

# SWIB REPORT

August 2008 Issue :: Published For Wisconsin Retirement System Participants

## Want to learn how SWIB's strategy helps during market downturns?

SWIB's investment process is based on selecting the best investment opportunities for meeting the long-term objectives of the Wisconsin Retirement System. This approach differs from a focus on immediate returns.

If you would like to learn more about the role SWIB's investment strategy plays in helping to keep the pension system strong, visit <http://www.swib.state.wi.us/updates.asp> and select "Strategy Helps Retirement Funds In Market Downturns."

### 2008 Board Meetings

October 8/9\*  
November 12  
December 10

Agendas are posted on our website. Dates may change.

\*Held at an off-site location

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## Some bright spots in down markets

As anticipated, troubled financial markets continued during the first half of 2008. Many market experts predict the remainder of the year will bring more of the same due to volatile prices for oil and surging prices for other commodities, a weak housing market and credit crunch.

### Calendar Year-to-Date Preliminary Returns

As of 7/31/08

**Core Fund .....-7.1%**  
**Variable Fund..... -12.2%**

The Core and Variable Funds reported negative returns for the first seven months as the stock market downturn that began in the fourth quarter of 2007 deepened. Fixed income had an overall positive return as of the end of July helping to offset downturns in other markets and demonstrating the importance of diversification.

From the long-term viewpoint, the Core Fund is still out-performing its benchmark for both the five-year and ten-year returns. The preliminary five-year return through July 31 is 10% compared to a benchmark of 9.8% and 6.7% versus 6.3% for the ten-year return.

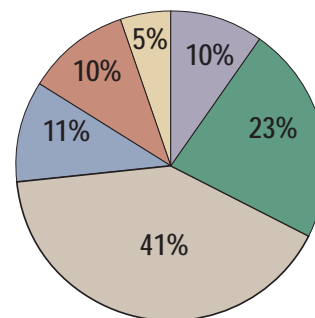
SWIB has instituted a number of initiatives to strengthen long-term returns and reduce risk. SWIB restructured its internally managed US large company stock portfolios. SWIB is also moving funds from external to internal management to reduce costs and increase net returns. (See story below for details.)

## Initiative shows early success

While SWIB is always looking for good investment opportunities, especially during a market downturn, we are also seeking other ways to manage the WRS assets more effectively and efficiently. Here's more about two of several recent initiatives SWIB has undertaken after an extensive review of best practices in the industry. These changes are designed to better manage risk

### Sector Portfolio Comparisons

SWIB has allocated \$1.1 billion to its sector portfolio strategy. The breakdown of these equity sectors is:



Materials      Health Care  
Con. Discretionary      Information Tech  
Financial      Industrials

Continued on page 2

## Initiative Continued from page 1

and increase return potential.

So far, the results look promising.

First, at the end of 2007, SWIB realigned its three large company domestic stock into portfolios that cover market sectors and reorganized the staff to provide more efficient market coverage. As a group, the six large company sector portfolios implemented to date were ahead of their benchmarks as of July 31. The new structure gives managing analysts individual discretion over trades within their assigned market sector, making the most of their knowledge and expertise. The six sectors staffed to date are consumer discretionary, financial, health care, industrials, technology and materials.

Four additional sector portfolios will be implemented as

resources become available. The next consideration is to expand the sector portfolios from a domestic focus to investing globally to better address markets and an evolving business environment.

Second, since the beginning of 2008 we have also moved nearly \$3.4 billion from external to internal management. The use of external managers in certain areas – such as emerging markets, which requires highly specialized skills and expertise – continues to be an effective strategy. The cost of outside managers is higher than the cost of adding staff to manage money. The result is that SWIB is saving on fees to external managers.

SWIB has always had a focus on internal money management, but a growth in assets and restraints on resources meant

more assets were moved to external managers over the years. Last year, SWIB requested resources to handle the greater internal asset management and to enable SWIB to compete for the skilled staff needed for that task. It was approved.

That has also allowed us to continue to seek new opportunities through a diligent process to determine the best ways to manage WRS trust funds. This ability to pursue new investment opportunities needed to compete in a quickly changing investment universe is a result of the support from participant groups, Legislators and the Governor.

## Alliance Bernstein CEO is presenter

Lewis A. Sanders, chairman of the board and chief executive officer at Alliance Bernstein, will be the featured speaker at SWIB's annual reception on Tuesday, September 9.

His presentation will begin at 4 p.m. in the Lecture Hall located on level 4 at Monona Terrace Community and Convention Center, 1 John Nolen Drive, Madison. A reception will follow in the Community Terrace on level 2. R.S.V.P. by calling Barbara Hauge at (608) 267-6709.

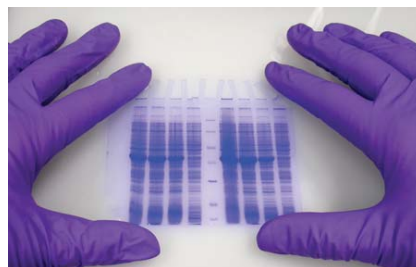
Hors d'oeuvres will be served after the presentation and, in accordance with state law, there will be a nominal fee of \$10. The regular Board meeting will be Wednesday, September 10 at the SWIB offices, 121 E. Wilson St. Both events are open to the public.

## SWIB invests in state-based fund

SWIB will invest \$25 million in Baird Venture Partners Fund III. Baird Venture Partners, a venture capital group affiliated with the Milwaukee-based, Robert W. Baird & Co., focuses on early- and expansion-stage companies in the healthcare/life science and business services sectors.

In addition to the \$25 million commitment, \$15 million will be used for direct co-investments in portfolio companies that have been financed or will be financed by partnership funds.

"We believe that there are attractive venture capital investments here in Wisconsin and the Midwest and are very excited about the opportunities ahead," said Chris Prestigiacomo,



SWIB's portfolio manager.

"Baird's new fund is a great opportunity to continue supporting Wisconsin venture capital funds and to build on an existing relationship," said Keith Bozarth, SWIB executive director.

*Learn more about SWIB and Wisconsin Venture Capital on the Internet at [http://www.swib.state.wi.us/VC%20\\_WhitePaper.pdf](http://www.swib.state.wi.us/VC%20_WhitePaper.pdf)*