



The SWIB Report

Published by The State of Wisconsin Investment Board For WRS Participants

October 2005

HIGHLIGHTS:

Communications Survey:

SWIB is conducting a random sample survey of WRS participants this fall. The survey will be mailed to 3,000 people. Its focus is SWIB's communications, and includes questions about our website, printed materials and other types of information. The purpose is to understand fund participants' questions and determine ways to improve communications about the investment of the trust funds. We welcome questions and comments at any time.

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Performance Update

The performance of the Fixed and Variable Funds is up as we move into the final quarter of 2005. The **preliminary calendar year-to-date return for the Fixed Fund was 6.0% as of September 30**, ahead of the 5.6% return for the benchmark. The **Variable Fund return was 5.6%** compared to 5.4% for its benchmark.

Based on calculations provided by the Department of Employee Trust Funds, there will be no Fixed Fund dividend for annuitants for 2005 if the end of the year investment return is between approximately 1.15% and 6.3%.

Throughout the year, markets have remained volatile and continue to be impacted by fluctuating oil prices, Federal Reserve interest rate moves and other economic considerations. Emerging markets (markets in developing countries) are doing exceptionally well year-to-date.

The impact of investment returns on Wisconsin Retirement System participants is determined by the Department of Employee Trust Funds and is based on the rate of return as of December 31. Preliminary 2005 returns should be posted on the SWIB website by mid-January.

Focus on long-term performance is best approach for WRS funds

"We are a long-term investor."

That phrase is commonly used by SWIB when referring to our investment strategy. But, with today's financial world often focused on short-term results, some participants may wonder why we still emphasize the long term.

Generally, retired participants view investment results with an eye toward whether there will be an increase or decrease to their annuity each year. Participants who are many years from retirement may be more interested in the long-term growth of their pension fund account. Investment earnings have an important role: helping to ensure funds are available to provide pension benefits to both current and future retirees.

Funding the retirement system has an objective of an average 7.8% annual investment return over the long term. Achievement of this

Ten-Year Return

as of 09/30/05

Fixed Fund ----- 9.2%
(SWIB's long-term goal is 7.8%, the assumed rate of return for WRS.)

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SWIB hires Hamblen as chief legal counsel



Jane Hamblen

Jane Hamblen is SWIB's new chief legal counsel, filling the position vacated by **Keith Johnson** who recently left to start his own consulting firm. She served as assistant attorney general for investments and employee benefits for Wisconsin's Department of Justice since 1995, acting as primary legal advisor to both SWIB and the Department of

Employee Trust Funds. Prior to that, she spent 17 years in private practice in New York City, including eight years as a partner at the law firm of O'Melveny & Myers. During that time, she specialized in securities and corporate law and corporate financial transactions. She received law degrees from Cambridge University in England and the University of Texas Law School. She also received a bachelor's degree in English from Rice University in Houston.

"SWIB is very fortunate to have found an individual with the unique background and knowledge that Jane has," said Dave Mills, SWIB's executive director. SWIB conducted a national search for the position.

Bablitch named DOA head, plans to continue as Trustee



Steve Bablitch

SWIB Trustee **Steve Bablitch** has been appointed by Governor Doyle to serve as Secretary of the Department of Administration (DOA), replacing **Marc Marotta**, who will return to the private sector.

Bablitch, who was appointed to the SWIB Board by the Governor in April 2004, plans to continue to serve as a SWIB Trustee by virtue of his new role at DOA. **Laura Engan**, who has served as Marotta's designee, will no longer serve on the Board. The Board indicated that they greatly appreciated the many contributions Laura made over the past few years. As a result of the changes there will be a board opening that will be filled by a gubernatorial appointee.



Laura Engan



Governor Doyle (right) talks with Charles Carpenter, private markets managing director (middle) and Board Chairman James Senty (left).

Governor attends reception

Governor Jim Doyle addressed about 150 people which included Trustees, staff, Wisconsin Retirement System participants and other guests at the annual reception held in September. "I want to thank the Investment Board members and staff for their hard work," he said. "Our Investment Board is the envy of the nation, and the State of Wisconsin is proud to have an organization of this caliber working on behalf of its retired public employees."

