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## Press Release

### **Historic market decline has significant impact on WRS**

Madison, Wisc., (*January 8, 2009*) - A global credit crisis sparked the worst year for financial markets since the 1930s and a significant decline in market value for the Wisconsin Retirement System (WRS) trust funds in 2008, according to the State of Wisconsin Investment Board (SWIB).

The Core Fund, the larger of the two WRS trust funds with diversified holdings in domestic and international stocks, bonds, loans, real estate and private equity, ended the year with a -26.2 percent preliminary return. The preliminary market value of the Core Fund on December 31, 2008, was \$57.8 billion. The Variable Fund, an optional, US and international stock fund, has a preliminary return of -39.0 percent for the year and a preliminary market value of \$4 billion on December 31.

The Department of Employee Trust Funds (ETF), which administers the WRS, will determine effective rates to be applied to active employee accounts and the WRS consulting actuary will recommend annuity adjustments for WRS retirees once these preliminary 2008 investment returns are finalized. Based on these preliminary returns, ETF estimates that Core Fund effective rates will be in the approximate range of 3 percent to 3.5 percent and annuity adjustments will be in the approximate range of -2.5 percent to -3 percent. The final effective rates and annuity adjustments will likely be announced in March.

The Core Fund's diversification helped it outperform the -37.0 percent return for the S&P500. Overseas markets fared even worse, with international stocks returning -43.6 percent and emerging markets at -53.3 percent. Core Fund returns were also helped by very little direct investment in mortgage-backed securities, no hedge fund investments, and by being underweight in the financial sector.

The Core Fund return was slightly ahead of the Lipper Index of Balanced Mutual Funds, which returned -26.9 percent as of December 31, 2008, and lagged the -24.9 percent one-year return for its custom benchmark. The benchmark includes market indices for the various types of assets managed by SWIB.

"While this has been one of our most challenging years ever, historically financial markets recover after major downturns, and much of the recovery tends to occur over short periods of time," said Keith Bozarth, SWIB executive director. "Of the last 11 bear markets, about a third of the total price recovery was earned in just the best week of recovery. It is important to stay invested to take full advantage of the market recovery."

“Although the WRS and other public pension funds felt the effect of the volatility that the stock markets experienced this past year, SWIB’s long-term investment focus helps the WRS withstand challenging economic times,” Bozarth added.

“Public pension funds nationwide have been similarly affected by this unprecedented market and, like SWIB, they are keeping themselves positioned for the inevitable recovery,” said Keith Brainard, research director for the National Association of State Retirement Administrators.

“SWIB is committed to its long-term investment discipline with stocks as a cornerstone of a well diversified strategy,” said chief investment officer David Villa. While the prospects for 2009 are uncertain, Villa noted as of year-end US stock returns had improved by 20% from their mid-November low in 2008, which somewhat improved the Core Fund’s return over the low point of the year.

SWIB continues to be proactive in pursuing ways to better manage risk and increase return potential. Several initiatives are benefiting the WRS, according to Bozarth.

In December, SWIB approved asset allocation changes to reduce the risk of extreme stock market volatility and to implement new strategies that are expected to provide even greater diversification and more added value. SWIB has reduced its public equities (stock) target by 3 percent from 58 to 55 percent and fixed income by 1 percent to 29 percent. Private equity/debt and real estate asset targets were each increased by 1 percent from 5 to 6 percent and the multi asset strategies target was increased from 2 percent to 4 percent

In 2006, SWIB began to increase its capacity for internal management to enhance returns and reduce the use of more costly external management. In 2008, SWIB moved nearly \$10.0 billion from external to internal management, resulting in an annual cost savings of \$5.2 million.

The events of the past year also highlighted the need for reform in the financial markets. SWIB is working with other large institutional investors through the Council of Institutional Investors (CII), a nonprofit, US shareowner-rights organization, to focus on potential changes in federal regulations. SWIB also remains active in its long-standing commitment to improve governance of corporations to protect shareholder’s interests.

Assets under management at SWIB are about \$66.3 billion. This includes more than \$60 billion in trust funds of the WRS, which provides benefits to over 550,000 current or former employees of state agencies, the university system, school districts and most local governments. The WRS is the 9th largest US public pension fund and the 24th largest public or private pension fund in the world.

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