Wisconsin Coalition of Annuitants

Minutes of Meeting January 21, 2009

The meeting was held at the Wisconsin Professional Police Association Building, 304 Coyier Lane Madison and was called to order by Chair Ed Kehl at 9:37am.

MEMBERS & ALTERNATES PRESENT: D. Beilke, WEAC-R; O. Berge, WARSDA; V. Cutler, UWMRFA; J. Elmer,WREA; E. Frank, DNR; J. Gruentzel, DOT; A. Hubbard, WSAA; G. Johnson, UWMRA; O. Jones, DOT; D. Joyce, SEA; E. Kehl, DILHR/DWD; A. Knop, WEAC-R, D. Kratz, CORR; J. Maydak, West Allis; J. Miller, DNR; J. Palmer, WPPA; D. Rohweder, ESP, B. Schaefer, SEA; J. Skiles, UWMRA; T. Speranza, RPFFW; J. Stoddard, CORR; J. Vreeland, WAUWATOSA; Zwadzich, SWIB.

GUESTS: K. Bozarth, S. Drew, S. King, D. Schmidt.

EXCUSED: J. Egan, J. Grosklaus

NEW MEMBERS INTRODUCED: Dustin Beilke WEAC-R, Vern Cutler UWMRFA, Bob Schaefer SEA.

LEGISLATIVE COUNCIL: Dan Schmidt, Senior Analyst was introduced and will be staffing the JSCRS and will compile the biennial Comparative Study. Dan replaces Bill Ford who retired.

MINUTES of the December meeting were approved as mailed.

CORRESPONDENCE: None

GUEST: Keith Bozarth, Executive Director, SWIB

Mr. Bozarth provided a handout "A Retrospective View of 2008". There were many unique events. We had a "Bubble Cycle"- Paradigm: Largest debt bubble ever beginning with the sub-primes starting in 2007, Fear: Largest de-leveraging ever which continues today, Capitulation: Risk and sentiment gauges reach emotional all-time highs, Despair: resulting in financial industry suicides. Other unprecedented events: TARP is the largest bailout ever, projected stimulus package is the largest ever, and we have the largest wealth destruction in our history. Wealth destruction is the value of assets declining in a world wide economy.

S&P 500 Bear markets find the third worst since 1929 to be 10/9/07-11/20/08 with a negative 51.9%. However, 11/20/08 may not be the low point, we don't know for sure.

Equity returns for 2008 both domestic and international were down about 40%.

End of year returns, preliminary: Core -26.2% trails its benchmark due to real estate asset class underperforming and the 2% cash assumption benchmark which is not reality for SWIB. SWIB minimizes cash, although in 2008 cash was a good performer. Variable -39% which is all equities.

Bright spots: Assets moved from external to internal management dropped 17% from 79% to 62%. Commingled funds were previously considered internally managed and are now counted externally. Large cap domestic portfolio was restructured and resulted in out-performance of 2.8% or $165M. Sector portfolio structure has six active portfolios and all finished the year ahead of the benchmarks. The government/credit portfolio also out performed the benchmark by 0.5% mainly due to end of the year gains. SWIB also avoided the "toxic" securities of sub-primes and the "Madoff's" and other questionable investments.

Low points: Equity markets, emerging markets bonds and stocks, international developed equities, and the real estate asset class all underperformed in 2008.

Internal portfolios performance: 52% of internal portfolios beat benchmarks resulting in $292M estimated value added (EVA).

The SWIB Board is discussing incentive compensation and will be rewarding the portfolios that have EVA. Subjective rewards will not be emphasized but quantitative factors of beating benchmarks will be carefully considered.

COMMENT: History of the Core is that originally it was about 95% bonds and as the markets changed the percent of equities changed to benefit the funds. This was a national trend and by about the mid 80's almost all pension investment plans had a diversified fund.

QUESTION: Is it a trend that market swings are going to be more severe than in the past with equity exposure, hedge funds, day traders and greater volatility? There have been bear markets in the past and over time companies create value, therefore you must stay in the market. There is a Market Volatility Index (VIX) that was at the same level for many years and began to rise in mid 2008 and hit a peak in Oct-Nov 2008, dropped the end of the year and is now up slightly. Hedge funds have been de-leveraging and will be changing in their appearance along with some regulation changes. There are efforts by financial investment organizations, Council of Institutional Investors and Chartered Financial Analysts, to establish regulatory revisions to be presented to congress. With government having ownership of banks and stimulus packages Washington has replaced New York as the center of the financial universe. Other countries are also making drastic financial changes. Foreign countries buying our bonds could be a concern.

Two years ago the SWIB Board began discussion on the dependence of the stock market and is there a way to give up the dependence and still have needed returns. Investment plans have around 60% equities which are needed to support the benefits mandated by legislatures. The SWIB Board did make a slight adjustment last December reducing equities 3% to 55% and will continue to discuss any alternatives. However, it does not appear that institutional investment or pension funds will make a shift in equity allocation. Asset allocation is reviewed every two years with the actuaries from ETF modeling the liabilities of the system with a stream of payments going out for decades. A current or present value is then determined and SWIB consultants model portfolios that can fund the stream of payments. Simply, the contributions plus earnings equal the benefits plus expenses. Any change affects the other parts with expenses being the smallest item.

2009 - Valuations of stocks and corporate bonds are looking attractive. There is no way of telling when the turn around will occur. There are as many predictions as there are predictors. However, there are patterns that are predictable and the markets one year after a bear market low show substantial gain or recovery with the question being what date will be the turn or bottom of the current market.

QUESTION: What is the status of the Variable? The ETF Board has taken the position to end enrollment. However, it requires legislation to change. It will continue to be 100% equities.

If any organizations are interested in a speaker they should contact Sandy Drew, SWIB or Sari King, ETF.

OLD BUSINESS: <u>WCOA Bylaws</u> - Following discussion, suggestions, questions and feedback it was decided that the Executive Committee will further review and report back at the next meeting.

<u>Annual Conference</u> - The first choice will be May 20th, our regular meeting date, with the alternate date May 21st. Ed Frank will contact Professor Duddleston of Edgewood.

NEW BUSINESS: WCOA 2009 Budget - Balance on 12/31/08 was $3,915.72

<u>MSC</u> The financial report for 2008 is accepted and approved as presented.

Following discussion on the 2009 budget the following occurred.

<u>MSC</u> The financial report for 2008 is the proposed budget for 2009

NEXT MEETING: February 18, 2009 9:30 am, WI. Professional Police Association Building.

The meeting adjourned at 11:15am

Respectfully submitted – Dick Kratz