a strong internal investment management program that is providing a significant financial benefit to the WRS. Internally managing approximately 50 percent of WRS assets helps keep SWIB's costs lower than its peers, according to CEM Benchmarking, an independent provider of objective cost benchmarking for public pension plans. In addition to cost savings, SWIB's active management has created billions in additional income for beneficiaries when compared to a simple passively constructed portfolio. SWIB's total costs have increased in recent years, but they have remained consistently and materially lower than its peers. Compared to peers, SWIB saved approximately \$54 million in 2018 and \$1.3 billion from 2009 to 2018.

**Investment Strategies and Managing Risk**

SWIB's asset allocation and investment decisions are based on selecting the best opportunities to meet the long-term investment objectives of the WRS and the other trust funds under management while taking an appropriate level of risk. Having a long-term view of performance and the investment markets is crucial when considering the amount of volatility in investment markets over the past several years. As a result, SWIB is continuing to explore and implement new investment strategies to help stabilize investment returns and, in turn, contribution rates for active employees and pension adjustments for retirees. Asset allocation and investment diversification are essential components of SWIB's long-term investment strategy.

**Investment in Wisconsin Businesses**

When economically appropriate, SWIB continues to invest in Wisconsin businesses ranging from small, family-owned companies to billion-dollar manufacturers with worldwide sales. For the fiscal year ending June 30, 2019, SWIB held assets of \$576.9 million in companies headquartered in Wisconsin or with significant operations in the state. SWIB has also invested in venture capital funds designed to identify and invest in promising young technology businesses in Wisconsin and the region.

SWIB will continue to be diligent in our efforts to keep the WRS system stable and well-funded.

We look forward to working with your staff as the budget progresses. If you have any questions, please contact Jameson Greenfield, Chief Financial Officer, at 266-9857.

## AGENCY DESCRIPTION

As of June 30, 2020, the board managed approximately \$126.3 billion in assets. The trust funds of the Wisconsin Retirement System comprise nearly 89 percent of the funds under management at \$112.5 billion in assets. As of December 31, 2019, the Wisconsin Retirement System was the ninth largest public pension fund in America and the 25th largest public or private pension fund in the world.

The board also manages the state investment fund, which invests the cash balances of state agencies, local governments and the Wisconsin Retirement System on a commingled basis. Funds are managed to protect principal, provide liquidity and enhance returns. In addition, the board manages several smaller trust funds. Each has investment objectives to fulfill specific financial needs.

The board is comprised of nine trustees, selected as follows:

- Five public members appointed by the Governor with the advice and consent of the Senate to staggered six-year terms. Four of these five members must possess at least ten years of investment experience.
- One member representing a local government that participates in the Local Government Investment Pool. This member is appointed by the Governor with the advice and consent of the Senate to a six-year term and must meet prescribed statutory eligibility criteria.
- Two members must be Wisconsin Retirement System participants. One member is appointed by the Teachers Retirement Board from among Wisconsin Retirement System teacher participants and the other is appointed by the Wisconsin Retirement Board from among Wisconsin Retirement System nonteacher participants, for six-year terms.
- One member is the secretary of the Department of Administration, or his or her designee.

## **MISSION**

To be a trusted and skilled global investment organization contributing to a strong financial future for the beneficiaries of the funds entrusted to us.

## **PROGRAMS, GOALS, OBJECTIVES AND ACTIVITIES**

### **Program 1: Investment of Funds**

Goal: Earn the best rate of investment return, with an appropriate level of risk, for each fund managed.

Objective/Activity: The board strives to exceed measurable investment goals for each fund. The investment objective for the Wisconsin Retirement System trust funds is to achieve a long-term rate of return that will help the system meet pension obligations to current and future beneficiaries. Successful investment performance reduces the amount that taxpayers contribute to the funding of system benefits and provides for increases in pension benefits. The investment objective for the state investment fund is to exceed its established performance benchmark while ensuring the safety of principal and liquidity. The investment objective for the small funds is to meet annual fund cash flow requirements, as established by their governing boards.

