



Annual Report | Fiscal Year Ended June 30, 2012
State of Wisconsin Investment Board

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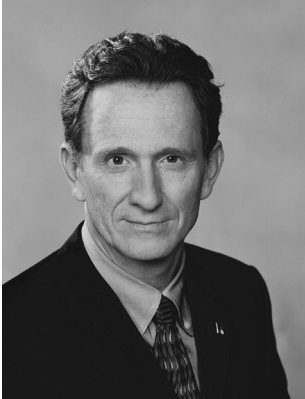
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Introduction

Message from the Executive Director



The financial turbulence of the past several years has had a major impact on many public pension systems across the country. Like you, I have seen and read the stories of unfunded public pension debt and of the significant changes being made to the

structure of many pension plans. These stories have become more common as systems struggle to meet their obligations.

Despite the financial challenges facing many public pension plans, the Wisconsin Retirement System (WRS) remains strong and is the only fully-funded public pension plan in the country. It was encouraging to read a national report recently released by the Pew Center for the States that refers to the WRS as a “solid performer” because of the system’s ability to meet its benefit obligations for current and future retired Wisconsin public employees. I was also encouraged with the results of a recent state study conducted by the Department of Employee Trust Funds, Department of Administration and Office of State Employment Relations which found that the WRS is an efficient and sustainable retirement system. The study points out that because of its unique shared risk and reward structure, consistent contributions and solid investment returns, the WRS has been able to weather much of the recent financial storm.

In recent years, the State of Wisconsin Investment Board (SWIB) staff and Board of Trustees have worked hard to assure the WRS is able to continue to meet its obligations today and in the future. SWIB has added new staff and technology, improved the selection

and oversight of external money managers, is managing more money internally at less cost, and is using new ways to manage risk while generating added returns. The result has been that over 75% of the WRS is funded today through investment returns. These studies and improvements done in recent years underscore the fact the WRS investments are being managed by a highly competent and professional staff. As I begin my role as executive director of SWIB, it has become clear to me why SWIB has developed a reputation of being in the forefront of investing in these challenging times. I am excited to lead an organization that has laid the foundation for success.

While the WRS stands on solid ground today, it has become equally as clear to me that we must continue to be diligent in our efforts to keep the system stable and highly funded. We will continue to implement diverse investment strategies that are designed to help the system withstand the extreme volatility of the world’s financial markets. And, we will continue to seek out cost-saving strategies for managing the WRS trust funds. You can rest assured, that we at SWIB will do our part to generate returns that will keep the WRS among this country’s public pension leaders.

The coming years may bring more financial turbulence and the stories of problems for public pension funds around the country may continue to grab our attention. However, SWIB will do all we can on the investment front to provide a safe and secure retirement for the WRS participants.

A handwritten signature in black ink, appearing to read "Michael Williamson", with a stylized flourish at the end.

Michael Williamson
Executive Director

Mission

To provide prudent and cost-effective management of funds held in trust by the State. This is achieved with solid investment returns, consistent with the purpose and risk profile of each fund.

Vision

SWIB strives to be a premier public investment organization, a place where professional excellence and public service thrive. Superior investment returns, the highest ethical and professional standards, teamwork and a rewarding work environment will make SWIB the investment management organization of choice.

The State of Wisconsin Investment Board (SWIB) is a state agency responsible for investing the assets of the Wisconsin Retirement System (WRS), the State Investment Fund (SIF) and five smaller trust funds established by the State. Investments are made according to the purpose and risk profile of each trust. The WRS -- the 9th largest U.S. public pension fund and the 30th largest pension fund in the world -- includes the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund).

The Investment Board was created under section 15.76 of the state statutes. The Board's duties as manager of these trust funds are provided in Chapter 25 of the statutes. SWIB staff and Trustees are fiduciaries of the pension funds and are governed by the "prudent investor" standard, which requires them to use the diligence, skill and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

The law also requires SWIB to make investment decisions and conduct every aspect of its operations in the best financial interest of the trust funds.

Strong Governance

SWIB is directed by a nine-person, independent Board of Trustees. The Board of Trustees appoints the executive director of the Investment Board and sets the overall policy for SWIB. The executive director oversees the staff, develops and recommends agency and investment policies for Board adoption, and ensures adherence to state law and policies.

Experienced Staff

SWIB's investments are managed by its own professional staff and by outside money management firms. With support from the Governor and Legislature, SWIB has the flexibility to build a stronger internal management program. SWIB employs a staff of approximately 145 people, including portfolio managers, analysts and traders who are responsible for daily investment decisions made within the parameters of the investment policy, as well as well-trained professionals with legal, technical, accounting and administrative expertise. SWIB adheres to Chartered Financial Analyst (CFA) ethical standards. About 70% of SWIB staff hold advanced degrees or professional certifications. One-third holds multiple degrees or certifications.

Internal Management

Having a strong internal management program provides a significant financial benefit to the WRS. SWIB's Board of Trustees has committed to this concept, growing the number of internal staff positions over the years and, enabling SWIB to increase the share of WRS assets managed internally from 20.8% in 2007 to 54% in 2012. Further increases in internal management are under consideration. As an added benefit, SWIB's dedication to internal management has also resulted in new investment jobs being created in Wisconsin. SWIB provides top-quartile performance relative to peers and is a low cost manager based on an independent study by CEM Benchmarking, Inc.

Board of Trustees

The Board of Trustees is responsible for setting long-term investment policies, asset allocation, benchmarks, fund level risk, and monitoring investment performance. The Board is comprised of the following:

- Six public members appointed by the Governor and confirmed by the State Senate including four with at least 10 years investment experience, and one with at least 10 years financial experience and who works for a local government in the Local Government Investment Pool.
- Educator participant in the Wisconsin Retirement System (WRS) appointed by the Teachers Retirement Board.
- Non-educator participant in the WRS appointed by the Wisconsin Retirement Board.
- Secretary of the Department of Administration or designee.



Lon Roberts



Thomas Boldt



Bruce Colburn



Norm Cummings



Mike Huebsch



William Levit, Jr.



Wayne McCaffery



David Stella

Public Members*

1. Lon Roberts, Board Chair, Attorney at Ruder Ware, Wausau
2. Thomas Boldt, Board Vice Chair, President of the Boldt Group, Inc. and CEO of The Boldt Co., Appleton
3. Bruce Colburn, Director, Central States Property Services Division, Services Employees International Union
4. Norm Cummings, Director of Administration, Waukesha County
5. William Levit, Jr., Attorney, Godfrey & Kahn S.C., Milwaukee
6. (Vacant)

WRS Participant Members*

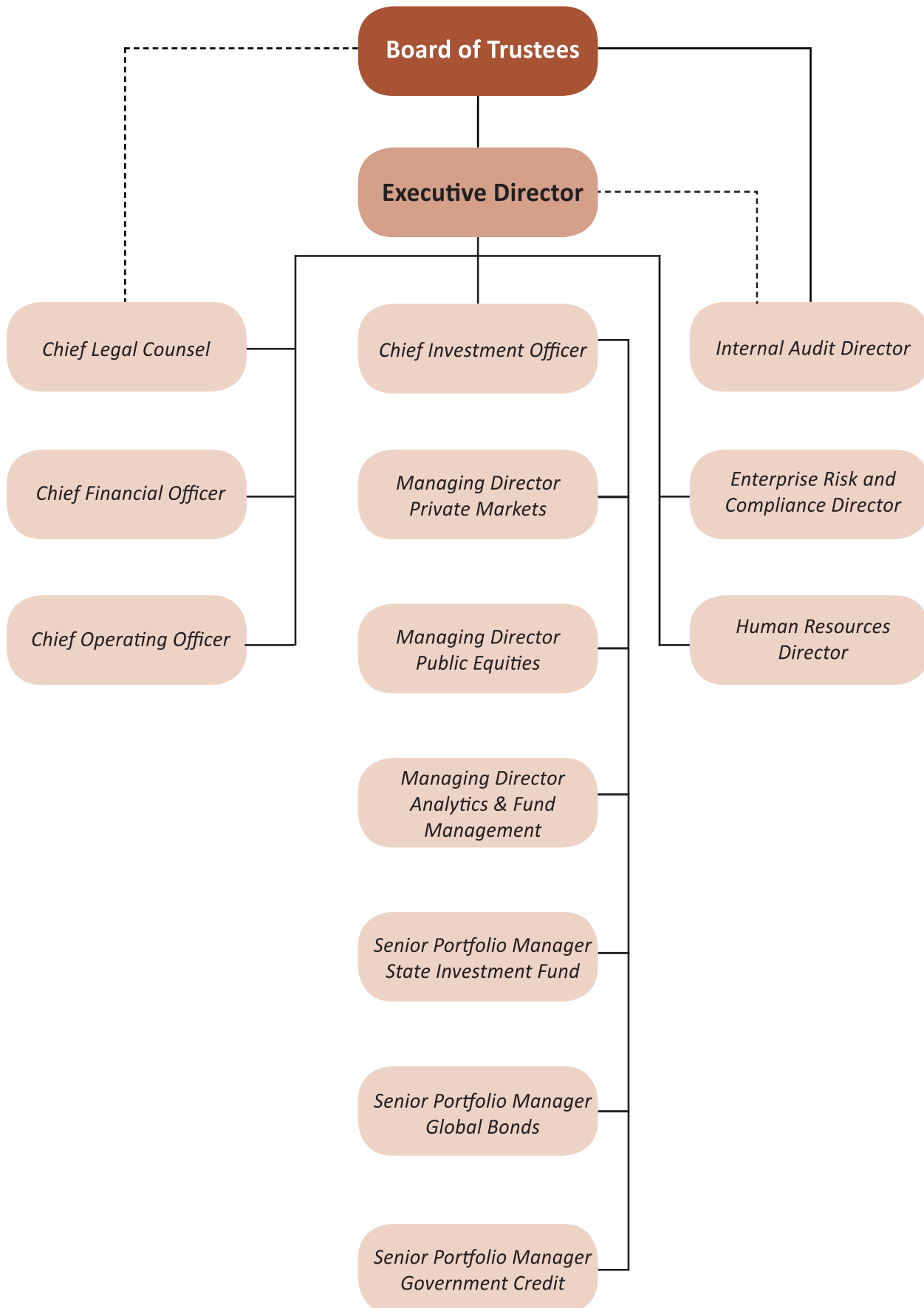
1. Wayne McCaffery, Educator, Retired Teacher, Stevens Point
2. David Stella, Board Secretary, Non-educator, retired Secretary, Department of Employee Trust Funds

Department of Administration

1. Mike Huebsch, Department Secretary

*Appointed Board members serve six-year terms.

Agency Management



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Financial Section



STATE OF WISCONSIN

Legislative Audit Bureau

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Joe Chrisman
State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE RETIREMENT INVESTMENT TRUST FUNDS

Senator Kathleen Vinehout and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees and
Mr. Michael Williamson, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying financial statements for the Retirement Investment Trust Funds (Core Retirement Investment Trust Fund and Variable Retirement Investment Trust Fund) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements as of and for the year ended June 30, 2011, are being presented for informational purposes only. These financial statements were audited by us and we expressed an unqualified opinion on them in our report dated December 5, 2011, but we have not performed any auditing procedures since that date.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only the investment activity of the Retirement Investment Trust Funds attributable to the transactions of the Investment Board. The financial statements do not purport to, and do not, present fairly the financial activity of the Retirement Investment Trust Funds attributable to the Department of Employee Trust Funds. Further, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective net investment assets of each of the Retirement Investment Trust Funds as of June 30, 2012, and the respective changes in net investment assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the financial statements include investments that do not have readily ascertainable market prices and are valued based on a variety of third-party pricing methods. We have reviewed the procedures used by the Investment Board in arriving at estimates of the values of such investments and have inspected underlying documentation. Given the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ from the values that would have been used had a ready market for the investments existed.


In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 2012, on our consideration of the Investment Board's internal control over financial reporting for the Retirement Investment Trust Funds; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Retirement Investment Trust Funds. The supplementary information included as Management's Discussion and Analysis, which precedes the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures to the information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The introduction section of the annual report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

LEGISLATIVE AUDIT BUREAU

December 3, 2012

by


Joe Chrisman
State Auditor

Retirement Funds

Management Discussion and Analysis

The State of Wisconsin Retirement Funds' discussion and analysis of the financial activities for the fiscal year ended June 30, 2012, is presented by management as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison of the prior year's activity and results.

Overview of Basic Financial Statements

Following this section are the financial statements and footnotes which reflect only the investment activity of the funds. Retirement reserves, contribution revenue and benefit expense are specifically excluded from presentation in these statements although contribution revenue and benefit expenses are reflected in "Net Receipts (Disbursements)" in the Statement of Changes in Net Investment Assets.

The **Statement of Net Investment Assets** provides information on the financial position of the funds at year-end. It indicates the investment assets available for payment of future benefits and any current liabilities related to the investments.

The **Statement of Changes in Net Investment Assets** presents the results of the investing activities during

the year. The changes reflected on this statement support the overall change that has occurred to the prior year's net investment assets on the Statement of Net Investment Assets.

The **Notes to the Financial Statements** offer additional discussion that is essential to the full understanding of the data presented in the financial statements. The notes give more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies and subsequent events, if any.

The financial statements and related notes are prepared in accordance with Governmental Accounting Standards Board Pronouncements.

Retirement Trust Funds

Approximately 578,000 people participate in the Wisconsin Retirement System (WRS), including current and former employees of Wisconsin's state agencies, most local governments and school districts in Wisconsin. Contributions made to the WRS by these employees and their employers are invested by the State of Wisconsin Investment Board to finance retirement and other benefits. The WRS is comprised of the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) collectively, whose combined net investment assets total \$80.3 billion as of June 30, 2012.

Annualized Performance Ending June 30, 2012

Retirement Funds	1-Year Return %	5-Year Return %	10-Year Return %
Core Fund	1.3	2.1	7.1
Benchmark	1.2	2.1	6.9
Variable Fund	(1.6)	(0.8)	5.6
Benchmark	(1.9)	(0.9)	5.7

Retirement Funds

Management Discussion and Analysis

Core Retirement Investment Trust Fund

The larger of the two trust funds comprising the WRS is the Core Fund with \$74.9 billion of net assets. All WRS members have invested at least half — if not all — of their pension account in the Core Fund. It is a diversified, balanced fund invested for the long-term needs of the WRS. Diversification helps to stabilize the effects of market changes. The investment objective of this trust fund is to meet or exceed an average 7.2% annual return over the long-term, which consists of an annual rate of return of 4.0% above an estimated 3.2% growth in wages.