Staff changes announced

SWIB is pleased to announced several changes to the investment staff.

Doug Peck has been promoted to portfolio manager of a newly created large-cap portfolio. He joined SWIB in 1998 as an equity analyst, was promoted to assistant portfolio manager for the healthcare portfolio in 2003, and in 2005 became assistant portfolio manager of the large cap diversified portfolio.

Joe Woerner has been promoted to assistant portfolio manager, health care sector. He has been serving as a senior analyst for this portfolio since 2003. Prior to that, he was analyst and assistant portfolio manager for the mid-cap domestic equities portfolio. Joe joined the SWIB in 1996 as an analyst.

Scott Parrish will join SWIB as the assistant portfolio manager - private equities. For more than six years, Parrish managed a private equity portfolio for the Teachers' Retirement System (TRS) of the State of Illinois. He also served as an investment analyst and investments assistant.

SWIB gains flexibility

A recent SWIB study confirmed that the best investment returns after expenses have come from SWIB staff in some markets and external advisors in others. To achieve the best possible return, SWIB needs to invest funds based on the best opportunities and the recently passed state budget gave SWIB more flexibility to adjust the mixture as markets change.

The budget, which supports the 28% of WRS assets managed by our own staff, is set by the market value of assets and can fluctuate. For the first time since 1999, the state budget raised our minimum funding, allowing us to continue to fund essential costs if a severe market decline reduces the current value of assets.

In addition, the budget raised the limit on assets that can be managed by external advisors from 15% to 20%. Currently, about 14% of WRS assets are managed by external advisors and held in SWIB's name.

About 58% of WRS assets are commingled with other investors and managed by outside advisors (much like a mutual funds). This category includes stock and bond index funds, and also real estate and private equity funds.



Jeffrey Diermeier speaks to reception guests.

Ethics is good business

Jeffrey Diermeier, president and CEO of the CFA Institute, spoke on investment ethics at SWIB's annual reception in September. He discussed steps that investors can take to ensure that company management is aligned with the best interest of shareholders. He also highlighted some of the difficulties created in the industry by conflicts of interest and other financial scandals. The CFA Institute is a worldwide 70,000-member professional association that administers the Chartered Financial Analyst® curriculum and examination program. The presentation is available at www.swib.state.wi.us.

A peek into the future...

State technology development is discussed at Board meeting

What new Wisconsin-based technologies will provide the impetus for future investment opportunities? Three experts with their fingers on the pulse of emerging technologies and new business opportunities developing in Wisconsin were invited to share their thoughts about future developments at the August board meeting.

Panel members were **Mark Bugher**, Director, University Research Park; **Tim Keane**, Marquette University Entrepreneur in Residence and Director of Marquette Golden Angels; and **Paul Peercy**, Dean, UW-Madison College of Engineering.

Bugher said University Research Park's success is a positive sign of the emerging technology effort in Wisconsin, indicating that the group is expanding as it expects new business opportunities to grow from today's research, adding that Research Park will be expanding to meet growing demands. Investment capital is needed to turn leading edge research into profitable businesses. However, panelists noted that expanding the high technology economy also depends on other factors, including the willingness of new businesses to stay in Wisconsin.

Science and technology are expected to be at the center of new developments and the state does have the potential to play an important role, the group said, adding that SWIB's past investments have helped build the foundation that makes this possible.

Dave Mills, SWIB's executive director, emphasized that SWIB's decisions about investments in Wisconsin companies depend on what is best for the retirement funds. "The Board regularly invites speakers to discuss possible investment opportunities. The panel provided a number of helpful insights," he said.

"SWIB is evaluating the strength of the market for venture capital investments and this panel helped Trustees to understand what is happening in the state," said Monica Jaehrig, Wisconsin private equity portfolio manager.



SWIB seeks to identify companies supporting terrorism

Investing retirement money for more than 520,000 people is a big job guided by a basic principle: Make decisions that are solely in the best interests of fund participants.

