STATE OF WISCONSIN INVESTMENT BOARD
1. Why and how we invest in alternative investments
2. Real Estate
3. Private Equity
4. Hedge Funds
$98 billion USD (at June 30, 2014)
- $90.7 billion Core Trust Fund (CTF)
- $7.3 billion Variable Trust Fund (stocks only)

578,800 participants
- 173,600 retirees
- 255,300 active employees
- 150,000 inactive member

Funded Status
- Annual required contributions
- Risk sharing formula
Differentiating Factors

- Excellent governance structure, created by statute
- Independent board
  - Board sets policy for investments, allocation, and risk
  - Delegates investment discretion, performs oversight
- Professional staff
  - Board hires Executive Director and Audit Director
- Oversight process
  - Legislative Audit Bureau
  - Joint Finance Committee & Joint Audit Committee
  - Governor’s Office and Executive Branch
  - SWIB Board
  - Constituent Groups
INVESTMENT STRATEGY DISCUSSION

- **Make Money**
  - 2007 “prudent investor” law, due diligence process
  - Optimize portfolio structure, returns net of fees
  - Anticipate economic regime changes
  - Lessons from 2008, Great Financial Crisis
  - Alternatives diversify returns, add alpha

- **Manage Risk**
  - Passive, “beta”, risk
  - Active risk

- **Optimize Costs**
  - Focus on internal management, no fund of funds
  - High priority for staff, “costs do matter”
  - Bargaining power arises from SWIB investment size
CAPITAL MARKETS ASSUMPTIONS

*Forecasted returns over multiple economic cycles*
HOW WE INVEST IN PRIVATE MARKETS

- Equity and debt
- Private market investments, exposure to public markets, e.g. via IPO’s

**Structures**
- Limited Partnerships, unspecified holdings
- Joint Ventures (real estate)
- Wholly owned, separate accounts (real estate)
- Corporate Co-Investments (private equity)
WHY WE INVEST IN REAL ESTATE

- Long-term capital preservation
- Stable income stream
- Diversify CTF returns, reduce “policy” risk
- Leverage, able to access lower cost capital
- Bond and Equity like qualities – some inflation hedge
- Well managed active risk
- Illiquidity premium
HOW WE INVEST IN REAL ESTATE

Property Types

- Office
- Retail
- Residential – Apartments, Student Housing, Senior Housing, Single Family
- Industrial
- Hotels
- Other – Self Storage, Medical Office Buildings
WHY WE INVEST IN PRIVATE EQUITY

- Greater inefficiencies in markets for private companies = higher returns
- Alpha generator – long-term outperformance over public markets
- Access to top-tier General Partners with operating and investing expertise
- Diversification – strategy, industry, geography
- Leverage, able to access lower cost capital
- Well managed active risk
- Illiquidity premium
Strategies

- Buyouts – Emphasis on Small and Middle-Market Funds
- Distressed and Special Situations
- Venture Capital / Growth Equity
- Mezzanine Debt
- Secondaries (currently a seller’s market)
- Co-Investments (relatively new initiative)
WHY WE INVEST IN HEDGE FUNDS

- Produce non-correlated “Alpha” return stream
- Access highly skilled active managers
- Increases breadth in opportunity set and potential for more persistent, consistent return stream
- Selective investment in, and benefit from, innovation in capital markets
- Quality risk-adjusted return stream
HOW WE INVEST IN HEDGE FUNDS

- Direct investment, not via Fund of Funds
- Construct a portfolio as an “Alpha”, not substitute for stocks
- Diversify across hedge fund strategies
  - Macro
  - Equity Long/Short
  - Credit
  - Event Driven
  - Fixed Income Arbitrage
  - Market Neutral
- In liquid strategies, very little Level III assets
- All managers submit holdings to third party risk aggregator