This objective is based on market rate of return and actuarial assumptions needed to meet obligations of the WRS.

The statements presented here reflect the investment activity of these funds, as well as net cash flows related to the Department of Employee Trust Funds which include benefit payments, contribution receipts and transfers to/from the Variable Fund.

Core Retirement Investment Trust Fund

Condensed Financial Information

Fiscal Year Ended:	2012	2011	% Change
Cash and Cash Equivalents	\$2,441,405,647	\$2,298,440,567	6.2
Receivables	455,084,834	576,755,692	(21.1)
Invested Securities Lending Collateral	1,144,719,006	2,805,343,492	(59.2)
Prepaid Expenses	8,477,409	7,421,337	14.2
Investments	72,890,068,963	74,416,384,371	(2.1)
Total Investment Assets	<u>\$76,939,755,859</u>	<u>\$80,104,345,459</u>	(4.0)
Payables	\$926,084,882	\$552,187,331	67.7
Securities Lending Collateral Liability	1,144,719,006	2,805,343,492	(59.2)
Other Liabilities	38,500	20,478,710	(99.8)
Total Investment Liabilities	<u>\$2,070,842,388</u>	<u>\$3,378,009,533</u>	(38.7)
Net Investment Assets Held in Trust	<u><u>\$74,868,913,471</u></u>	<u><u>\$76,726,335,926</u></u>	(2.4)
Investment Income	\$967,740,336	\$14,566,184,480	(93.4)
Investment Expense	<u>(239,859,017)</u>	<u>(246,490,151)</u>	(2.7)
Net Investment Income	<u>\$727,881,319</u>	<u>\$14,319,694,329</u>	(94.9)
Net Disbursements - Department of			
Employee Trust Funds	<u>(\$2,585,303,774)</u>	<u>(\$2,211,602,721)</u>	16.9
Net Increase (Decrease) in			
Net Investment Assets Held in Trust	<u><u>(\$1,857,422,455)</u></u>	<u><u>\$12,108,091,608</u></u>	(115.3)

Retirement Funds

Management Discussion and Analysis

Receivables decreased by 21.1% when comparing fiscal year-end 2012 to 2011. The difference was due to the timing of asset sales and can be attributed to a large sale of treasury securities which was pending settlement at June 30, 2011.

SWIB made changes to the securities lending program in fiscal year 2012 to reduce risks related to collateral reinvestment. Although these changes resulted in a 59.2% decrease in Invested Securities Lending Collateral and Securities Lending Collateral Liability, overall earnings from securities lending were comparable to the prior year. The collateral balances represent the cash held for securities lending transactions in separately managed accounts. Securities lending profits on loans collateralized with cash are earned when the reinvestment earnings exceed the cost to lend. SWIB's more conservative approach to cash collateral reinvestment made some potential loans unattractive on a risk/reward basis, which had the effect of reducing the overall cash collateral loan volume. Although securities lending transactions involving cash collateral decreased in fiscal year 2012, loans securitized with non-cash collateral increased during this same time frame. Loans securitized with non-cash collateral generate income by assessing a fee for borrowing.

Payables increased by almost 68% when comparing fiscal year-end 2012 to 2011. This change is due to an increase in obligations under reverse repurchase agreements within the Core Fund. During fiscal year 2012, SWIB implemented risk-reducing strategies whereby the Core Fund's overall exposure to stock holdings was reduced and exposure to lower volatility inflation protected securities was increased through a modest use of leverage. Reverse repurchase agreements involve the sale of assets with the simultaneous agreement to repurchase those assets for a pre-determined price, plus interest, at a future date. The proceeds from the

reverse repurchase agreement are invested by SWIB and profits are generated when the investment returns exceed the cost of the transaction.

Other Liabilities decreased by over \$20.4 million when comparing 2012 and 2011 fiscal year-end balances. At June 30, 2011, Other Liabilities included an operating budget reserve, established as a result of budget authority which had been based on the percentage of assets under management. Under this budget process, any unspent funds were accumulated in a reserve to mitigate the risk of operating budget shortfalls in down markets. In 2011, the Wisconsin legislature eliminated SWIB's basis point budget process, allowing SWIB's Board to approve the internal operating budget based on operating and staffing needs. With this change, the Board approved eliminating the previously accumulated budget reserve, applying the balance to fiscal year 2012 expenses.

Investment Income decreased by \$13.6 billion, when comparing fiscal year 2012 to 2011. This change is due to a total fund investment return of 1.3% for fiscal year 2012, compared to a total fund investment return of 22.9% for fiscal year 2011. Core Fund asset class returns for fiscal year 2012 and 2011 are presented in the table entitled **Core Fund Annualized Asset Class Returns**.

Investment Expense decreased by approximately 2.7% when comparing fiscal year 2012 to 2011. As was the case with the decrease in Other Liabilities, a portion of this change is explained by the Core Fund's operating expenditures charged against an accumulated budget reserve balance. Operating expenditures for fiscal year 2012 totaled \$27.1 million, of which \$19.2 million was charged against the reserve balance. In comparison, fiscal year 2011 operating expenses totaled \$26.5 million.

Fees incurred on private market assets increased by \$14.6 million over the prior fiscal year. This asset

Core Fund Annualized Asset Class Returns

	2012 Return %	2011 Return %
Public Equities	(4.5)	31.7
Fixed Income	7.6	7.1
Treasury Inflation Protected Securities	13.0	9.3
Real Estate	14.3	22.2
Private Equity	6.5	23.7
Multi Asset	3.3	23.8
Total Core Fund	1.3	22.9

type generally has higher fees at the beginning of the investment's life because management fees are based on committed assets, rather than assets under management. During the fiscal year, SWIB committed to funding an additional \$2.3 billion, contributing to the increase in fees.

The balance for Net Disbursements – Department of Employee Trust Funds increased by almost 17% when compared to fiscal year 2011. This amount represents the net cash flows of non-investment related activity such as net benefit payments/receipts, participants choosing to enter into or exit out of the Variable Fund and expenses related to administering the benefit programs. The majority of this increase can be explained by an increase in the number of retirements and separations during fiscal year 2012.

Retirement Funds

Management Discussion and Analysis

Variable Retirement Investment Trust Fund

Condensed Financial Information

Fiscal Year Ended:	2012	2011	% Change
Cash and Cash Equivalents	\$198,041,451	\$258,861,444	(23.5)
Receivables	45,018,450	20,789,268	116.5
Invested Securities Lending Collateral	194,144,537	277,675,120	(30.1)
Investments	<u>5,193,072,861</u>	<u>5,493,260,176</u>	(5.5)
Total Investment Assets	\$5,630,277,299	\$6,050,586,008	(6.9)
Payables	\$33,593,405	\$13,669,338	145.8
Securities Lending Collateral Liability	194,144,537	277,675,120	(30.1)
Other Liabilities	<u>-</u>	<u>1,286</u>	(100.0)
Total Investment Liabilities	\$227,737,942	\$291,345,744	(21.8)
Net Investment Assets Held in Trust	<u>\$5,402,539,357</u>	<u>\$5,759,240,264</u>	(6.2)
Investment Income	(\$107,230,449)	\$1,435,895,184	(107.5)
Investment Expense	<u>(5,290,972)</u>	<u>(7,214,459)</u>	(26.7)
Net Investment Income	(\$112,521,421)	\$1,428,680,725	(107.9)
Net Disbursements - Department of			
Employee Trust Funds	<u>(244,179,486)</u>	<u>(\$201,115,192)</u>	21.4
Net Increase (Decrease) in			
Net Investment Assets Held in Trust	<u>(\$356,700,907)</u>	<u>\$1,227,565,533</u>	(129.1)

Variable Retirement Investment Trust Fund

The Variable Fund allows active employees participating in the WRS to put half of their pension fund contributions into this stock fund. Approximately 18% of WRS members participate in the Variable Fund, which totaled \$5.4 billion at the end of fiscal year 2012. Employees who choose this fund accept a higher degree of market risk for the potential of greater long-term returns. The investment objective of the Variable Fund is to meet or exceed broad equity market indices over a full market cycle.

Cash and Cash Equivalent balances decreased by

23.5% over the prior fiscal year-end. This change can be attributed to a decrease in the balance of equitized cash held in order to meet the liquidity needs of the fund. The change from the prior year is due to the timing of the funding, and subsequent draw-down, of these liquidity funds.

Receivables and Payables increased significantly over the previous fiscal year due to an increase in pending investment sales and purchases. The 2012 balances were larger due to the timing of rebalancing indexed equity assets which transpired over the 2012 fiscal year-end.

Retirement Funds

Management Discussion and Analysis

As with the Core Fund, SWIB made changes to the securities lending program in fiscal year 2012 to reduce risks related to collateral reinvestment. Although these changes resulted in a 30.1% decrease in Invested Securities Lending Collateral and Securities Lending Collateral Liability, overall earnings from securities lending were comparable to the prior year. The collateral balances represent the cash held for securities lending transactions in separately managed accounts. Securities lending profits on loans collateralized with cash are earned when the reinvestment earnings exceed the cost to lend. SWIB's more conservative approach to cash collateral reinvestment made some potential loans unattractive on a risk/reward basis, which had the effect of reducing the overall cash collateral loan volume. Although securities lending transactions involving cash collateral decreased in fiscal year 2012, loans securitized with non-cash collateral increased during this same time frame. Loans securitized with non-cash collateral generate income by assessing a fee for borrowing.

Fiscal year 2012 Investment Income decreased by \$1.5 billion, when compared with the prior year. The decrease in income was the result of a total fund investment loss of 1.6% in fiscal year 2012, as compared to an investment gain of 32.1% in fiscal year 2011. Variable Fund asset class returns for fiscal year 2012 and 2011 are presented in the table entitled **Variable Fund Annualized Asset Class Returns**.

Variable Fund Annualized Asset Class Returns

	2012 Return %	2011 Return %
Public Equities	(1.7)	32.1
Equitized Cash	0.8	32.1
Total Variable Fund	(1.6)	32.1

The Variable Fund's Investment Expense decreased by 26.7% as compared to the previous fiscal year. Similar to the Core Fund, a portion of this change is explained by the Variable Fund's operating expenditures charged against an accumulated budget reserve balance. Under SWIB's previous budget process, any unspent funds were accumulated in a reserve account to mitigate the risk of operating budget shortfalls in a down market. In 2011, the Wisconsin legislature eliminated SWIB's basis point budget process, allowing SWIB's Board to approve the internal operating budget based on operating and staffing needs. With this change, the Board approved eliminating the previously accumulated budget reserve, applying the balance against fiscal year 2012 expenses. Variable Fund operating expenditures for fiscal year 2012 totaled \$1.6 million, of which \$1.1 million was charged against the reserve. In comparison, fiscal year 2011 expenses totaled \$1.5 million.

Net Disbursements – Department of Employee Trust Funds increased by 21.4% over fiscal year 2011. As with the Core Fund, this line item represents the net cash flows of non-investment related activity such as net benefit payments/receipts, participants choosing to enter into or exit out of the Variable Fund and expenses related to administering the benefit programs. The majority of this increase can be explained by an increase in the number of retirements and separations during fiscal year 2012.

Retirement Funds

Financial Statements

Retirement Funds

Statement of Net Investment Assets
as of June 30, 2012

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Assets		
Cash and Cash Equivalents	\$2,441,405,647	\$198,041,451
Due from Other Funds	-	38,500
Receivables:		
Interest & Dividends	238,019,554	10,360,557
Securities Lending Income	2,272,216	233,361
Investment Sales	214,793,064	34,386,032
Invested Securities Lending Collateral	1,144,719,006	194,144,537
Prepaid Expenses	8,477,409	-
Investments (at fair value):		
Stocks	36,850,871,002	5,177,763,208
Fixed Income	22,860,340,273	-
Limited Partnerships	9,908,203,405	-
Multi Asset	2,547,454,250	-
Real Estate	508,544,057	-
Preferred Securities	121,542,363	8,609,655
Convertible Securities	56,605,328	-
Foreign Currency Contracts	9,429,637	860,788
Option Contracts	(1,124,694)	(57,553)
Futures Contracts	28,203,342	5,896,763
Total Investment Assets	\$76,939,755,859	\$5,630,277,299
Liabilities		
Payable for Investments Purchased	\$252,409,753	\$32,603,339
Obligations Under Reverse Repurchase Agreements	649,424,494	-
Short Sell Obligations	395,299	25,532
Collateral Due to Counterparty	3,940,000	-
Accounts Payable	19,857,417	964,534
Interest Payable	57,919	-
Due to Other Funds	38,500	-
Securities Lending Collateral Liability	1,144,719,006	194,144,537
Total Investment Liabilities	\$2,070,842,388	\$227,737,942
Net Investment Assets Held in Trust	\$74,868,913,471	\$5,402,539,357

The accompanying notes are an integral part of this statement.

Retirement Funds

Statement of Changes in Net Investment Assets
For Fiscal Year Ended June 30, 2012

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Additions:		
Investment Income:		
Net Decrease in the Fair Value of Investments	(\$822,121,397)	(\$226,539,656)
Interest	658,629,490	298,463
Dividends	977,982,945	117,035,369
Securities Lending Income	12,239,494	764,607
Securities Lending Rebates	10,738,464	1,394,972
Limited Partnership Income	98,680,243	-
Income from Real Estate	33,480,219	-
Less:		
Investment Expense	239,859,017	5,290,972
Securities Lending Fees	1,889,122	184,204
Net Investment Income	\$727,881,319	(\$112,521,421)
Deductions:		
Net Receipts (Disbursements) - Department of Employee Trust Funds	(2,585,303,774)	(244,179,486)
Net Increase (Decrease) in Assets Held in Trust	(\$1,857,422,455)	(\$356,700,907)
Net Investment Assets Held in Trust:		
Beginning of Year	76,726,335,926	5,759,240,264
End of Year	\$74,868,913,471	\$5,402,539,357

The accompanying notes are an integral part of this statement.