Our portfolio managers analyze the risk associated with each investment following investment guidelines established by the Board of Trustees.

One of the steps in our process is to check investments against a list of sanctioned entities and individuals prepared by the Department of the Treasury, which administers economic and trade sanctions based on U.S. foreign policy and national security interests. Many of the sanctions are based on United

“Like other public pension systems, SWIB does not want to invest inadvertently in companies that the U.S. government has identified as supporting terrorism...”

Nations and other international mandates. However, this list does not provide a comprehensive picture of all business activities of individual companies in countries which may have links to terrorism.

Like other public pension systems, SWIB does not want to invest inadvertently in companies that the U.S. government has identified as supporting terrorism, either directly or indirectly, through their operations in foreign countries.

SWIB and other investors do not have the expertise or resources to identify such companies. And that

is our challenge. We are working with other large institutional investors to find a solution. It can best be provided by the

federal government giving direction and information to us about companies operating contrary to U.S. policies and regulations. Federal agencies are required by law to identify, monitor and sanction companies with business or financial ties to terrorist sponsoring countries.

To avoid the terrorism issues, investors should be able to access clear, concise information about the types of operations that a company may have in a country that supports terrorism or that is otherwise subject to federal sanctions. (Please visit www.swib.state.wi.us/sudan_letter.pdf for more information.)

Long-term *(continued from page 1)*

objective helps to stabilize member and taxpayer contributions and helps annuities keep pace over time with increases in the cost of living. This figure takes into account that in some years investment gains may be greater while in other years there may be losses.

SWIB's overall investment decisions are based on selecting the best opportunities for meeting these long-term objectives, to keep the system strong and viable now and in the future.

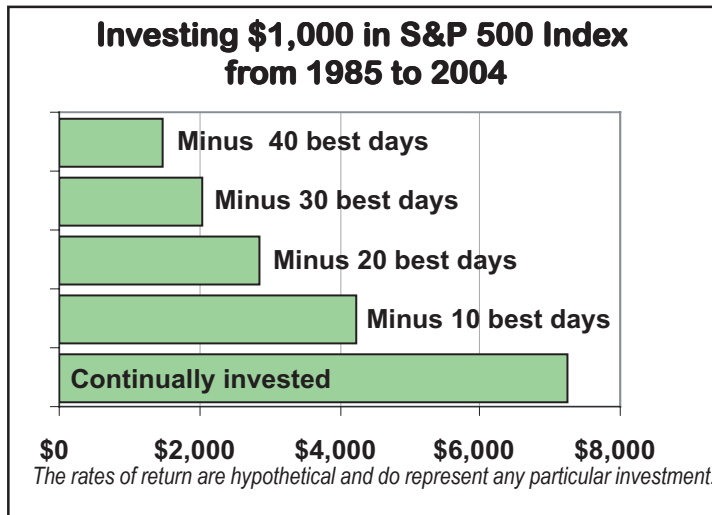
A focus on immediate returns will be driven by a strategy very different from one that is looking ahead to provide retirement funds for thousands of public employees in the future.

The investment mix in the Fixed Trust Fund is expected to provide the 7.8% rate of return over time.

The long-term focus of our stock and bond investments means we are not forced to change investment strategy when there are market corrections. In fact, long-term investors like SWIB may find buying opportunities when short-term investors sell during down markets.

There is another important consideration to a long-term strategy. Staying invested is likely to be much more successful than trying to time the markets. It is possible that being out of the stock market for even a few days can make an enormous difference in the amount of long-term gains investments make.

Patience can be rewarding



Staying in a volatile market can test an investor's patience. However, the evidence is overwhelming that staying the course through up and down cycles is the best strategy for long-term investors like SWIB. Investors who are out of the stock market for its few best-performing individual days miss a substantial portion of market gains for longer periods.

As indicated by the chart above, the difference between being continually invested and missing the ten best days was about \$3,000, or 40% of returns for the 20-year period from 1985 to 2004. Stocks have been a major factor in the gains that WRS participants have experienced in their retirement accounts.