## PERFORMANCE MEASURES

### FY2019 AND FY2020 GOALS AND ACTUALS

Prog. No.	Performance Measure	Goal FY2019	Actual FY2019	Goal FY2020	Actual FY2020
1.	Investment returns for the Core and Variable Retirement Funds exceed market index returns for the asset classes in which the funds are invested on a net basis. <sup>1,2</sup>	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	<u>CY2018</u>  <u>Core:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes  <u>Variable:</u> 1 Year: No 5 Year: No 10 Year: Yes	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	<u>CY2019</u>  <u>Core:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes  <u>Variable:</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes
1.	Long-term investment returns for the Core Retirement Fund meet or exceed the rate of return assumed by Wisconsin Retirement System actuary. <sup>3</sup>	Net return averages at least 7.0% annually over the long term (ten years)	Met goal  CY2018 Ten-year net return was 8.4%	Net return averages at least 7.0% annually over the long term (ten years)	Met goal  CY2019 Ten-year net return was 8.2%
1.	Total costs to manage the Core Retirement Fund are reasonable when compared to peer funds with a similar asset mix and size. <sup>4</sup>	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Met goal  CY 2017 cost was 45.4 basis points (45.4 cents per \$100 managed) compared to typical costs of 58.2 basis points	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Met goal  CY 2018 cost was 44.7 basis points (44.7 cents per \$100 managed) compared to typical costs of 56.9 basis points
1.	Core Retirement Fund investment returns are in the top half of its peer group. <sup>5</sup>	Core Fund's five-year investment return exceeds the peer group median on an asset allocation adjusted basis	CY 2018  Did not meet goal  Gross return of 5.17% vs median of 5.22%	Core fund's five-year investment return exceeds the peer group median on an asset allocation adjusted basis	CY 2019  Met goal  Gross return of 7.84% vs median of 7.66%

Prog. No.	Performance Measure	Goal FY2019	Actual FY2019	Goal FY2020	Actual FY2020
1.	State Investment Fund returns exceed investment performance benchmarks. <sup>1,2</sup>	Exceed benchmarks	<u>FY2019</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes	Exceed benchmarks	<u>FY2020</u> 1 Year: Yes 5 Year: Yes 10 Year: Yes
1.	State Investment Fund returns exceed the median of comparable money market mutual funds. <sup>6</sup>	Above the median	Exceeded goal  For the year ending June 30, 2019,  the SIF return of 2.33% (Net of All Fee) compares to the top 1% of money market funds in the Crane Government Money Market Index and top 6% of money market funds in the Crane Taxable Money Fund Index.	Above the median	Exceeded goal  For the year ended June 30, 2020, the SIF return of 1.45% (Net of All Fee) compares to the top 3% of money market funds in the Crane Government Money Market Index and the top 13% of money market funds in the Crane Taxable Money Fund Index.
1.	Meet annual fund cash flow requirements as established by the governing boards for the State Historical Society Trust Fund, Injured Patients and Families Compensation Fund, State Life Insurance Fund, Local Government Property Insurance Fund <sup>7</sup> , UW System Trust Fund, and EdVest Tuition Trust Fund <sup>7</sup> .	Meet the cash flow needs of the funds	Met goal	Meet the cash flow needs of the funds	Met goal

Note:

<sup>1</sup> Returns reported Net of Fee, except where noted.

<sup>2</sup> Core and Variable Trust Fund official investment performance and measures are reported on a calendar year basis. State Investment Fund official investment performance and measures are reported on a fiscal year basis.

<sup>3</sup> The assumed rate of return is established by the Employee Trust Funds (ETF) Board, acting on recommendation of its independent consulting actuary.

- <sup>4</sup> As reported by CEM Benchmarking, Inc. Cost effectiveness reporting is performed on a calendar year basis and is available on annual calendar year lag.
- <sup>5</sup> Peer group Public Funds with over \$10 billion in assets compiled by Callan Associates, Inc. Returns measured at Gross of Fee and on an asset allocation adjusted basis.
- <sup>6</sup> As measured by the appropriate market index or peer data.
- <sup>7</sup> Performance end date for the SWIB managed Local Government Property Insurance Fund and EdVest Tuition Trust Funds was July 2019.

