



The SWIB Report

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To WRS Participants

Headlines regarding the investment industry are common occurrences today. One of our biggest challenges is providing information to help the 478,000 WRS participants keep up-to-date on how today's news may affect the pension system. The update on page 1 looks at returns for the calendar year and some market factors impacting our investment performance. Information on Enron is provided on page 2.

Recently we surveyed 1,300 employers in the retirement system about communications with SWIB. Thank you to the hundreds of employers who responded. We had a 70% response rate, which is extraordinary. Results are helping us provide the information you need. As part of this effort, employers are now receiving this quarterly newsletter and we are planning other ways to keep participants informed.

If you have comments or questions about the investment of retirement funds, please contact us.

Patricia Lipton, **Executive Director**

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Performance Update:

In one of the most difficult markets on record, the Fixed and the Variable Trust Funds remained ahead of performance benchmarks at year-end.

The Fixed Fund, with a return of -2.3%, outperformed its benchmark by about 2.2%. The -4.5% return for the benchmark represents the combined performance of the markets in which the Fixed Fund invests. The Variable Fund, a stock fund that was reopened to actively employed WRS participants in 2001, returned -8.4% for the year, ahead of its benchmark by about 4.5%. The benchmark, which returned -12.9%, reflects the Fund's investment in various domestic and international markets.

In addition, both Funds remain ahead of their respective benchmarks for the five- and ten-year annual average return.

Annualized Performance Ending 12/31/01			
Retirement Funds	1-year return	5-year return	10-year return
Fixed Fund	-2.3%	8.5%	10.3%
<i>Benchmark</i>	-4.5	7.8	9.2
Variable Fund	-8.3%	9.2%	11.8%
<i>Equity Benchmark</i>	-12.9	7.1	10.5
<i>S&P 500</i>	-11.9	10.7	12.9

Market Overview

Although SWIB regained the paper losses that followed the September 11 terrorist attack, the markets continued to roller coaster through the end of 2001. During that time, two companies -- Enron and Kmart -- were featured in the news. While SWIB experienced losses as a result of holdings in both companies, the holdings were a small percentage of the total \$58.5 billion Wisconsin Retirement System assets.

Stock losses in Enron, which is under investigation, totaled \$40.1 million. Some losses may be recovered. SWIB still holds bonds that were purchased for \$46.3 million. The bankruptcy process will determine how much bondholders receive once all assets are sold and distributed. (See page 2 for more details.)

SWIB lost \$4.5 million in Kmart investments when the company filed for Chapter 11 bankruptcy. We still hold stocks and bonds purchased for \$10 million. In addition, we have \$32.6 million in private placement loans, which are secured by real estate. We expect the value of the properties to exceed the balance of the loans outstanding.

Q & A: Enron Impact

Question: Will the state's investments in Enron reduce my retirement benefit?

No. By itself, the Enron loss is not large enough to have an impact on retirement dividends in 2002. The total amount of Enron investments equals a small percentage of the nearly \$60 billion assets of the Wisconsin Retirement System. Stock losses in Enron totalled 0.07% of the WRS assets. Bond holdings were 0.06% of the total assets of the Fixed Fund and are considered a paper loss as we still hold the bonds and anticipate some recovery.

Question: What actions has SWIB taken regarding the Enron issue?

There are both class action and bankruptcy cases involving Enron. The Investment Board is participating in legal action by shareholders and bondholders to recover losses. SWIB is also working with other large investors to seek changes that could help prevent a case like Enron's from happening again. These actions include the following:

- Asking the SEC to reconsider regulations enacted last year that allow auditors to provide consulting work to audit clients. Arthur Andersen provided consulting work to Enron in addition to financial audits and that created a potential conflict of interest.
- Joining other members of the Council of Institutional Investors in seeking changes like strengthening securities laws, SEC regulations and stock exchange rules.
- Cooperating with the Attorney General's office to support efforts of other litigants to prevent Enron insiders from depleting proceeds of their insider trades while lawsuits to recover damages from the insiders are pending. *(For more details contact SWIB or visit <http://www.swib.state.wi.us/Enron.pdf>.)*



Chairman Alan Greenspan (at left) of the Federal Reserve Board listens as SWIB's John Zwadzich, Investment Director, Public Fixed Income, shares some thoughts about the markets at a recent conference.

2001 Annual Report Available

The Financial Report and Schedule of Investments for the fiscal year ending June 30, 2001, are now available. To receive a printed copy of either document, contact SWIB at our email address, info@swib.state.wi.us, or call toll-free, (800) 424-7942, or 267-0957 in Madison. The Annual Report and Schedule of Investments can also be downloaded from the SWIB website at www.swib.state.wi.us.

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