

Wisconsin Coalition of Annuitants

www.wicoa.org

Minutes of Meeting June 17, 2013

The meeting was held at the Wisconsin Education Association Council, 33 Nob Hill, Media Room, Madison and called to order by Chair Jim Palmer at 9:32 a.m.

DIRECTORS & ALTERNATES PRESENT: D. Bennett, WREA; O. Berge, WARSDA; V. Cutler, UWMRA; B. Fendel, AFSCME; E. Frank, DNR; J. Grosklaus, West Allis; R. Hoessel, DOT; C. Howard, WEAC-R; A. Knop, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; J. Palmer, WPPA; D. Rohweder, ESP; W. Rowe, ACE; A. Wallace, UWRA.

GUESTS: A. Fendel, F. Nepple, C. Preisler, S. Sweet, R. Wojciak.

EXCUSED: B. Davis, R. Beglinger, S. Drew, J. Egan, J. Miller, B. Schaefer.

MINUTES of the May meeting were approved as mailed. Annual Conference summary provided

GUEST: Chris Preisler, Communications, SWIB

Preliminary returns for 5/30/13; core trust fund. 5.6% with a benchmark of 5.3%, variable trust fund 12.5% with a benchmark of 12.2%. Assets for the two funds; \$88.5 billion (core \$82.1 billion, variable \$6.4 billion) and total assets managed \$97.2 billion.

Several inquiries have been made to SWIB regarding the 5.6% return the end of May and a 6.3% return the end of April. The variable is up from 11.1% in April. With the market doing well, the variable equities will increase and the core with investments diversified to offset market volatility will not do as well. The core is 49.7% equities.

Total assets under management are higher today than they were the end of 2007 at \$94 billion. The core and variable in 2007 totaled \$87.8 billion. In 2008, the core and variable dropped to \$61.8 billion and total assets under management were \$68 billion. Investments in the core fund are now designed to avoid market fluctuations. This strategy has been implemented since 2008.

Mr. Preisler will write up talking points on the investment strategy that we can then share with our membership.

The 4490 Venture Fund of \$30 million that SWIB and WARF set up is presently interviewing managers. This fund is independent of both participants. It is expected that late fourth quarter or early 2014 the fund will begin operations.

The Venture Capital \$25 million fund passed in the Legislature will also involve SWIB participating only in selection of a manager. There are no WRS funds involved.

The Board met last week and approved the internal operating budget of \$44.6 million. This is an increase of approximately 19% over the previous \$34 million budget. SWIB internal management of assets has increased and is at 56%. The budget increase includes adding internal staff and additional costs in reallocation of equities from public equities into multi-asset strategies.

A handout of cost trends and total cost of management was provided. Cost in basis points for FY 2013 is 35.4 (35.4 cents per \$1,000 of assets), increasing to 35.9 for FY 2014. Total cost of management for FY 2013 is at \$329.8 million (internal \$34.1 million) and for FY2014 \$351.3 million (internal \$44.6 million) or a 6.5% increase. Internal staff increased by 10 in 2013.

Another chart shows the \$40 million annual savings by increasing internal management from 25.6% in 2008 to 60.1% of the market as of March 31, 2013. Total operating costs and investment counsel costs have not shown much of an increase; however, the public market fees have declined from nearly 50% to less than 15% of total costs.

A third chart compares the gross value added and cost. With an annual increase in assets under management, SWIB in the last four years has also earned in excess of \$2 billion above market returns after costs. Projected for 2013 is added value of approximately \$495 million at a cost of \$341 million. External managers who are now managing 44% of the assets cost 85% of the budget with internal managers handling 56% of the assets at less than 15% of the total cost. External managers are evaluated monthly for performance and fees by Wilshire Associates and SWIB staff.

With SWIB's compensation for performance program, skilled and competent employees with expertise have been retained. If the internally managed assets had been externally managed the past few years, it is likely we would not have seen any gross value added.

We as WCOA members have a better understanding of the SWIB operation than most of our membership. Our members seem to understand it, but yet do not understand the entire process, especially when they see their annuity dropping and investment managers receiving compensation awards. Letters and telephone calls have been frequent to both ETF and SWIB questioning the investment operation. ETF and SWIB communications staff has now begun monthly meetings to discuss inquiries and questions from the membership, since both agencies were receiving identical inquiries. Mr. Williamson is interested in having a response to all inquiries and reassuring and educating the membership, as well as keeping staff informed of membership concerns. Next week, ETF will be announcing the employer and employee contribution rates, which will be increasing and generating additional inquiries.

There was discussion of how to educate our membership, including the actives. It seems that most believe SWIB operates like an individual broker; however, with 500,000 members and almost \$100 billion there is a greater concern for return and risk. What would the system look like without external managers, without value added, without compensation awards, and some of the other areas that members have suggested altering? Does our membership realize what's going on in other states such as Illinois and cities such as Detroit? The WRS has never publicized comparisons, but relies on external reports such as the Pew Report, Legislative Counsel comparative study, and the media. How do we as WCOA members convey to our membership an understanding of the WRS?

LEGISLATIVE REPORT: None

CORRESPONDENCE: None

OLD BUSINESS: The annual conference summary and the presenters' power points are all online at our website: www.wicoa.org

There was discussion on attendance at the conference. We did not have an increase in attendance and only a few new attendees. In 2012 we had 145 registrations and this year 95, with only seven new participants. A number of WRS members thought the annual conference was restricted to WCOA members, rather than open to anyone. If information is disseminated monthly, is an annual conference necessary? Is the cost of \$25 too much? Do we need to increase our organization membership with active groups? How do we reach the newly retired? What do we want the conference to accomplish? We need to emphasize the conference is open to everyone.

Following a brief discussion, the following motions were carried.

MSC The WCOA secretary be given a \$150 honorarium.

MSC The WCOA treasurer be given a \$100 honorarium.

NEW BUSINESS: None

TREASURER'S REPORT: After conference expenses we have a conference balance of \$211.53. The treasurer provided a detailed income/expense report with a current balance of \$7155.15.

Treasurer's report accepted as presented.

NEXT MEETING: August 19, 2013 9:30 a.m., Wisconsin Education Association Council, 33 Nob Hill, Media Room, Madison. (We will not meet in July) Thanks to Allen for making arrangements with WEAC for use of their media room for our ten meetings in the next year. We will meet the third Monday of each month with the exception of July and May.

The meeting adjourned at 11:05 a.m.

Respectfully submitted – Dick Kratz