**FY2021, FY2022 AND FY2023 GOALS**

<b>Prog. No.</b>	<b>Performance Measure</b>	<b>Goal FY2021</b>	<b>Goal FY2022</b>	<b>Goal FY2023</b>
1.	Investment returns for the Core and Variable Retirement Funds exceed market index returns for the asset classes in which the funds are invested on a net basis. <sup>1,2</sup>	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis	Net investment returns exceed market performance benchmarks on a one-, five- and ten-year basis
1.	Long-term investment returns for the Core Retirement Fund meet or exceed the rate of return assumed by Wisconsin Retirement System actuary. <sup>3</sup>	Net return averages at least 7.0% annually over the long term (ten years)	Net return averages at least 7.0% annually over the long term (ten years)	Net return averages at least 7.0% annually over the long term (ten years)
1.	Total costs to manage the Core Retirement Fund are reasonable when compared to peer funds with a similar asset mix and size. <sup>4</sup>	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Total costs are at or below the normal cost paid by peers to manage a similar asset mix	Total costs are at or below the normal cost paid by peers to manage a similar asset mix
1.	Core Retirement Fund investment returns are in the top half of its peer group. <sup>5</sup>	Core Fund's five-year investment return exceeds the peer group median on an asset allocation adjusted basis	Core fund's five-year investment return exceeds the peer group median on an asset allocation adjusted basis	Core fund's five-year investment return exceeds the peer group median on an asset allocation adjusted basis
1.	State Investment Fund returns exceed investment performance benchmarks. <sup>1,2</sup>	Exceed benchmarks	Exceed benchmarks	Exceed benchmarks
1.	State Investment Fund returns exceed the median of comparable money market mutual funds. <sup>6</sup>	Above the median	Above the median	Above the median
1.	Meet annual fund cash flow requirements as established by the governing boards for the State Historical Society Trust Fund, Injured Patients and Families Compensation Fund, State Life Insurance Fund, and UW System Trust Fund.	Meet the cash flow needs of the funds	Meet the cash flow needs of the funds	Meet the cash flow needs of the funds

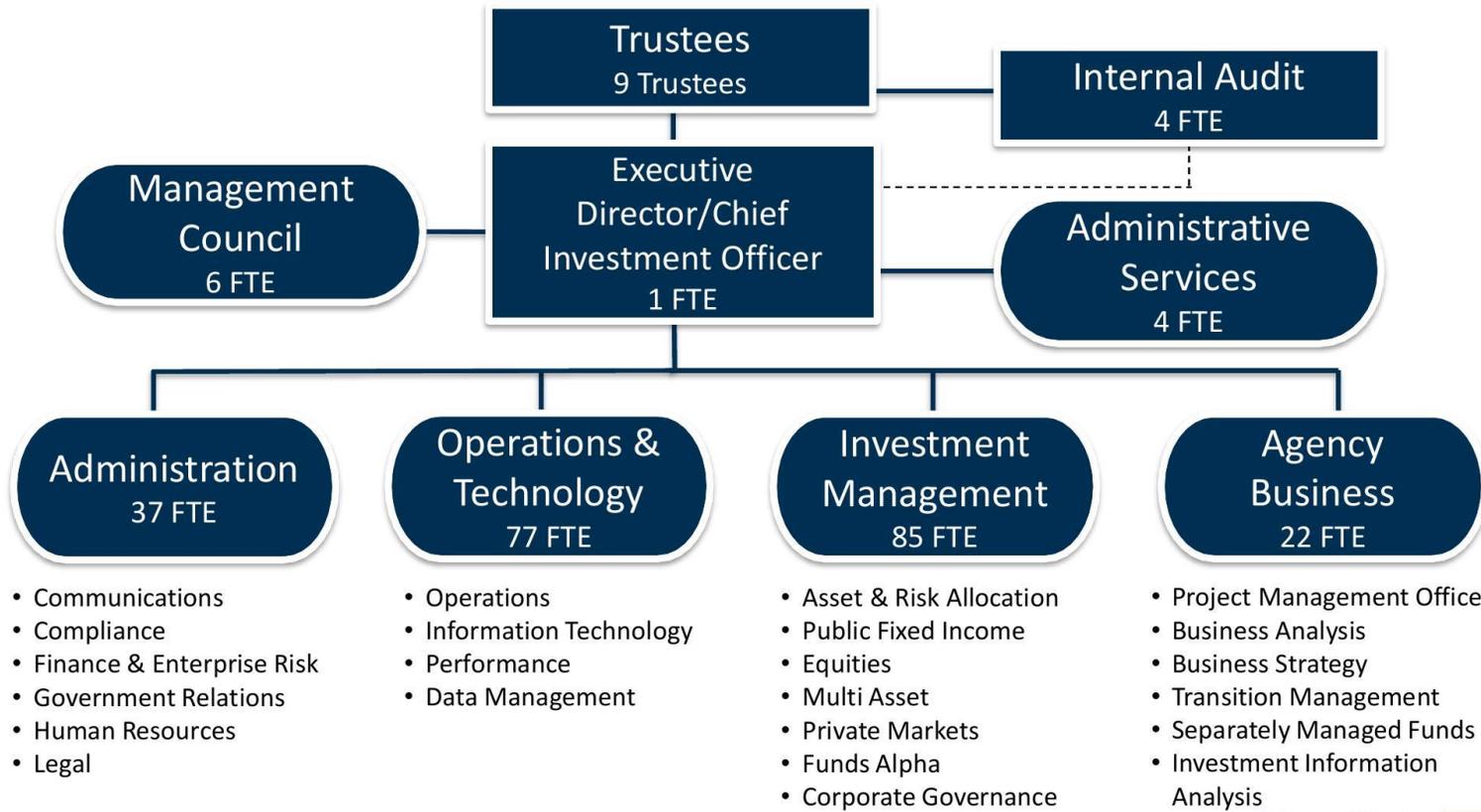
Note:

<sup>1</sup> Returns reported Net of Fee, except where noted.

- <sup>2</sup> Core and Variable Trust Fund official investment performance and measures are reported on a calendar year basis. State Investment Fund official investment performance and measures are reported on a fiscal year basis.
- <sup>3</sup> The assumed rate of return is established by the Employee Trust Funds (ETF) Board, acting on recommendation of its independent consulting actuary.
- <sup>4</sup> As reported by CEM Benchmarking, Inc. Cost effectiveness reporting is performed on a calendar year basis and is available on annual calendar year lag.
- <sup>5</sup> Peer group Public Funds with over \$10 billion in assets compiled by Callan Associates, Inc. Returns measured at Gross of Fee and reported on an asset allocation adjusted basis.
- <sup>6</sup> As measured by the appropriate market index or peer data.

# SWIB Organizational Structure

*236 FTE as of June 30, 2020*



# Agency Total by Fund Source

Investment Board

2123 Biennial Budget

Source of Funds		ANNUAL SUMMARY					BIENNIAL SUMMARY				
		Prior Year Total	Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %
PR	S	\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.0%
<b>Total</b>		\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.0%
<b>Grand Total</b>		\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.0%

**Agency Total by Program**

**536 Investment Board**

**2123 Biennial Budget**

Source of Funds	ANNUAL SUMMARY						BIENNIAL SUMMARY			
	Prior Year Actual	Adjusted Base	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE	Base Year Doubled (BYD)	Biennial Request	Change From (BYD)	Change From BYD %
<b>01 INVESTMENT OF FUNDS</b>										
<b>Non Federal</b>										
PR	\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.00%
S	\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.00%
<b>Total - Non Federal</b>	<b>\$58,328,049</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>	<b>\$135,329,400</b>	<b>\$135,329,400</b>	<b>\$0</b>	<b>0.00%</b>
S	\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.00%
<b>PGM 01 Total</b>	<b>\$58,328,049</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>	<b>\$135,329,400</b>	<b>\$135,329,400</b>	<b>\$0</b>	<b>0.00%</b>
PR	\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.00%
S	\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.00%
<b>TOTAL 01</b>	<b>\$58,328,049</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>	<b>\$135,329,400</b>	<b>\$135,329,400</b>	<b>\$0</b>	<b>0.00%</b>
S	\$58,328,049	\$67,664,700	\$67,664,700	\$67,664,700	236.00	236.00	\$135,329,400	\$135,329,400	\$0	0.00%
<b>Agency Total</b>	<b>\$58,328,049</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>	<b>\$135,329,400</b>	<b>\$135,329,400</b>	<b>\$0</b>	<b>0.00%</b>