Retirement Funds

Financial Statements

Retirement Funds

Statement of Net Investment Assets

Comparative Amounts as of June 30, 2011

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Assets		
Cash and Cash Equivalents	\$ 2,298,440,567	\$ 258,861,444
Due from Other Funds	1,286	-
Receivables:		
Interest & Dividends	232,054,686	9,296,010
Securities Lending Income	2,623,195	244,003
Investment Sales	342,076,525	11,249,255
Invested Securities Lending Collateral	2,805,343,492	277,675,120
Prepaid Expenses	7,421,337	-
Investments (at fair value):		
Stocks	41,939,015,528	5,469,523,452
Fixed Income	22,327,022,072	-
Limited Partnerships	8,195,684,374	-
Multi Asset	1,215,190,146	-
Real Estate	390,777,761	-
Preferred Securities	201,387,393	14,499,441
Convertible Securities	79,170,678	-
Commercial Mortgages	22,541,314	-
Foreign Currency Contracts	9,879,143	1,114,366
Option Contracts	(143,072)	(18,886)
Futures Contracts	35,859,034	8,141,803
Total Investment Assets	\$ 80,104,345,459	\$ 6,050,586,008
Liabilities		
Payable for Investments Purchased	\$ 388,925,920	\$12,074,104
Obligations Under Reverse Repurchase Agreements	134,881,823	-
Collateral Due to Counterparty	50,000	-
Accounts Payable	28,329,588	1,595,234
Due to Other Funds	20,478,710	1,286
Securities Lending Collateral Liability	2,805,343,492	277,675,120
Total Investment Liabilities	\$ 3,378,009,533	\$ 291,345,744
Net Investment Assets Held in Trust	<u>\$ 76,726,335,926</u>	<u>\$ 5,759,240,264</u>

The accompanying notes are an integral part of this statement.

Retirement Funds

Statement of Changes in Net Investment Assets

Comparative Amounts for Fiscal Year Ended June 30, 2011

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Additions:		
Investment Income:		
Net Increase in the Fair Value of Investments	\$ 12,943,388,710	\$ 1,330,975,553
Interest	656,870,813	443,137
Dividends - Stock	855,823,396	103,118,536
Securities Lending Commissions	13,319,721	1,258,814
Securities Lending Rebates	198,402	322,191
Limited Partnership Income	73,240,625	-
Income from Real Estate	25,629,975	-
Less:		
Investment Expense	246,490,151	7,214,459
Securities Lending Fees	2,287,162	223,047
Net Investment Income	<u>\$ 14,319,694,329</u>	<u>\$ 1,428,680,725</u>
Deductions:		
Net Receipts (Disbursements) - Department of Employee Trust Funds	<u>(2,211,602,721)</u>	<u>(201,115,192)</u>
Net Increase (Decrease) in Investment Assets Held in Trust	\$ 12,108,091,608	\$ 1,227,565,533
Net Investment Assets Held in Trust:		
Beginning of Year	<u>64,618,244,318</u>	<u>4,531,674,731</u>
End of Year	<u><u>\$ 76,726,335,926</u></u>	<u><u>\$ 5,759,240,264</u></u>

The accompanying notes are an integral part of this statement.

Retirement Funds

Notes to the Financial Statements

1. Description of Funds

The State of Wisconsin Investment Board (SWIB) is responsible for managing the assets of the Wisconsin Retirement System (WRS). The Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund), collectively (Retirement Funds), represent the assets of the WRS. The statements presented here reflect only the investment activity of these funds. Excluded from presentation in the statements are, for example, retirement reserves, contribution revenue, and benefit expense.

All of the Retirement Funds' administrative expenses are funded through employer and employee contributions and investment earnings. The administrative expenses are reflected in the "Investment Expense" account included in the Statement of Changes in Net Investment Assets. This account represents SWIB's operating expenses as well as expenses directly related to the investment function such as external management fees, legal fees, custodial bank fees, and investment consulting fees.

A. Core Retirement Investment Trust Fund

The Core Fund is managed by SWIB with oversight by a Board of Trustees as authorized in Wisconsin Statutes ss. 25.15 and 25.17. The Core Fund and SWIB are not registered with the Securities and Exchange Commission as an investment company. The investments of the Core Fund consist of a diversified portfolio of securities. SWIB is required to make investment management decisions for the trust funds solely for the benefit of the members of the Wisconsin Retirement System (WRS). Wisconsin Statutes s. 25.182 authorizes SWIB to manage the Core Fund in accordance with the "prudent investor" standard of responsibility as described in Wisconsin Statutes s. 25.15(2) which requires that SWIB

manage the Retirement Funds with the diligence, skill and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

The Core Fund consists primarily of assets invested for the WRS which is administered by the Department of Employee Trust Funds (ETF) in accordance with Chapter 40 of the Wisconsin Statutes. All retirement fund contributions are invested in this trust fund unless participants have elected to have half of their contributions invested in the Variable Fund. In addition to the retirement contributions, the assets of various other benefit programs are invested as part of the Core Fund as listed in the table entitled **Other Benefit Programs Within the Core Fund**.

B. Variable Retirement Investment Trust Fund

The Variable Fund is managed by SWIB with oversight by a Board of Trustees as authorized by Wisconsin Statutes ss. 25.15 and 25.17. The Variable Fund and SWIB are not registered with the Securities

Other Benefit Programs Within the Core Fund

June 30, 2012, (Dollars in Millions)

Programs	
Accumulated Sick Leave	\$2,017.5
Duty Disability	465.7
Long-Term Disability Insurance	208.0
Active Employee Health Insurance	272.2
Milwaukee Retirement System	145.6
Income Continuation Insurance	86.5
Police and Firefighters Pension Group*	27.0
State Retiree Health Insurance	4.0
Total	\$3,226.5

*balance as of December 31, 2011.

and Exchange Commission as an investment company. Wisconsin Statutes s. 25.17(5) states assets of the Variable Fund shall be invested primarily in equity securities which shall include common stocks, real estate or other recognized forms of equities whether or not subject to indebtedness, including securities convertible into common stocks and securities of corporations in the venture capital stage. Subject to that requirement, SWIB may invest the Variable Fund in any manner consistent with the “prudent investor” standard of responsibility in Wisconsin Statutes s. 25.15(2) which requires that SWIB manage the trust funds with the diligence, skill and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

The Variable Fund also consists primarily of the assets invested for the WRS. In addition, the Milwaukee Retirement System had \$17.6 million invested in the Variable Fund as of June 30, 2012.

Participation in the Variable Fund is at the option of the employee. Participants have elected to invest one half of their retirement contributions and matching amounts of employer contributions to this fund, and have the remainder invested in the Core Fund. Individual participants in the Variable Fund program have a one-time option to terminate their Variable Fund participation and transfer their account to the Core Fund.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements were prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

B. Measurement Focus and Basis of Accounting

The financial statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

C. Valuation of Securities

The investments of the Retirement Funds are reported in the Statement of Net Investment Assets at fair value as prescribed by GASB and per Wisconsin Statutes s. 25.17(14). Unrealized gains and losses are reflected in the Statement of Changes in Net Investment Assets as “Net Increase (Decrease) in the Fair Value of Investments.”

The fair value of the Retirement Funds’ assets are obtained or estimated in accordance with a pricing hierarchy established with SWIB’s custodian BNY Mellon Bank (BNY Mellon). As prescribed by the hierarchy, a variety of independent pricing sources are used to price assets based on type, class or issue.

When a portfolio includes securities or instruments for which the custodial bank does not receive fair value information from its vendor pricing sources, a variety of third party pricing methods are used, including appraisals, pricing models and other methods deemed acceptable by industry standards.

Privately held debt, which is included in “Fixed Income” investments on the Statement of Net Investment Assets, is priced using a multi-tiered approach that prices each holding based on the best available information using the following hierarchy of pricing sources:

Retirement Funds

Notes to the Financial Statements

1. Custodian supplied prices for assets that are in the Barclays Capital U.S. Aggregate Bond Index
2. Prices provided by a third party with expertise in the bond market
3. Modeled prices where interest rate spreads are supplied by a third party

In a few instances, privately held debt cannot be priced by one of the above three sources. In these circumstances, the investment is priced using an alternative bond index price or, if no independent quotation exists, the investment is priced by SWIB management, usually at cost.

For alternative investments where no readily ascertainable market value exists, including limited partnerships and real estate pooled funds, fair value is estimated based on the net asset value as reported by the general partner. The capital account balance as stated in the most recent available quarterly reporting period is adjusted for subsequent cash flows to derive fair value. The financial statements of the limited partnerships and real estate pooled funds are audited by independent auditors annually.

Monthly, SWIB values hedge funds based on statements received from each of the hedge fund's administrators. Essentially, a hedge fund administrator serves as an independent third party that protects the interests of investors. The main function of a third-party administrator is to independently calculate the net asset value of the fund. Generally, hedge fund administrators price financial instruments traded in active markets based on quoted market prices or binding dealer quotations. For certain over-the-counter instruments, fair value is determined based on valuation models used by the administrator. Annually, the financial statements prepared by the administrator are audited by independent auditors.

Real estate direct owned properties are valued by independent appraisers every three years. In years when appraisals are not performed, properties are informally appraised by the asset advisor. As with other alternative investments, SWIB will establish fair value through the use of quarterly financial statements provided by the advisor. The net asset value reported by the advisor is adjusted for subsequent cash flows to derive value. The financial statements reporting on direct real estate holdings are audited by independent auditors annually.

A limited number of securities are carried at cost. Certain non-public or closely held stocks are not reported at fair value, but are carried at cost since no independent quotation is available to estimate fair value for these securities.

Derivative financial instruments are reported at fair value in the Statement of Net Investment Assets. The instruments are marked to fair value at least monthly, with valuation changes recognized in income. Gains and losses are recorded in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in Fair Value of Investments" during the period the instruments are held and when the instrument is sold or expires. The nature and use of derivative instruments is discussed in Note 5.

D. Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported herein. Due to the inherent uncertainty involved, actual results could differ from those estimates.

3. Deposit and Investment Risk

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SWIB. Fixed income credit risk

Retirement Funds

Notes to the Financial Statements

investment guidelines outline the minimum ratings required at the time of purchase by individual portfolios, or groups of portfolios, based on the portfolios' investment objectives. In addition, some fixed income portfolios are required to carry a minimum weighted average rating at all times. Information regarding SWIB's credit risk related to derivatives is found in Note 5.

The table entitled **Credit Quality Distribution** displays the lowest credit rating assigned by several nationally recognized statistical rating organizations on debt securities held by the Retirement Funds as of June 30, 2012. Included in this table are fixed income securities, including certain short term securities, classified as cash equivalents on the Statement of Net Investment Assets. Also included are interest rate sensitive investments held in the Retirement Funds' securities lending collateral reinvestment pools, which are managed by SWIB's securities custodian. See Note 4 for additional information regarding the securities lending program. The table also includes SWIB's investment in commingled fixed income funds, which are not assigned ratings. Although the

funds themselves are not assigned ratings, external management investment guidelines govern minimum credit quality standards for the investments within each portfolio. These standards are determined based on the investment objectives and risk parameters of each fund. The table entitled **Credit Quality Breakdown of Commingled Funds** presents the aggregated credit ratings for the underlying investments held by commingled fixed income investments within the Retirement Funds.

United States Treasury obligations (UST) and obligations explicitly guaranteed by the U.S. government (AGY) historically were not considered to have credit risk. However, following federal legislation which raised the statutory U.S. debt ceiling in August 2011, the three major U.S. rating agencies (Moody's Investors Service "Moody's", Fitch Investors "Fitch", and Standard & Poor's "S&P") issued divergent perspectives regarding sovereign U.S. debt rating assignments. At June 30, 2012, SWIB's holdings of UST and AGY are included within the "AA" category.

Credit Quality Distribution June 30, 2012

Rating	Fair Value	% of Total
P-1 or A-1	\$ 132,456,667	-
AAA/Aaa	1,146,795,019	4
AA/Aa	7,719,134,890	29
A	3,049,960,819	12
BBB/Baa	2,161,483,155	8
BB/Ba	485,112,761	2
B	592,274,067	2
CCC/Caa	182,673,446	1
CC/Ca	2,589,750	-
C	11,373,594	-
D	1,395,156	-
Commingled Funds	8,964,819,967	34
Not Rated	2,226,915,192	8
Total	\$ 26,676,984,483	100 %

Credit Quality Breakdown of Commingled Funds* June 30, 2012

Rating	Fair Value	% of Total
P-1 or A-1	\$ 821,997,939	9
AAA/Aaa	3,703,658,514	42
AA/Aa	838,141,506	9
A	1,453,672,186	17
BBB/Baa	1,462,511,734	16
BB/Ba	182,516,091	2
B	171,528,460	2
CCC/Caa	40,096,646	-
CC/Ca	525,460	-
C	242,520	-
D	1,253,020	-
Not Rated	288,675,891	3
Total Commingled Funds	\$ 8,964,819,967	100 %

*reflects aggregated ratings of underlying investments as reported by the commingled fund managers.

Retirement Funds

Notes to the Financial Statements

SWIB had \$649.4 million reverse repurchase agreements outstanding at June 30, 2012. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase the securities in the future at the same price plus a stated rate of interest. The market value of the securities underlying reverse repurchase agreements exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the counterparty defaults on their obligations to resell these securities or provide cash of equal value, SWIB could suffer an economic loss equal to the difference between the market value of the underlying securities plus accrued interest and the agreement obligation, including accrued interest. This credit exposure at June 30, 2012 was \$10.7 million. This exposure is monitored daily and managed through the transfer of margin, in the form of cash or securities, between SWIB and the counterparty. At June 30, 2012, to mitigate credit exposure, SWIB held \$6.1 million in UST obligations as collateral posted from counterparties.

The proceeds from reverse repurchase agreements are reinvested by the Retirement Funds. The maturities of the purchases made with the proceeds of reverse repurchase agreements are not necessarily matched to the maturities of the agreements. The agreed-upon yields earned by the counterparty were between 0.20% and 0.27%. The maturity of most reverse repurchase agreements occurred in July and August 2012. The remainder of the reverse repurchase agreements had open maturities, whereby a maturity date is not established upon entering into the agreement. These agreements can be terminated at the will of either SWIB or the counterparty and typically mature within three months.

