SWIB STATE OF WISCONSIN INVESTMENT BOARD

Investing in Private Markets

SWIB invests the assets of the Wisconsin Retirement System's Core Fund in both public and private market investments. Private markets involve investments in companies and assets that are not traded on public exchanges like the stock market. Examples of private market investments include private equity, venture capital, private credit, and real estate. They are generally held for longer periods and are less liquid than publicly traded assets, thus offering the potential for higher long-term returns.

Benefits to the WRS

Portfolio Diversification

An increasing amount of business funding is happening through private markets instead of public markets. Participating in both further diversifies the overall portfolio.

Higher Expected Returns

SWIB's relatively long-term investment horizon and predictability of capital provide an opportunity to collect the higher returns that less liquid investments can provide.

Ability to Influence Operations

Private market fund managers are closer to the management teams of portfolio companies and can exercise a level of control (based on greater transparency) on SWIB's behalf that cannot be replicated in the public markets.

Capitalizing on Size & Scale

SWIB's size and scale allow it to access top-tier external investment talent.

Inflation Protection Plus Stable Cash Flows

Real estate in particular provides an additional source of inflation protection. Both real estate and private credit generate stable and predictable cash flows.

Risks Managed by SWIB

Illiquidity

Liquidity is monitored carefully by SWIB across the total plan to ensure obligations can be met even in stress scenarios.

Higher Fees

Top-tier private fund managers can charge premium fees. SWIB staff ensure that these fees are justified by compelling net returns (returns after all fees and costs are deducted).

Performance Variation

Performance variation among private market fund managers is significant, requiring strong diligence and selection efforts by experienced internal teams.

Valuation Risk

Valuations are updated less frequently and tend to lag market events, requiring careful monitoring to assess evidence of financial distress.

Leverage Risk

Leverage is used at various levels in private transactions, which must be factored in when evaluating both liquidity and financing risk.

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