# Agency Total by Decision Item

Investment Board

2123 Biennial Budget

Decision Item	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
2000 Adjusted Base Funding Level	\$67,664,700	\$67,664,700	236.00	236.00
<b>TOTAL</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>

**Decision Item (DIN) - 2000**

**Decision Item (DIN) Title - Adjusted Base Funding Level**

**NARRATIVE**

Adjusted Base Funding Level

# Decision Item by Line

2123 Biennial Budget

	<b>CODES</b>	<b>TITLES</b>
<b>DEPARTMENT</b>	536	Investment Board
	<b>CODES</b>	<b>TITLES</b>
<b>DECISION ITEM</b>	2000	Adjusted Base Funding Level

Expenditure items		1st Year Cost	2nd Year Cost
01	Permanent Position Salaries	\$49,136,600	\$49,136,600
02	Turnover	\$0	\$0
03	Project Position Salaries	\$0	\$0
04	LTE/Misc. Salaries	\$275,400	\$275,400
05	Fringe Benefits	\$10,615,700	\$10,615,700
06	Supplies and Services	\$7,637,000	\$7,637,000
07	Permanent Property	\$0	\$0
08	Unalloted Reserve	\$0	\$0
09	Aids to Individuals Organizations	\$0	\$0
10	Local Assistance	\$0	\$0
11	One-time Financing	\$0	\$0
12	Debt Service	\$0	\$0
13		\$0	\$0
14		\$0	\$0
15		\$0	\$0
16		\$0	\$0
<b>17</b>	<b>Total Cost</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>

# Decision Item by Line

2123 Biennial Budget

18	Project Positions Authorized	0.00	0.00
19	Classified Positions Authorized	0.00	0.00
20	Unclassified Positions Authorized	236.00	236.00

# Decision Item by Numeric

## Investment Board

Program	Decision Item/Numeric	1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
	<b>2000</b>	<b>Adjusted Base Funding Level</b>			
<b>01</b>	<b>Investment of funds</b>				
	31 General program operations	\$67,664,700	\$67,664,700	236.00	236.00
	<b>Investment of funds SubTotal</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>
	<b>Adjusted Base Funding Level SubTotal</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>
	<b>Agency Total</b>	<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>

# Decision Item by Fund Source

## Investment Board

	Source of Funds		1st Year Total	2nd Year Total	1st Year FTE	2nd Year FTE
<b>Decision Item</b>	<b>2000</b>	<b>Adjusted Base Funding Level</b>				
	PR	S	\$67,664,700	\$67,664,700	236.00	236.00
	<b>Total</b>		<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>
<b>Agency Total</b>			<b>\$67,664,700</b>	<b>\$67,664,700</b>	<b>236.00</b>	<b>236.00</b>

ACT 201

Proposal under s. 16.42(4)(b)2.: 0% change in each fiscal year

FY: **FY22 & 23**

Agency: **SWIB - 536**

Exclusions: Federal  
Debt Service

Columns A-G were prepopulated for agencies to reflect state operations adjusted base and reductions agreed to by DOA and LFB. See Appendix H for instructions on how to complete these templates.

Proposed \$ and Proposed FTE columns reflect total agency proposed spending and positions for indicated fiscal year. These amounts should include standard budget adjustments (SBAs), any proposed reallocations or reductions to meet the target, and any other requests that the agency would want considered under this proposal.

Appropriations with zero dollars and zero FTEs are not loaded into the template. If you have any questions, contact your SBO analyst.

IF YOUR AGENCY PLANS TO TAKE THE SAME CUTS OVER BOTH YEARS, YOU SHOULD ONLY FILL OUT ONE GRID FOR 0% GROWTH AND ONE GRID FOR 5% REDUCTION, THEN CHANGE FY22 TO FY22 AND 23.