The liabilities resulting from reverse repurchase

agreements are reported as "Obligations Under Reverse Repurchase Agreements" and the underlying assets, as well as the reinvested proceeds, are reported in the "Investments" section on the Statement of Net Investment Assets.

B. Custodial Credit Risk

The Retirement Funds do not have a deposit or investment policy specifically related to custodial credit risk.

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. Bank deposits as of June 30, 2012 were \$276.6 million. A portion of the deposits, totaling \$39.5 million, are covered by federal depository insurance. The remaining uninsured and uncollateralized deposits, totaling \$237.1 million, were held in foreign currencies in SWIB's custodian's nominee name or were posted as collateral for derivatives transactions. In addition, SWIB held time deposits with foreign financial institutions with a fair value of \$57.2 million, all of which were uncollateralized and uninsured.

Investments — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SWIB will not be able to recover the value of investments that are in the possession of an outside party. As of June 30, 2012 the Retirement Funds held 31 repurchase agreements totaling \$1.6 billion. Thirty of these repurchase agreements, representing all but \$153.8 million the total repurchase agreement value, were tri-party agreements held in short-term cash management portfolios managed by SWIB's custodian. The underlying securities for these repurchase agreements were held by the tri-party's agent, not in SWIB's name.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict issuer concentrations in any one company or Rule 144A securities to less than 5% of the portfolio's market value. The Retirement Funds did not hold any investments with a single issuer, exclusive of investments issued or explicitly guaranteed by the U.S. government, representing 5% or more of the Retirement Funds' value at June 30, 2012.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SWIB uses a number of different methods to manage interest rate risk.

Generally, SWIB analyzes long or intermediate term portfolios' interest rate risk using various duration calculations. Modified duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. The calculation is based on the weighted average of the present values for all cash flows. Some pooled investments are analyzed using an option adjusted duration calculation which is similar to the modified duration method. Option adjusted duration incorporates the duration shortening effect of any embedded call provisions in the securities.

Short-term portfolios use the weighted average maturity (to next reset) to analyze interest rate risk. Weighted average maturity is the maturity of each position in a portfolio weighted by the dollar value of the position to compute an average maturity for the portfolio as a whole. This measure indicates a portfolio's sensitivity to interest rate changes: a

longer weighted average maturity implies greater volatility in response to interest rate changes.

SWIB's investment guidelines related to interest rate risk vary by portfolio. Some fixed income portfolios are required to be managed within a range of a targeted duration, while others are required to maintain a weighted average maturity at or below a specified number of days or years.

The table entitled **Interest Rate Sensitivity by Investment Type** presents the aggregated interest rate exposure for the Retirement Funds' assets. Weighted average maturity, where reset dates are assumed to be the effective maturity date for the security, is presented for the securities lending collateral reinvestment pool and short term pooled investments. Longer term instruments held by the Retirement Funds are presented using modified duration, as this measure more accurately states the interest rate sensitivity of these investments. Some floating rate instruments, such as term loans, use reset date as the maturity date in calculating duration.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. It includes the risk that currencies in which a portfolio's investments are denominated, or currencies in which a portfolio has taken on an active position, will decline in value relative to the U.S. dollar.

Foreign currency exchange rates may fluctuate significantly for a number of reasons, including the forces of supply and demand in the foreign exchange markets, actual or perceived changes in interest rates, intervention by U.S. or foreign governments or central banks, currency controls, or political developments in the U.S. or abroad.

Retirement Funds

Notes to the Financial Statements

Interest Rate Sensitivity by Investment Type

June 30, 2012

Investment Type	Fair Value*	Duration (years)
Asset Backed Securities	\$ 17,408,297	5.35
Certificates of Deposit	11,000,000	0.37
Commercial Paper	111,988,771	0.16
Corporate Bonds & Private Placements	5,243,752,398	4.98
Corporate Bonds & Private Placements	18,837,569	Not Available
Foreign Government/Agency Bonds	3,411,117,969	7.17
Futures Contracts	603,675,597	8.22
Municipal Bonds	101,642,752	10.85
Repurchase Agreements	219,989,849	0.01
U.S. Government Agencies	785,669,084	2.16
U.S. Treasury Inflation Protected Securities	3,936,378,130	8.26
U.S. Treasury Securities	2,396,445,581	7.26
Commingled Funds		
Emerging Market Fixed Income	330,067,834	7.12
Global Fixed Income	404,200,064	4.77
Domestic Fixed Income	6,698,298,721	5.77
Short Term Commingled Funds		Weighted Average Maturity (days)
Cash Management	1,532,253,348	75
Securities Lending Collateral Pool		
Corporate Bonds	32,289,300	63
Repurchase Agreements	1,425,644,817	2
Total Fair Value	<u>\$ 27,280,660,081</u>	

* Notional amount presented for futures contracts

SWIB's policies include foreign currency risk management objectives relating to each individual portfolio. These guidelines address the foreign currency management activities permitted for each portfolio based on the portfolios mandates, risk tolerances and objectives. SWIB also employs discretionary currency overlay strategies at the total fund level when currency market conditions suggest such strategies are warranted. Additional

information related to the management of foreign currencies through the use of derivatives is discussed in Note 5.

As of June 30, 2012, the Retirement Funds assets and short sell obligations were exposed to foreign currency risk in the currencies shown in the table entitled **Currency Exposures by Investment Type** on pages 38 and 39.

4. Securities Lending Transactions

State statutes and Board policies permit SWIB to use investments of the Retirement Funds to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities in exchange for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for identical securities in the future. SWIB's securities custodian is an agent in lending the Retirement Funds' directly held domestic and international securities. When the Retirement Funds' securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral equal to 102 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent, so long as the securities and the collateral are denominated in the same currency. In the event that foreign securities are loaned against collateral denominated in a different currency, the borrower is required to place collateral totaling 105 percent of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level. Pledging or selling non-cash collateral securities cannot be done without a borrower default.

Cash collateral is reinvested by the lending agent in two separate pools, a U.S. dollar cash collateral pool and a pool denominated in Euros. These pools are administered in accordance with contractual investment guidelines which are designed to minimize the risk of principal loss and provide a modest rate of return. Cash from these pools may be posted as collateral relating to short sale transactions and earn a comparable overnight repurchase agreement market rate of return for the duration of the posting. See Note 6 for additional information relating to short sales. In

April 2011, SWIB began transitioning to new investment guidelines that limit new investments to overnight repurchase agreements collateralized with high quality U.S. government and sovereign debt securities. The primary driver of this decision was to reduce the credit and liquidity risk of the reinvestment portfolio. To further reduce credit risk, SWIB's custodian provides indemnification to SWIB against borrower default. The earnings generated from the collateral investments, plus or minus the rebates paid to or received from the dealers and less fees paid to agents, results in the net earnings from lending activities, which are then split on a percentage basis with the lending agent.

In accordance with money market mutual fund industry standards, the cash collateral reinvestment pools are valued at amortized cost. The amortized or book value of a fund's assets and underlying fair market value of the assets may differ based on market conditions. The pools' market value relative to its amortized cost is expressed as net asset value (NAV) and is derived by dividing total market value by amortized cost. As of June 30, 2012, the U.S. dollar cash collateral reinvestment pool's NAV was 0.9979 while the foreign reinvestment pool had a NAV of 1.0000.

At fiscal year-end, the Retirement Funds had minimal credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the Retirement Funds. In addition to the cash collateral reinvestment indemnification, the contract with the lending agent requires it to indemnify the Retirement Funds if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. The Retirement Funds are also indemnified against losses resulting from violations of investment guidelines.

The majority of security loans can be terminated on

Retirement Funds

Notes to the Financial Statements

demand by the Retirement Funds or the borrower. The average term of the loans is less than one week, while the weighted average maturity/days to reset is four days for investments made with the U.S. dollar cash collateral and three days for investments made with Euro cash collateral at June 30, 2012.

Securities lending is allowed in certain commingled fund investments. As a shareholder of such funds, SWIB does not own the underlying securities and does not separately report on securities lending activity. All earnings of these funds are reported in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in the Fair Value of Investments".

5. Derivatives

A derivative instrument, as defined by GASB Statement No. 53, is a financial instrument or other contract that has all of the following characteristics:

- **Settlement factors.** It has (1) one or more reference rates and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements and, in some cases, whether or not a settlement is required.
- **Leverage.** It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- **Net settlement.** Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Derivatives may be used to implement investment strategies for the Retirement Funds. All derivative

instruments are subjected to risk analysis and monitoring processes at the portfolio, asset class and fund levels.

Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been approved by the Board. Where derivatives are permitted, guidelines stipulate allowable instruments and the manner and degree to which they are to be used.

Gains and losses for all derivative instruments are reported in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in the Fair Value of Investments."

Certain investments and cash deposits were posted as collateral for exchange-traded derivatives positions. At June 30, 2012, the Retirement Funds posted \$45.5 million in cash and \$40.3 million in equity securities as collateral with futures and option clearing brokers.

The following are the types of derivatives that SWIB uses in its portfolios. SWIB also invests in derivative instruments indirectly through several commingled funds. These derivatives have not been included in the following narrative.

A. Foreign Currency Spot and Forward Contracts

Currency exposure management is permitted through the use of exchange traded currency instruments and through the use of over-the-counter spot and forward contracts in foreign currencies. Direct hedging of currency exposure back to the U.S. dollar is permitted when consistent with the strategy of the portfolio. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. In some portfolios, currencies of non-benchmark countries may be held through the use of forward contracts, provided that the notional value of any

single non-benchmark currency does not exceed 5% of the market value of the portfolio.

SWIB may employ discretionary currency overlay strategies at the total fund and asset class level when currency market conditions suggest such strategies are warranted. Only the currencies of developed market countries in the MSCI World Index may be used to implement a currency overlay.

No cash is exchanged when a foreign exchange spot or forward contract is initiated. Amounts due are paid or received on the contracted settle date. The net receivable or payable for spot and forward contracts is reflected as "Foreign Currency Contracts" on the Statement of Net Investment Assets. Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract. Spot and forward contracts are valued daily with the changes in fair value included in "Net Increase (or Decrease) in Fair Value of Investments" on the Statement of Changes in Net Investment Assets.

SWIB executes spot and forward contracts with various counterparties. Guidelines have been established which provide minimum credit ratings for counterparties. Additionally, policies have been established which seek to implement master netting arrangements with counterparties to over-the-counter derivative transactions. Such arrangements permit the closeout and netting of transactions with the same counterparty upon the occurrence of certain events, such as payment default, rating downgrade, bankruptcy, illegality or force majeure. SWIB's policies for requiring collateral postings relating to spot and forward contracts vary by portfolio and counterparty and are intended to mitigate the credit risk associated with the counterparty.

The table entitled **Exposures Aggregated by Counterparty Credit Rating**, summarizes, by credit rating, the Retirement Funds' exposure to the seventeen counterparties with whom SWIB has entered into spot and forward contracts as of June 30, 2012, without respect to any collateral or netting arrangement.

Exposures Aggregated by Counterparty Credit Rating

June 30, 2012

Foreign Currency Spot and Forward Contracts

Counterparty Credit Rating	Payable	Receivable	Fair Value
AA	\$ (374,721,386)	\$ 378,390,376	\$ 3,668,990
A	(2,409,722,438)	2,416,542,224	6,819,786
BBB	(147,914,178)	147,715,827	(198,351)
Total	\$ (2,932,358,002)	\$ 2,942,648,427	\$ 10,290,425

Retirement Funds

Notes to the Financial Statements

Foreign Currency Spot and Forward Contracts

June 30, 2012

<u>Currency</u>	<u>Notional (local currency)</u>	<u>Fair Value of Foreign Currency Contracts Receivable (\$US)</u>
Foreign Currency Contracts Sold		
Australian Dollar	286,859,611	\$ 6,967,499
Brazilian Real	20,007,301	174,810
British Pound Sterling	212,155,228	2,635,746
Canadian Dollar	547,510,357	4,563,713
Chilean Peso	4,498,400,000	(172,738)
Danish Krone	154,676,394	480,743
Euro Currency Unit	149,319,073	2,925,763
Hong Kong Dollar	295,683,565	7,193
Hungarian Forint	1,445,731,000	(207,603)
Israeli New Shekel	53,440,000	130,018
Japanese Yen	25,174,355,063	(1,124,584)
Mexican New Peso	100,988,000	(88,577)
New Zealand Dollar	3,931,898	45,383
Norwegian Krone	130,615,928	276,670
Polish Zloty	31,425,000	483,388
South African Rand	21,046,690	(22,572)
Singapore Dollar	43,187,513	154,701
South Korean Won	204,894,622	(266)
Swedish Krona	708,078,370	2,800,153
Swiss Franc	62,852,734	1,060,448
Turkish Lira	29,631,671	259,203
		<u>\$ 21,349,091</u>
	<u>Notional (local currency)</u>	<u>Fair Value of Foreign Currency Contracts Payable (\$US)</u>
Foreign Currency Contracts Purchased		
Australian Dollar	(107,526,286)	\$ (1,713,002)
Brazilian Real	(28,890,730)	319,390
British Pound Sterling	(358,858,099)	(2,036,314)
Canadian Dollar	(171,120,303)	(1,441,313)
Colombian Peso	(4,169,725,000)	9,476
Danish Krone	(44,787,547)	(139,202)
Euro Currency Unit	(173,770,016)	(2,726,844)
Hong Kong Dollar	(159,730,138)	(3,832)
Hungarian Forint	(1,445,731,000)	(121,320)
Indian Rupee	(7,029,250)	2,939
Indonesian Rupiah	(368,278,027)	(51)
Israeli New Shekel	(70,496,233)	(170,629)
Japanese Yen	(11,469,240,466)	184,171
Malaysian Ringgit	(60,051,731)	(242,086)
Mexican New Peso	(13,604,499)	-
New Taiwan Dollar	(2,741,119)	77
New Zealand Dollar	(10,176,000)	(403,071)
Norwegian Krone	(18,493,911)	(85,397)
Peruvian Nuevo Sol	(16,964,000)	(75,379)
South African Rand	(59,089,629)	101,390
South Korean Won	(4,454,136,314)	(41,255)
Swedish Krona	(302,505,691)	(383,696)
Swiss Franc	(124,247,434)	(2,054,237)
Turkish Lira	(7,882,000)	(38,481)
		<u>\$ (11,058,666)</u>
Net Unrealized Gain (Loss) on Foreign Currency Spot and Forward Contracts		<u>\$ 10,290,425</u>

The aggregate fair value of foreign currency spot and forward contracts receivables at June 30, 2012 was \$2,942.7 million. This represents the maximum loss that would be recognized at the reporting date if all seventeen counterparties failed to perform as contracted. This maximum exposure is reduced by \$3.9 million of counterparty collateral held by SWIB and \$2,855.7 million of liabilities included in netting arrangements with foreign currency spot and forward contract counterparties, resulting in a net exposure to credit risk of \$83.0 million.

The table entitled **Foreign Currency Spot and Forward Contracts** presents the fair value of foreign currency spot and forward contract assets and liabilities held by the Retirement Funds as of June 30, 2012.

B. Futures Contracts

A futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Upon entering into a futures contract, collateral is deposited with the broker, in SWIB's name, in accordance with initial margin requirements. Collateral for futures contracts can be in the form of cash, U.S. Treasuries and equity securities. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. The resulting gain/(loss) is typically received/paid the following day until the contract expires.

The fair value of futures contracts represents the unrealized gain/(loss) on the contract, since inception, and is reflected as "Futures Contracts" on the Statement of Net Investment Assets. Gains and losses resulting from investments in futures contracts are included in the "Net Increase (Decrease) in the Fair Value of Investments" on the Statement of Changes in Net Investment Assets.

Futures contracts involve, to varying degrees, risk of loss in excess of the margin deposited with the broker. Losses may arise from future changes in the value of the underlying instrument.

Futures contracts may be entered into for the following objectives: facilitate asset class rebalancing, adjust sector exposures, protect portfolios against the risk of changing asset values or interest rates, enhance liquidity, aid in cash flow management, manage interest rate exposure, adjust duration, equitize cash and receivable positions or as a substitute for cash market transactions.

The table entitled **Futures Contracts** presents the Retirement Funds investments in futures contracts as of June 30, 2012.

C. Options

An option contract gives the purchaser of the contract the right, but not the obligation, to buy (call) or sell (put) the security or index underlying

Futures Contracts
June 30, 2012

	Expiration	Notional Amount	Unrealized Appreciation/ (Depreciation)*
Fixed Income Futures	Sep 12	\$ 603,675,597	\$ 1,371,134
Equity Index Futures	Jul 12 - Sep 12	948,142,265	32,728,971
Total Futures Contracts		<u>\$ 1,551,817,862</u>	<u>\$ 34,100,105</u>

* Unrealized appreciation (depreciation) includes foreign currency gains and losses.

Retirement Funds

Notes to the Financial Statements

the contract at an agreed upon price on or before the expiration of the option contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk, to the extent of the premium paid to enter into the contract.

Trust fund rebalancing policies and portfolio investment guidelines permit the use of exchange traded and over-the-counter options. However, during fiscal year 2012, the Retirement Funds did not make any investments in over-the-counter option contracts. Investment Guidelines allow options to be used to improve the efficiency or to enhance the expected return of the Retirement Funds' strategic rebalancing procedures. In addition, options may be purchased or sold in conjunction with managing asset class exposure if the exercise of the options will move the asset allocation closer to the target established by the Board. The aggregate notional value of the options provided by rebalancing policies is limited to 2% of the market value of the trust fund at the date of purchase. The term of options used for this purpose may not exceed one year.

Exchange rules require that the seller of exchange traded call option contracts cover these positions either by collateral deposits in the form of cash or securities or by pledging, in escrow, the actual securities that would be transferred to the option purchaser in the event the option contract were

exercised. At June 30, 2012, SWIB pledged \$39.6 million in equity securities to cover sold call contracts.

The fair value of option contracts is based upon the closing market price of the contract and is reflected as "Option Contracts" on the Statement of Net Investment Assets. Gains and losses as a result of investments in option contracts are included in the "Net Increase (Decrease) in the Fair Value of Investments" on the Statement of Changes in Net Investment Assets. The table entitled **Option Contracts** presents the fair value of option contracts sold by the Retirement Funds as of June 30, 2012.

6. Short Sell Obligations

The Retirement Funds may sell a security it does not own in anticipation of purchasing the security later at a lower price. This is known as a short sale transaction. During the duration of the short sale transaction, a liability is recorded under "Short Sell Obligations" on the Statement of Net Investment Assets. The liability presented on the Statement of Net Investment Assets represents the fair value of the borrowed securities necessary for delivery to the purchaser and is marked-to-market daily. Realized and unrealized gains and losses associated with short sales are recorded on the Statement of Changes in Net Investment Assets within the "Net Increase (Decrease) in Fair Value of Investments" category. While the transaction is open, the Retirement Funds incur expenses for securities borrowing costs, and any dividends or interest relating to the security.

Option Contracts

June 30, 2012

Options Sold	Contract Type	Expiration	Notional	Unrealized Gain/ (Loss)	Fair Value
Equity	Call	Jul 12 - Jan 13	\$ (39,646,410)	\$ (107,354)	\$ (387,415)
Equity	Put	Jul 12 - Jan 13	(51,579,830)	2,204,676	(794,832)
Total Option Contracts			<u>\$ (91,226,240)</u>	<u>\$ 2,097,322</u>	<u>\$ (1,182,247)</u>

Risks arise from short sales due to the possible illiquidity of the securities markets and from potential adverse movements in security values. The cost to acquire the securities sold short may exceed the amount of proceeds initially received, as well as the amount of the liability recorded as "Short Sell Obligations" in the Statement of Net Investment Assets. Short sales expose the short seller to potentially unlimited liability because there is no upward limit on the price a shorted security could attain. Portfolio guidelines limit the total value of short sales in any portfolio to 20% of a portfolio's value.

When a short sale occurs, the shorting portfolio must borrow the security and deliver it to the buyer. The Retirement Funds investment policies allow SWIB's internal portfolio managers to borrow shorted securities from other Retirement Fund portfolios.

When borrowing securities from an outside party, the Retirement Funds are required to post collateral to the lender, at the required rate of 102% for in-currency loans and 105% for cross-currency loans. At June 30, 2012, the Retirement Funds posted \$184,950 in cash collateral to outside borrowers. This represented \$5,030 in excess of the fair market value of the corresponding securities sold short. The possibility exists that a security lender will recall the security and SWIB may be unable to supply the lender with the security. In this event, the lender would be permitted to use SWIB's collateral to fund the purchase of the security.

Portfolios which engage in short sales have long only benchmarks established by the Board. Investment performance and risk associated with each portfolio within the Core Fund is measured against the benchmarks and monitored by management.

7. Multi Asset

SWIB employs portfolio strategies which involve investment across multiple asset classes. The "Multi Asset" category on the Statement of Net Investment Assets consists of risk parity and hedge funds multi asset strategies. Risk parity and hedge fund investments are

either in the form of a commingled fund, with ownership through fund shares, or a limited partnership.

The risk parity portfolios seek to equally weight asset allocation risk across multiple assets and geographies. Exposures are expected to deliver improved risk and return tradeoffs versus conventional portfolios comprised of stocks and bonds. The risk parity portfolios also intend to provide more diversified exposure over various economic environments.

The Retirement Funds invest in a diversified set of hedge fund strategies, invested across multiple asset classes. In general, a hedge fund is a private investment fund that seeks to maximize absolute returns using a broad range of strategies, typically employing both long and short positions. An allocation to a diversified hedge fund portfolio is intended to assist SWIB's pursuit of investment return by earning near equity returns but with a level of risk that is significantly lower than traditional publicly traded equities, and contribute to overall portfolio diversification by means of a lower correlation to traditional asset classes.

Hedge funds can be illiquid, either by virtue of the illiquidity of underlying assets or due to lock-up terms in the partnership agreement. However, SWIB has taken steps to minimize this risk by investing in hedge funds with more liquid asset classes and by structuring its investments to stagger lock-up periods. Hedge funds also use leverage to varying degrees, and while it is possible that a hedge fund can lose a significant portion of its capital, SWIB has limited the amount it invests in hedge funds in total and with any individual hedge fund manager.

At fiscal year-end, the majority of SWIB's risk parity and hedge fund investments are reflected within the "Multi Asset" category on the Statement of Net Investment Assets. In addition, hedge fund portfolios with a long only equity strategy are included within the "Stocks" classification on the Statement of Net Investment Assets.

Retirement Funds

Notes to the Financial Statements

8. Summary of Assets

The tables entitled **Summary of Investments - Core Retirement Investment Trust Fund** and **Summary of Investments and Variable Retirement Investment Trust Fund** provide summary information by investment classification for the Core Fund and Variable Fund at June 30, 2012.

9. Unfunded Capital Commitments

The Core Fund has committed to fund various limited partnerships and side-by-side agreements related to its private equity and real estate holdings. Commitments that have not been funded total \$5.5 billion as of June 30, 2012. Unfunded commitments are not included in the financial statements since the amount and timing of the funding is not certain.

Summary of Investments - Core Retirement Investment Trust Fund

June 30, 2012

Classification	Coupon Rate (%)	Maturity Dates	Cost/(Proceeds)	Fair Value
Stocks	N/A	N/A	\$ 33,967,542,049	\$ 36,850,871,002
Fixed Income	Variable & 0.00 - 16.25	7/2012 - 10/2110	20,874,666,615	22,860,340,273
Limited Partnerships	N/A	N/A	9,918,385,473	9,908,203,405
Multi Asset	N/A	N/A	2,418,897,040	2,547,454,250
Real Estate	N/A	N/A	382,064,145	508,544,057
Preferred Securities	N/A	N/A	129,945,981	121,542,363
Convertible Securities	Variable & 0.00 - 6.00	8/2012 - 12/2041	53,382,484	56,605,328
Foreign Currency Contracts	N/A	7/2012-11/2012	-	9,429,637
Option Contracts	N/A	7/2012-1/2013	(3,222,625)	(1,124,694)
Futures Contracts	N/A	7/2012-9/2012	-	28,203,342
Short Sell Obligations	N/A	N/A	(367,320)	(395,299)
Total			<u>\$ 67,741,293,842</u>	<u>\$ 72,889,673,664</u>

N/A = Not Applicable

Summary of Investments - Variable Retirement Investment Trust Fund

June 30, 2012

Classification	Maturity Dates	Cost/(Proceeds)	Fair Value
Stocks	N/A	\$ 4,550,656,156	\$ 5,177,763,208
Preferred Securities	N/A	9,423,332	8,609,655
Foreign Currency Contracts	7/2012 - 9/2012	-	860,788
Option Contracts	7/2012 - 1/2013	(56,944)	(57,553)
Futures Contracts	7/2012 - 9/2012	-	5,896,763
Short Sell Obligations	N/A	(23,103)	(25,532)
Total		<u>\$ 4,559,999,441</u>	<u>\$ 5,193,047,329</u>

N/A = Not Applicable

10. Loss Contingency

On September 5, 2008, the Internal Revenue Service (IRS) provided SWIB with a "Notice of Transferee Liability."

This claim seeks taxes, penalties and interest relating to the sale of Shockley Communications Corporation (SCC) stock in 2001.

SWIB is classified as a tax exempt entity by the IRS. However, the IRS asserts that the shareholders' sale of SCC stock in 2001 should have been characterized as a sale of assets by SCC, on which SCC should have paid income taxes. Based on the theory of transferee liability, the IRS asserts that the former SCC shareholders, including SWIB, would be liable for those taxes, plus

penalties and interest. Transferee liability is limited to the amount actually received by the putative transferee, plus interest. As a result, SWIB's liability, as a putative transferee of SCC assets, would be limited to \$28.3 million of SCC's tax deficiency, plus interest.

SWIB is aggressively contesting the IRS' assertions of SWIB's tax liability. Furthermore, SWIB believes that the loss, if any, resulting from the claim will not have a material impact on SWIB's net investment assets or net income in future years. As such, SWIB has not recognized a loss relating to this matter in the current year, nor does it appear as a contingent liability in the Statement of Net Investment Assets.

Retirement Funds

Notes to the Financial Statements

Currency Exposures by Investment Type

June 30, 2012 (Stated in U.S. Dollars)

Currency	Cash & Cash Equivalents	Stocks	Fixed Income	Limited Partnerships	Multi Asset	Real Estate
Argentina Peso	\$ 24	\$ -	\$ 498,831	\$ -	\$ -	\$ -
Australian Dollar	9,196,766	888,642,167	66,665,425	-	-	-
Brazilian Real	636,296	86,091,991	31,345,221	-	-	-
British Pound Sterling	20,343,478	3,368,500,300	264,613,975	111,928,459	-	-
Canadian Dollar	12,307,849	1,206,776,967	70,935,181	26,250,427	-	-
Colombian Peso	-	-	2,984,445	-	-	-
Czech Koruna	13,674	7,199,569	-	-	-	-
Danish Krone	1,034,369	108,602,026	25,007,613	-	-	-
Euro	76,724,573	3,494,899,623	1,121,046,638	852,694,235	-	-
Hong Kong Dollar	4,455,757	567,755,880	-	-	-	-
Hungarian Forint	257,611	331,789	11,046,826	-	-	-
Indian Rupee	554,148	84,481,791	-	-	-	-
Indonesian Rupiah	33,108	9,788,559	-	-	-	-
Israeli New Shekel	591,684	45,870,319	-	-	-	-
Japanese Yen	37,789,609	2,878,159,876	1,162,168,702	-	-	-
Malaysian Ringgit	18,108,508	14,886,800	32,769,745	-	-	-
Mexican New Peso	1,071,941	42,632,635	76,388,027	-	-	-
Moroccan Dirham	12,020	230,188	-	-	-	-
New Taiwan Dollar	2,456,202	175,547,713	-	-	-	-
Turkish Lira	774,647	86,508,706	527,090	-	-	-
New Zealand Dollar	87,186	10,952,355	9,230,220	-	-	-
Norwegian Krone	1,157,793	102,322,149	9,399,489	-	-	-
Peruvian Nuevo Sol	6,720	75,229	6,496,986	-	-	-
Philippine Peso	449,526	2,413,425	9,606,359	-	-	-
Polish Zloty	54,802	33,998,183	30,079,864	-	-	-
Russian Ruble	-	-	677,872	-	-	-
Singapore Dollar	1,103,238	208,524,468	-	-	-	-
South African Rand	50,051	43,018,015	19,555,995	-	-	-
South Korean Won	174,715	257,370,540	12,243,146	-	-	-
Swedish Krona	3,538,590	283,060,195	32,878,704	11,672,581	-	-
Swiss Franc	4,759,787	1,118,485,570	-	-	-	-
Thai Baht	17,398	88,353,042	-	-	-	-
United States Dollar	2,441,685,027	26,813,154,139	19,856,872,051	8,905,657,703	2,547,454,250	508,544,057
Uruguayan Peso	-	-	7,301,868	-	-	-
Total	\$2,639,447,097	\$42,028,634,209	\$22,860,340,273	\$9,908,203,405	\$2,547,454,250	\$508,544,057

1) Commingled funds and private equity limited partnerships are commingled investments where the Retirement Funds own only a portion of the overall investment. While the overall investment may be denominated in U.S. dollars, the underlying investments may be exposed to foreign currency risk in various currencies. Commingled investments are reported in the denomination used by the fund in their financial reporting.