Agency	Appropriation		Fund Source	Adjusted Base		(See Note 1) 0% Change Target	Proposed Budget 2021-22			Change from Adj Base		(See Note 2) Remove SBAs		Change from Adjusted Base after Removal of SBAs	
	Alpha	Numeric		\$	FTE		Proposed \$	Proposed FTE	Item Ref.	\$	FTE	\$	FTE	\$	FTE
536	1k	131	PR	\$67,664,700	236.00	0	67,664,700	236.00		0	0.00	0	0.00	0	0.00
<b>Totals</b>				<b>67,664,700</b>	<b>236.00</b>	<b>0</b>	<b>67,664,700</b>	<b>236.00</b>		<b>0</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>

Note 1: Reduction target must be met within state operations appropriations, but may be allocated across those appropriations and fund sources.

Note 2: Amounts should be SBAs (DINS 3001 - 3011) from agency request multiplied by -1.

Target Reduction = 0  
Difference = 0  
Should equal \$0

Items - Describe proposed changes (excl. SBAs) to reach target or other priorities of agency

- 1
- 2
- 3

ACT 201

Proposal under s. 16.42(4)(b)1.: 5% change in each fiscal year

FY: **FY22 & 23**

Agency: **SWIB - 536**

Exclusions: Federal  
Debt Service

Columns A-G were prepopulated for agencies to reflect state operations adjusted base and reductions agreed to by DOA and LFB. See Appendix H for instructions on how to complete these templates.

Proposed \$ and Proposed FTE columns reflect total agency proposed spending and positions for indicated fiscal year. These amounts should include standard budget adjustments (SBAs), any proposed reallocations or reductions to meet the target, and any other requests that the agency would want considered under this proposal.

Appropriations with zero dollars and zero FTEs are not loaded into the template. If you have any questions, contact your SBO analyst.

IF YOUR AGENCY PLANS TO TAKE THE SAME CUTS OVER BOTH YEARS, YOU SHOULD ONLY FILL OUT ONE GRID FOR 0% GROWTH AND ONE GRID FOR 5% REDUCTION, THEN CHANGE FY22 TO FY22 AND 23.

Agency	Appropriation		Fund Source	Adjusted Base		(See Note 1)	Proposed Budget 2021-22		Item Ref.	Change from Adj Base		(See Note 2)		Change from Adjusted Base after Removal of SBAs	
	Alpha	Numeric		\$	FTE	5% Reduction Target	Proposed \$	Proposed FTE		\$	FTE	Remove SBAs	FTE	\$	FTE
536	1k	131	PR	\$67,664,700	236.00	(3,383,200)	64,281,500	224.20		(3,383,200)	(11.80)	0	0.00	(3,383,200)	(11.80)
<b>Totals</b>				<b>67,664,700</b>	<b>236.00</b>	<b>(3,383,200)</b>	<b>64,281,500</b>	<b>224.20</b>		<b>(3,383,200)</b>	<b>(11.80)</b>	<b>0</b>	<b>0.00</b>	<b>(3,383,200)</b>	<b>(11.80)</b>

Note 1: Reduction target must be met within state operations appropriations, but may be allocated across those appropriations and fund sources.

Note 2: Amounts should be SBAs (DINs 3001 - 3011) from agency request multiplied by -1.

Target Reduction = (3,383,200)

Difference = **0**  
Should equal \$0

Items - Describe proposed changes (excl. SBAs) to reach target or other priorities of agency

- 1 The targeted \$3.4 million reduction would equate to a staffing reduction of approximately 13 total FTEs (8 investment services staff, 5 investment management staff)
- 2 This would require an estimated movement of \$5.8 billion in assets from internal management by SWIB staff to external management by asset management firms.
- 3 While costs from internal management would decrease by \$3.4 million, SWIB's total costs would only decrease an estimated \$310 thousand (net of internal cost savings) due to the higher fee structure for external management.
- 4 Particularly since 2007, SWIB has followed a policy of increasing internal management when possible because it can do so at a lower cost without giving up returns. SWIB currently manages approximately 56% of total assets with internal staff for 20% of the total costs of management. Viewed in this context, an arbitrary 5% cut in the operating budget does not make fiscal sense because it forces SWIB to incur greater external fees or to risk lower returns, or both.