2) Short Sell Obligations are reported as liabilities on the Statement of Net Assets. They are included here since they do have exposure to foreign currency risk.

3) Values may not add due to rounding.

Currency Exposures by Investment Type

June 30, 2012 (Stated in U.S. Dollars)

Currency	Preferred Securities	Convertible Securities	Option Contracts	Futures Contracts	Short Sell Obligations	Total
Argentina Peso	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 498,855
Australian Dollar	-	-	-	177,500	-	964,681,858
Brazilian Real	29,505,026	-	-	-	-	147,578,533
British Pound Sterling	-	-	-	1,091,900	-	3,766,478,112
Canadian Dollar	-	-	-	934,038	(179,921)	1,317,024,541
Colombian Peso	-	-	-	-	-	2,984,445
Czech Koruna	-	-	-	-	-	7,213,242
Danish Krone	-	-	-	-	-	134,644,008
Euro	74,653,189	420,099	-	3,328,490	-	5,623,766,845
Hong Kong Dollar	-	-	-	-	-	572,211,637
Hungarian Forint	-	-	-	-	-	11,636,226
Indian Rupee	-	-	-	-	-	85,035,939
Indonesian Rupiah	-	-	-	-	-	9,821,667
Israeli New Shekel	-	-	-	-	-	46,462,003
Japanese Yen	-	-	-	2,711,693	-	4,080,829,880
Malaysian Ringgit	-	-	-	-	-	65,765,054
Mexican New Peso	-	-	-	-	-	120,092,604
Moroccan Dirham	-	-	-	-	-	242,208
New Taiwan Dollar	-	-	-	-	-	178,003,915
Turkish Lira	-	-	-	-	-	87,810,443
New Zealand Dollar	-	-	-	-	-	20,269,761
Norwegian Krone	-	-	-	-	-	112,879,432
Peruvian Nuevo Sol	-	-	-	-	-	6,578,935
Philippine Peso	-	-	-	-	-	12,469,311
Polish Zloty	-	-	-	-	-	64,132,849
Russian Ruble	-	-	-	-	-	677,872
Singapore Dollar	-	-	-	-	-	209,627,705
South African Rand	-	-	-	-	-	62,624,061
South Korean Won	-	-	-	-	-	269,788,401
Swedish Krona	-	-	-	-	-	331,150,069
Swiss Franc	-	-	-	-	-	1,123,245,357
Thai Baht	-	-	-	-	-	88,370,440
United States Dollar	25,993,804	56,185,230	(1,182,247)	25,856,485	(240,910)	61,179,979,588
Uruguayan Peso	-	-	-	-	-	7,301,868
Total	\$ 130,152,018	\$56,605,328	\$(1,182,247)	\$34,100,105	\$ (420,831)	\$ 80,711,877,664

1) Commingled funds and private equity limited partnerships are commingled investments where the Retirement Funds own only a portion of the overall investment. While the overall investment may be denominated in U.S. dollars, the underlying investments may be exposed to foreign currency risk in various currencies. Commingled investments are reported in the denomination used by the fund in their financial reporting.

2) Short Sell Obligations are reported as liabilities on the Statement of Net Assets. They are included here since they do have exposure to foreign currency risk.

3) Values may not add due to rounding.



STATE OF WISCONSIN

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Joe Chrisman
State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE STATE INVESTMENT FUND

Senator Kathleen Vinehout and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees and
Mr. Michael Williamson, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying Statement of Net Assets for the State Investment Fund of the State of Wisconsin as of June 30, 2012, and the related Statement of Operations and Changes in Net Assets for the year then ended. These financial statements are the responsibility of the State of Wisconsin Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements as of and for the year ended June 30, 2011, are being presented for informational purposes only. These financial statements were audited by us and we expressed an unqualified opinion on them in our report dated August 29, 2011, but we have not performed any auditing procedures since that date.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the State Investment Fund and do not purport to, and do not, present fairly the financial position and results of operations of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the State Investment Fund as of June 30, 2012, and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

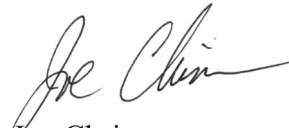
In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2012, on our consideration of the Investment Board's internal control over financial reporting for the State Investment Fund; our tests of the State Investment Fund's compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Investment Fund. The supplementary information included as Management's Discussion and Analysis, which precedes the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures to the information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

LEGISLATIVE AUDIT BUREAU

August 29, 2012

by


Joe Chrisman
State Auditor

State Investment Fund

Management Discussion and Analysis

Management Discussion and Analysis provides general information on the financial activities of the State Investment Fund (SIF). The SIF temporarily invests the operating funds of the State of Wisconsin and Agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP). The table below provides information about ownership at June 30.

Following this section are the financial statements and notes to the financial statements. The **Statement of Net Assets** provides information on the types of assets and the liabilities of the SIF. The **Statement of Operations and Changes in Net Assets** provides information on the net income of the SIF and its net assets at year end. The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the SIF financial statements. The table entitled **SIF Condensed Financial Information** contains a summary for the fiscal years ended June 30, 2012 and 2011 (for comparison).

Because the SIF is used to temporarily invest participants' operating cash flows, investments are in highly liquid, short-term fixed income securities. At June 30, 2012, SIF Net Assets had increased by \$299 million from the prior year due to the increase in the State of Wisconsin and Agencies (+\$760 million) balance exceeding the combined decrease in both the WRS (-\$417 million) and the LGIP (-\$44 million) balances. The Average Daily Portfolio Balance decreased by \$126 million in the current fiscal year compared to the prior year. The monthly average balance peaked at \$8.868 billion in March 2012.

The Net Income decrease of 33.2% from the previous fiscal year was largely due to the ongoing low interest rate environment caused by the Federal Open Markets Committee continuing to maintain the Federal Funds Rate during fiscal year 2012 at 0.25%. This also caused the Time Weighted Annual Yield to decrease from 0.19% to 0.14%. Investment Expenses decreased by 79.4% because FY 2012 SWIB investments and administrative costs allocated to the SIF of \$1,201,706 (FY 2011 amount \$1,319,157) were charged against a reserve balance which had accumulated over several years.

SIF Condensed Financial Information

Fiscal Year Ended:	2012	2011	% Change
Total Assets	\$ 6,951,887,107	\$ 6,682,710,801	4.0
Total Liabilities	111,505,107	141,705,801	(21.3)
Net Assets	<u>\$ 6,840,382,000</u>	<u>\$ 6,541,005,000</u>	4.6
Investment Income	\$ 10,504,745	\$ 15,451,819	(32.0)
Investment Expenses	346,315	1,678,883	(79.4)
State Working Bank Charges	2,889,287	2,890,370	0.0
Net Income	<u>\$ 7,269,143</u>	<u>\$ 10,882,566</u>	(33.2)
Average Daily Cash Balance	\$ 7,091,886,359	\$ 7,217,629,337	(1.7)
Weighted Ave. Maturity (WAM)	75 days	73 days	
SIF Ownership:			
State of Wisconsin & Agencies	42%	32%	
Wisconsin Retirement System	23%	30%	
Local Govt Investment Pool	35%	38%	
Total	<u>100%</u>	<u>100%</u>	

SIF Annualized Time Weighted Returns

Fiscal Year Ended:	Return %
2003	1.49
2004	1.03
2005	2.08
2006	4.23
2007	5.40
2008	4.02
2009	1.33
2010	0.25
2011	0.19
2012	0.14

State Investment Fund

Financial Statements

State Investment Fund

Statement of Net Assets

As of June 30, 2012 (with Comparative Amounts as of June 30, 2011)

	June 30, 2012	June 30, 2011
Assets		
Investments (at fair value):		
Bank Demand Deposits	\$ 1,200,000,000	\$ 700,000,000
Repurchase Agreements	1,631,000,000	1,342,000,000
Government & Agencies	4,075,664,223	4,553,456,416
Certificates of Deposit	24,150,000	40,030,000
Banker's Acceptances	19,537,012	46,915,176
	<hr/>	<hr/>
Total Investments	\$ 6,950,351,235	\$ 6,682,401,592
Other Assets:		
Accrued Interest Receivable	1,535,872	309,209
	<hr/>	<hr/>
Total Assets	<u>\$ 6,951,887,107</u>	<u>\$ 6,682,710,801</u>
Liabilities		
Check Float Invested	\$ 110,675,048	\$ 141,120,258
Earnings Distribution Payable	710,737	468,707
Accrued Expenses	119,322	116,836
	<hr/>	<hr/>
Total Liabilities	<u>\$ 111,505,107</u>	<u>\$ 141,705,801</u>
NET ASSETS	<u>\$ 6,840,382,000</u>	<u>\$ 6,541,005,000</u>
Net Assets consist of:		
Participating Shares	\$ 6,840,382,000	\$ 6,541,005,000
Undistributed Unrealized Gains (Losses)	-	-
	<hr/>	<hr/>
NET ASSETS	<u>\$ 6,840,382,000</u>	<u>\$ 6,541,005,000</u>

The accompanying notes are an integral part of this statement.

State Investment Fund

Statement of Operations and Changes in Net Assets

For the Fiscal Year Ended June 30, 2012 (with Comparative Amounts for June 30, 2011)

	2012	2011
Investment Income	\$ 10,504,745	\$ 15,451,819
Investment Expenses		
Management Operating Expenses (Note 2D)	\$ -	\$ 1,319,157
Custodial Bank Charges	121,864	140,033
Electronic Services	222,451	213,393
Legal and Consulting Fees	2,000	6,300
Total Expenses	<u>\$ 346,315</u>	<u>\$ 1,678,883</u>
Net Investment Income	\$ 10,158,430	\$ 13,772,936
State Working Bank Charges	<u>2,889,287</u>	<u>2,890,370</u>
Net Income	\$ 7,269,143	\$ 10,882,566
Distributions Paid and Payable	<u>7,269,143</u>	<u>10,882,566</u>
Change in Undistributed Unrealized Gains (Losses)	\$ -	\$ -
Beginning of Period Undistributed Unrealized Gains (Losses)	<u>-</u>	<u>-</u>
End of Period Undistributed Unrealized Gains (Losses)	<u>\$ -</u>	<u>\$ -</u>
Participant Transactions:		
Receipts by Transfer to Fund	\$ 31,960,280,000	\$ 30,328,085,000
Disbursements by Transfer from Fund	<u>(31,660,903,000)</u>	<u>(30,271,473,000)</u>
Net Change in Participating Shares	\$ 299,377,000	\$ 56,612,000
Beginning of Period Participating Shares	<u>6,541,005,000</u>	<u>6,484,393,000</u>
End of Period Participating Shares	<u>\$ 6,840,382,000</u>	<u>\$ 6,541,005,000</u>
NET ASSETS	<u><u>\$ 6,840,382,000</u></u>	<u><u>\$ 6,541,005,000</u></u>

The accompanying notes are an integral part of this statement.

State Investment Fund

Notes to the Financial Statements

1. Description of Funds

The State Investment Fund (SIF) pools the cash of the State of Wisconsin and its agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP) into a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. Only State of Wisconsin agencies are required to invest their operating cash in the SIF. In the State's Comprehensive Annual Financial Report (CAFR), the SIF is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." Shares of the SIF belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund. The staff of the State of Wisconsin Investment Board (SWIB) manages the SIF with oversight by the Board of Trustees as authorized in Wisconsin Statutes 25.14 and 25.17. The SWIB is not registered with the SEC as an investment company.

Wisconsin Statutes 25.17(3)(b), (ba), (bd), and (dg) enumerate the various types of securities in which the SIF can be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin and bankers acceptances. The Board of Trustees may specifically approve other prudent legal investments.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the SIF are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB).

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Interest income is accrued as earned.

C. Valuation of Securities

Generally, securities are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants (See Footnote 3). BNY Mellon, as custodial bank, compiles fair value information for applicable securities by utilizing third party pricing services. The fair value of investments is determined at the end of each month.

U.S. Government/Agency securities and Commercial Paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Further, short-term debt investments with remaining maturities of up to ninety days are valued using amortized cost to estimate fair value, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

State Investment Fund

Notes to the Financial Statements

Bank Demand Deposits, Repurchase Agreements, non-negotiable Certificates of Deposit and Banker's Acceptances are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. The table entitled **Summary of Information by Investment Classification** contains information on SIF holdings.

D. Management Operating Expenses

Management Operating Expenses are SWIB's investment and administrative costs that are allocated to the SIF participants. During fiscal years 2000 to 2011, the billed expense was determined by between 2.75 and 3.25 basis points of assets under management. Unspent billed budget authority was allowed to be carried forward in a reserve held in the General Fund. In 2011, Wisconsin Act 32 eliminated SWIB's basis point budget process and authorized SWIB's Board to approve the internal operating budget based on operating and staffing needs. In September 2011, the Board approved eliminating the reserve. As a result, for FY 2012 Management Operating Expenses allocated to the

SIF of \$1,201,076 were charged against the reserve.

E. State Working Bank Charges

State Working Bank Charges represent charges for various state banking services such as lockbox, ePay, and depository services. These expenses are allocated to SIF participants based on their proportionate usage of banking services and, accordingly, reduce the participant's share of the Net Investment Income.

3. SIF Investment Income and Pool Shares

For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, the SIF distributes income to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method differs from the

Summary of Information by Investment Classification

June 30, 2012

Investment Type	Interest Rates	Maturity Dates	Book Value (Amort. Cost)	Fair Value
Bank Demand Deposits	0.21*	Demand	\$ 1,200,000,000	\$ 1,200,000,000
Repurchase Agreements	0.15 - 0.20	07/02/12	1,631,000,000	1,631,000,000
Government & Agencies	0.09 - 0.48	07/05/12 - 11/21/14	4,075,664,223	4,075,664,223
Certificates of Deposit	0.20 - 2.00	07/16/12 - 06/17/13	24,150,000	24,150,000
Banker's Acceptances	0.29 - 0.51	07/09/12 - 11/05/12	19,537,012	19,537,012
Total Investments			<u>\$ 6,950,351,235</u>	<u>\$ 6,950,351,235</u>
Ratio of Fair Value to Book Value				100%

* Represents earnings credits - see Note 4B

fair value method used to value investments in these financial statements, because the amortized cost method is not designed to distribute to participants unrealized gains and losses generated by the pool's investments. The total difference between the fair values of the investments in the pool and the values distributed to the pool participants using the amortized cost method described above is reported in the equity section of the Statement of Net Assets as "Undistributed Unrealized Gains (Losses)".

SIF pool shares are bought and redeemed at \$1.00 based on the amortized cost of the investments in the SIF. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares.

4. Deposit and Investment Risk

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. For the SIF, evaluations of levels of diversification, nominal risk exposures including sector, maturity, and interest rate exposures, and risk/return plots form the core of the monitoring process. In addition, the portfolio is reviewed daily for compliance with investment guidelines. At least quarterly, comprehensive reporting is presented to SWIB's Investment Committee and the Board of Trustees.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the SIF. The Board established SIF investment guidelines with maximum exposure limits by security type based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). As of June 30, 2012, these credit ratings and aggregate exposures by investment type are found in the table entitled

Credit Quality Distribution for Securities.

B. Custodial Credit Risk

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. SWIB does not have a deposit policy specifically for custodial credit risk. As of June 30, 2012, the SIF held Certificates of Deposit (CD) with a value of \$24,150,000 invested pursuant to the Wisconsin Certificate of Deposit Program (administered by Bankers' Bank) established in July 1987. Investment guidelines provide that banks accepted into this program must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits. The Federal Deposit Insurance Corporation (FDIC) insures the pro rata share of Certificates of Deposit held by the LGIP up to \$250,000, and the State of Wisconsin appropriation for losses on public deposits protects a depositing municipality up to \$400,000 if the local governing body has designated the LGIP as a public depository. Approximately \$24,150,000 is insured through FDIC insurance and the State of Wisconsin appropriation for losses on public deposits. The actual coverage of these deposits can fluctuate daily based on the allocable share of participants' accounts.

The SIF also had \$1.2 billion in a noninterest-bearing Demand Deposit transaction account at U.S. Bank. The FDIC Board of Directors has issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions (IDIs). All funds held in noninterest-bearing transaction accounts will be fully insured, without limit, from December 31, 2010, through December 31, 2012. The SIF U.S. Bank account received 0.21% earnings credits which are

Credit Quality Distribution for Securities

June 30, 2012

Investment Type	Rating	Fair Value	%
Bank Demand Deposits	NR	\$ 1,200,000,000	17.3
Repurchase Agreements (Collateral):			
U.S. Government Debt	AA	1,449,000,000	20.8
Government Sponsored Entity U.S. Agency	AA	182,000,000	2.6
U.S. Treasury	A-1+	429,697,927	6.2
Government Sponsored Entity U.S. Agency:			
Federal Home Loan Bank (FHLB)	A-1+	1,044,274,855	15.0
Federal Home Loan Bank (FHLB)	AA	181,563,771	2.6
Federal Home Loan Mortgage Corp (FHLMC)	A-1+	1,200,693,653	17.3
Federal National Mortgage Association (FNMA)	A-1+	1,034,849,313	14.9
Federal National Mortgage Association (FNMA)	AA	99,995,940	1.4
Federal National Mortgage Association (FNMA)	A	84,588,764	1.2
Certificates of Deposit:			
Non-Negotiable (Wisconsin CD Program)	NR	24,150,000	0.4
Banker's Acceptances	A-1	19,537,012	0.3
Total Investments		<u>\$ 6,950,351,235</u>	<u>100.0</u>

included in SIF Investment Income and used to pay State Working Bank Charges.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The SIF's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do not place a limit on maximum exposure for any U.S. Treasury or Agency securities. As of June 30, 2012 the SIF has more than five percent of its investments in a U.S. Bank Demand Deposit (17.3%), FHLB (17.6%), FHLMC (17.3%), FNMA (17.5%), and Repurchase Agreement collateral consisting of various securities issued by these same three U.S. Agencies (2.6%). Since the Repurchase Agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each night.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The SIF uses the Weighted Average Maturity (WAM) method to analyze interest rate risk and investment guidelines mandate that the WAM for the entire portfolio will not exceed one year. SIF WAM summary by investment type is found in the table entitled **Weighted Average Maturities (WAM) for Securities**.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SIF guidelines allow the investment in U.S. dollar denominated issues only.

5. Related Party Transactions

Wisconsin Statutes Chapter 20.002 (11) provides for the short-term temporary reallocation of surplus

**Weighted Average Maturities (WAM)
for Securities**
June 30, 2012

Investment Type	Fair Value	WAM (Days)
Bank Demand Deposits	\$ 1,200,000,000	0
Repurchase Agreements	1,631,000,000	2
Government & Agencies	4,075,664,223	125
Certificates of Deposit	24,150,000	141
Banker's Acceptances	19,537,012	55
	<hr/>	
Total Investments	\$ 6,950,351,235	
	<hr/>	
Portfolio Weighted Average Maturity		<hr/> 75

Inter-Fund Loans
June 30, 2012

Fund	Loan Amount
Medical Assistance Trust	\$ 162,209,000
Agriculture Chemical Cleanup	511,000
	<hr/>
Total Loans	\$ 162,720,000
	<hr/>

moneys between statutory funds, provided that the borrowing fund anticipates receiving future revenues to pay back the temporary loan. For Fiscal Year 2012, Chapter 20.002 (11) (b) 2 provides that General Fund borrowings may not exceed 9% of defined revenues (estimated borrowing cap of \$1.275 billion). Chapter 20.002 (11) (b) 3 permits an additional temporary allocation not to exceed 3% of defined revenues for a period of up to 30

days (estimated total borrowing cap of \$1.7 billion). Further, Chapter 20.002 (11) (b) 1 limits the total amount of any temporary reallocations to a fund other than the General Fund to \$400 million. The borrowing fund is charged interest on the inter-fund loan at the SIF monthly interest rate. As of June 30, 2012 the amount of inter-fund borrowings between statutory funds invested in the SIF is listed in the table entitled **Inter-Fund Loans**.



STATE OF WISCONSIN

Legislative Audit Bureau

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Joe Chrisman
State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE VARIOUS FUNDS

Senator Kathleen Vinehout and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees and
Mr. Michael Williamson, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying financial statements for the Various Funds (Local Government Property Insurance Fund, State Life Insurance Fund, Injured Patients and Families Compensation Fund, EdVest Tuition Trust Fund, and Historical Society Trust Fund) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements as of and for the year ended June 30, 2011, are being presented for informational purposes only. These financial statements were audited by us and we expressed an unqualified opinion on them in our report dated December 5, 2011, but we have not performed any auditing procedures since that date.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only the investment activity of the Various Funds attributable to the transactions of the State of Wisconsin Investment Board. The financial statements do not purport to, and do not, present fairly the financial activity of the Various Funds attributable to other state agencies. Further, they do not purport to, and do not, present fairly the financial position and the changes in the financial position of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective net investment assets of each of the Various Funds as of June 30, 2012, and the respective changes in net investment assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

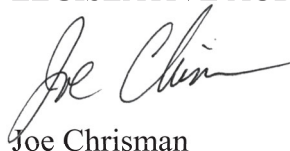
In accordance with *Government Auditing Standards*, we have also issued a report dated December 3, 2012, on our consideration of the Investment Board's internal control over financial reporting for the Various Funds; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Various Funds. The supplementary information included as Management's Discussion and Analysis, which precedes the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements referred to in the first paragraph. We have applied certain limited procedures to the information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The introduction section of the annual report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

LEGISLATIVE AUDIT BUREAU

December 3, 2012

by



Joe Chrisman
State Auditor

Various Funds

Management Discussion and Analysis

Management Discussion and Analysis provides an overview of the investment financial activities of the state trust funds collectively known as the “Various Funds”:

- Local Government Property Insurance Fund (LGP)
- State Life Insurance Fund (State Life)
- Injured Patients & Families Compensation Fund (Patients Comp)
- EdVest Tuition Trust Fund (EdVest)
- Historical Society Trust Fund (Historical Society)

The State of Wisconsin Investment Board (SWIB) has exclusive control of the investment and collection of principal, interest, and dividends of all monies invested of the Various Funds.

Following this section are the financial statements and notes which reflect only the investment activity of the Various Funds. The **Statement of**

Net Investment Assets provides information on the types of investment assets and the liabilities of the Various Funds. The **Statement of Changes in Net Investment Assets** provides information on the investment income of the Various Funds and their net investment assets at year-end. The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. Condensed Various Funds financial information for the fiscal year ended June 30, 2012 (with comparable amounts for 2011) is in the table entitled **Various Funds Condensed Investment Financial Information**.

Percentage changes in the Net Investment Assets of the Various Funds were due to Net Investment Income, as discussed below, and to program activities within the fund that were not investment related.

Bond prices closed the fiscal year 2012 significantly higher from the beginning of the fiscal year. During the prior fiscal year ended June 30, 2011, bond prices closed the fiscal year slightly lower from

Various Funds Condensed Investment Financial Information

Fiscal Year Ended:	2012	2011	% Change	2012 Annual Return %	
				Fund	Benchmark
<u>Net Investment Assets:</u>					
LGP Fund	\$ 30,228,364	\$ 37,539,723	(19.5)		
State Life Fund	115,646,900	100,017,648	15.6		
Patients Comp Fund	1,027,638,200	700,036,172	46.8		
EdVest Fund	7,389,508	7,869,025	(6.1)		
Historical Society Fund	11,435,232	11,272,528	1.4		
<u>Net Investment Income:</u>					
LGP Fund	\$ 68,719	\$ 190,899	(64.0)	0.2	0.2
State Life Fund	18,159,662	3,886,900	367.2	18.3	17.7
Patients Comp Fund	67,477,089	54,349,032	24.2	7.8	7.7
EdVest Fund	382,595	274,749	39.3	5.2	3.5
Historical Society Fund	550,349	2,296,519	(76.0)	5.1	5.3

Various Funds

Management Discussion and Analysis

the beginning of the fiscal year. Domestic equity markets in the current fiscal year closed slightly higher from the beginning of fiscal year, as compared to significantly higher during the prior fiscal year. The Federal Open Markets Committee (FOMC) maintained the federal funds target rate at 0.25% during both fiscal years.

The 64.0% decrease in the Net Investment Income of the LGP Fund was due to a combination of smaller size of the fund (decreased 19.5%), a 65.9% reduction in bonds, and lower short-term interest rates on the increased investment in the State Investment Fund (SIF) as compared to the prior fiscal year.

The State Life, Patients Comp and EdVest Funds are primarily “buy and hold” portfolios. Highly rated bonds (at time of purchase) are acquired for each portfolio and held to maturity. Net Investment Income is subject to swings caused by the effect of interest rate changes on bond prices.

The 367.2% increase in Net Investment Income of the State Life Fund was due to significantly higher bond prices during the current fiscal year, compared to slightly lower prices during the prior fiscal year.

The Patients Comp Fund also experienced an increase in Net Investment Income due to significantly higher bond prices. However, the increase was partially offset by four indexed stock funds, representing 17.5% of investments, which experienced a \$7.1 million increase in fair value during the current year as compared to a \$32.4 million increase in fair value during the prior year. The significant increase in Net Investment Assets was largely due to a court-ordered repayment of \$233.7 million which had previously been transferred, under 2007 Wisconsin Act 20, from Patients Comp to the State’s Medical Assistance Trust Fund.

The 39.3% increase in Net Investment Income for the EdVest Fund was due to appreciation in the prices of government sponsored entity bonds it held as compared to depreciation of value in the prior year.

The 76.0% decrease in Net Investment Income for the Historical Society Fund was largely due to an indexed stock fund, representing 77.7% of Net Investment Assets, which experienced a \$0.3 million increase in fair value during the current year as compared to a \$2.2 million increase in fair value during the prior year.

Various Funds

Financial Statements

Various Funds - Statement of Net Investment Assets

As of June 30, 2012

	Local Govt Property Insurance Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	EdVest Tuition Trust Fund	Historical Society Trust Fund
Investment Assets					
Cash and Cash Equivalents:					
Unrestricted	\$ 24,631,494	\$ 1,824,196	\$ 39,888,482	\$ 1,027,788	\$ 151,276
Restricted	-	-	34,010,396	-	-
Receivables:					
Investment Income	38,120	1,389,146	9,457,297	13,362	58,156
Investment Sales	-	-	-	-	5,468
Investments:					
Fixed Income	5,558,750	112,433,558	779,070,994	6,348,358	2,502,510
Equity	-	-	165,221,915	-	8,718,366
Total Investment Assets	\$ 30,228,364	\$ 115,646,900	\$ 1,027,649,084	\$ 7,389,508	\$ 11,435,776
Liabilities					
Investment Purchases Payable	-	-	6,114	-	224
Accounts Payable	-	-	4,770	-	320
Total Liabilities	\$ -	\$ -	\$ 10,884	\$ -	\$ 544
Net Investment Assets	\$ 30,228,364	\$ 115,646,900	\$ 1,027,638,200	\$ 7,389,508	\$ 11,435,232

Various Funds - Statement of Changes in Net Investment Assets

For the Fiscal Year Ended June 30, 2012

	Local Govt Property Insurance Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	EdVest Tuition Trust Fund	Historical Society Trust Fund
From Investment Activities:					
Investment Income					
Net Increase (Decrease) in Fair Value of Investments	\$ (128,018)	\$ 13,055,354	\$ 38,082,331	\$ 99,622	\$ 553,687
Interest & Dividends	200,147	5,109,913	29,445,654	282,973	211
Investment Expenses	(3,410)	(5,605)	(50,896)	-	(3,549)
Net Investment Income	\$ 68,719	\$ 18,159,662	\$ 67,477,089	\$ 382,595	\$ 550,349
From Participant Transactions:					
Net Receipts (Disbursements) - Non-Investment Activity	(7,380,078)	(2,530,410)	260,124,939	(862,112)	(387,645)
Net Increase (Decrease) in Net Investment Assets	\$ (7,311,359)	\$ 15,629,252	\$ 327,602,028	\$ (479,517)	\$ 162,704
Net Investment Assets					
Beginning of Year	37,539,723	100,017,648	700,036,172	7,869,025	11,272,528
End of Year	\$ 30,228,364	\$ 115,646,900	\$ 1,027,638,200	\$ 7,389,508	\$ 11,435,232

The accompanying notes are an integral part of this statement.

Various Funds - Statement of Net Investment Assets

Comparative Amounts as of June 30, 2011

	Local Govt Property Insurance Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	EdVest Tuition Trust Fund	Historical Society Trust Fund
Investment Assets					
Cash and Cash Equivalents:					
Unrestricted	\$ 21,161,534	\$ 1,338,613	\$ 9,440,333	\$ 1,342,012	\$ 227,692
Restricted	-	-	37,190,375	-	-
Receivables:					
Investment Income	72,402	1,378,823	7,323,898	13,332	12,458
Investment Sales	-	-	-	-	7,177
Investments:					
Fixed Income	16,305,787	97,300,212	529,005,277	6,513,681	2,481,374
Equity	-	-	117,084,388	-	8,544,298
Total Investment Assets	\$ 37,539,723	\$ 100,017,648	\$ 700,044,271	\$ 7,869,025	\$ 11,272,999
Liabilities					
Investment Purchases Payable	-	-	4,604	-	156
Accounts Payable	-	-	3,495	-	315
Total Liabilities	\$ -	\$ -	\$ 8,099	\$ -	\$ 471
Net Investment Assets	\$ 37,539,723	\$ 100,017,648	\$ 700,036,172	\$ 7,869,025	\$ 11,272,528

Various Funds - Statement of Changes in Net Investment Assets

Comparative Amounts for the Fiscal Year Ended June 30, 2011

	Local Govt Property Insurance Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	EdVest Tuition Trust Fund	Historical Society Trust Fund
From Investment Activities:					
Investment Income					
Net Increase (Decrease) in Fair Value of Investments	\$ (115,783)	\$ (1,128,468)	\$ 29,773,300	\$ (31,053)	\$ 2,309,739
Interest & Dividends	310,235	5,021,308	24,622,201	305,802	333
Investment Expenses	(3,553)	(5,940)	(46,469)	-	(13,553)
Net Investment Income	\$ 190,899	\$ 3,886,900	\$ 54,349,032	\$ 274,749	\$ 2,296,519
From Participant Transactions:					
Net Receipts (Disbursements) - Non-Investment Activity	(10,055,061)	(2,400,468)	(6,373,915)	(731,056)	(418,961)
Net Increase (Decrease) in Net Investment Assets	\$ (9,864,162)	\$ 1,486,432	\$ 47,975,117	\$ (456,307)	\$ 1,877,558
Net Investment Assets					
Beginning of Year	47,403,885	98,531,216	652,061,055	8,325,332	9,394,970
End of Year	\$ 37,539,723	\$ 100,017,648	\$ 700,036,172	\$ 7,869,025	\$ 11,272,528

The accompanying notes are an integral part of this statement.

Various Funds

Notes to the Financial Statements

1. Description of Funds

The State of Wisconsin Investment Board (SWIB or the Investment Board) has control of the investment and collection of principal, interest, and dividends of all monies invested of the Local Government Property Insurance Fund, State Life Insurance Fund, Injured Patients and Families Compensation Fund, EdVest Tuition Trust Fund, and Historical Society Trust Fund (collectively known as the “Various Funds”).

The statements presented herein reflect only the investment activity of the Various Funds. Excluded from the presentation in the statements are, for example, claim reserves, reserves for life policies and contracts, contribution revenue, premiums earned, benefit expense, and expenditures from endowment income.

The State of Wisconsin’s Comprehensive Annual Financial Report contains all of the activity of the Various Funds.

The State Investment Fund (SIF) is used to temporarily invest the operating cash flows of the Various Funds. SWIB manages the SIF with oversight by a Board of Trustees, as authorized in Wisconsin Statutes 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission (SEC) as an investment company.

A. Local Government Property Insurance Fund

The Local Government Property Insurance Fund (LGP) provides property insurance protection to local government units on an optional basis. The Office of the Commissioner of Insurance (OCI) is responsible for administering the operations of the LGP Fund, while SWIB performs the investment activities for the fund. SWIB’s investment objective is to ensure safety of principal and maximization of return within liquidity needs established by the OCI.

Wisconsin Statute 25.17(3)(b) allows investments in direct obligations of the United States and Canada, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, Yankee/Euro dollar issues, and certificates of deposit issued by banks in the United States, including solvent financial institutions in Wisconsin.

B. State Life Insurance Fund

The State Life Insurance Fund (State Life) offers life insurance protection to Wisconsin residents in amounts up to \$10,000 per person. The Office of the Commissioner of Insurance is responsible for administering the operations of the State Life Fund. SWIB’s investment objective is to maintain a diversified portfolio of high quality publicly issued fixed income obligations that will preserve principal, maximize income while minimizing costs to policyholders, and approximate the expected life of the fund’s insurance contracts. Wisconsin Statute 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by s. 620.22, Wis. Stats. Permitted classes of investments include bonds of government units or of corporations, loans secured by mortgages, preferred or common stocks, real property and other investments not specifically prohibited by statute.

C. Injured Patients and Families Compensation Fund

The Injured Patients and Families Compensation Fund (Patients Comp) provides medical malpractice insurance protection to health care providers permanently practicing or operating in Wisconsin. Management of the Patients Comp Fund is vested with a Board of Governors and administration of the operations of the fund is the responsibility of the Office of the Commissioner of Insurance. SWIB is responsible for investing the securities held by this fund. SWIB’s investment objective is to maintain a diversified portfolio of investments to provide a balance between capital appreciation, preservation

of capital, and current income consistent with the needs of the Patients Comp Fund. Wisconsin Statute 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by s. 620.22, Wis. Stats. Permitted classes of investments include bonds of governmental units or of corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

D. EdVest Tuition Trust Fund

The EdVest Wisconsin College Savings plan offers families a way to prepare for future higher education costs. When the plan was established in 1997, it offered a bond-based tuition unit investment option. These units, plus investment earnings, are expected to equal one percent of the projected average annual cost of tuition at University of Wisconsin campuses in the year of their use. The Department of Administration is responsible for the administration of the EdVest Wisconsin plan. Wisconsin Statute 16.64(10)(b) directs SWIB to invest moneys held in the Tuition Trust Fund in investments with maturities and liquidity that are appropriate for the needs of the fund as reported by the Department of Administration in its quarterly reports. All income derived from such investments shall be credited to the fund. The sale of tuition units was discontinued in 2002. Other investment options are available under the EdVest plan, but these are not managed by the Investment Board.

E. Historical Society Trust Fund

The State Historical Society of Wisconsin collects and preserves historical and cultural resources relating to the history of Wisconsin and the western United States, conducts historical research, facilitates and encourages education in Wisconsin history, and serves as the Trustee of the State for the preservation and care of government records. In addition to state and federal funds, the Historical Society receives gifts, grants, and bequests to assist

it in carrying out its mission. The gifts, grants and bequests are deposited into the Historical Society Trust Fund (Historical Society). SWIB is responsible for managing and supervising the fund's investments with an investment objective of maintaining a diversified portfolio of high quality publicly issued equities and fixed income obligations providing long-term growth in capital and income generation. Any income earned, except where reinvestment is required by the terms of the gift or bequest, may be expended by the Historical Society in accordance with provisions of the gift, grant or bequest.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the Various Funds are prepared in conformity with accounting principles generally accepted in the United States of America for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The Local Government Property Insurance Fund, the State Life Insurance Fund, and the Injured Patients and Families Compensation Fund operate similar to insurance enterprises and are reported by the State as proprietary funds. The EdVest Tuition Trust Fund is reported by the State as a fiduciary fund and the Historical Society Trust Fund is reported by the State as a governmental fund.

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Interest

Various Funds

Notes to the Financial Statements

income is accrued as earned and dividend income, if any, is recorded on the ex-dividend date.

C. Valuation of Securities

As required by Governmental Accounting Standards Board Statement No. 31, the investments of the Various Funds are valued at fair value, with unrealized and realized gains and losses reflected in the **Statement of Changes in Net Investment Assets** as “Net Increase (Decrease) in Fair Value of Investments.” Generally, fair value is based on quoted market prices.

D. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates that affect amounts reported herein. Due to the inherent uncertainty involved, actual results could differ from those estimates.

E. Cash and Cash Equivalents

“Cash and Cash Equivalents” reported on the **Statement of Net Investment Assets** include bank deposits and the individual funds’ shares in the State Investment Fund.

Beginning in January 2011, the Patients Comp Fund segregated as restricted certain cash balances which represent amounts awarded by court judgments to pay for the future medical expenses of injured plaintiffs.

3. Deposits and Investments

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. Inspection of levels of diversification, nominal risk exposures, risk/return plots, and matching liabilities with assets form the core of the monitoring process. In addition, portfolios and asset classes are reviewed

monthly for compliance with investment guidelines and exceptions, if any, are remedied in a prudent manner. On a quarterly basis, guideline exceptions, if identified, are reviewed by SWIB’s Enterprise Risk and Compliance Committee.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Various Funds. The Various Funds’ (except for EdVest) investment guidelines generally require that issues be rated “A-” or better at the time of purchase based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). Patients Comp Fund guidelines provide that, at the time of purchase, at least 80% of the bond portfolio must be rated “A3/A-” or better, using the lower of split ratings. EdVest guidelines do not specifically list a minimum credit quality. As of June 30, 2012, these credit ratings and aggregate exposures by investment type can be found in the table entitled **Credit Quality Distribution for Fixed Income Securities**. While the Historical Society bond fund is not assigned a rating by S&P, the underlying holdings have an average S&P rating of AA-.

B. Custodial Credit Risk

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, the Various Funds will not be able to recover deposits that are in possession of an outside party. The Various Funds do not have a deposit policy specifically for custodial credit risk. As of June 30, 2012, the Various Funds had a total of \$4,633 deposited in a bank account all of which was covered by FDIC insurance.

Investments — Custodial credit risk related to investments is the risk that, in the event of the failure of the counterparty to a transaction, the Various Funds will not be able to recover the value of investments that are in the possession of an outside

Credit Quality Distribution for Fixed Income Securities

June 30, 2012

Rating	LGP		State Life		Patients Comp		EdVest		Historical Society	
	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%
AAA	\$ -	0.0	\$ 1,220,195	1.1	\$ 19,038,197	2.2	\$ -	0.0	\$ -	0.0
AA	5,558,750	18.4	47,975,840	42.0	323,223,113	37.9	5,704,748	77.4	-	0.0
A	-	0.0	40,232,306	35.2	292,889,207	34.3	303,948	4.1	-	0.0
BBB	-	0.0	21,766,752	19.0	131,005,561	15.4	228,135	3.1	-	0.0
BB	-	0.0	558,465	0.5	9,529,916	1.1	111,527	1.5	-	0.0
B	-	0.0	680,000	0.6	3,375,000	0.4	-	0.0	-	0.0
CCC	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0
D	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0
Not Rated	-	0.0	-	0.0	10,000	0.0	-	0.0	-	0.0
Bond Fund	-	0.0	-	0.0	-	0.0	-	0.0	2,502,510	94.4
Subtotals	\$ 5,558,750	18.4	\$ 112,433,558	98.4	\$ 779,070,994	91.3	\$ 6,348,358	86.1	\$ 2,502,510	94.4
SIF (unrated)	24,631,000	81.6	1,824,000	1.6	73,898,000	8.7	1,027,000	13.9	149,000	5.6
Totals	\$ 30,189,750	100.0	\$ 114,257,558	100.0	\$ 852,968,994	100.0	\$ 7,375,358	100.0	\$ 2,651,510	100.0

Note: SIF shares are reported on the Statement of Net Investment Assets as Cash and Cash Equivalents.

party. The Various Funds do not have an investment policy specifically for custodial credit risk. As of June 30, 2012, the Various Funds did not have any direct investment securities exposed to custodial credit risk.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. With the exception of EdVest, the Various Funds investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. Generally, the guidelines require that no single issuer may exceed 5% of the fund investments, with the exception of the U.S. Government and its Agencies, whose exposure is unlimited. The LGP Fund further limits AAA-rated U.S. mortgage-backed, AAA-rated asset-backed, and individual corporate issuers to 3% of the market value of the fund investments. None of these issuers were owned at fiscal year end.

Excluding investments issued or explicitly guaranteed by the U.S. government and pooled investments, as of June 30, 2012, none of the Various Funds had more than 5% of their total investments (including the SIF) in a single issuer.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Various Funds use the duration method to identify and manage interest rate risk. Three of the Various Funds have investment guidelines relating to interest rate risk. The LGP Fund guidelines require that a bond's maturity must not exceed ten years. The State Life Fund guidelines require the Weighted Average Maturity (WAM) of the portfolio, including cash, to be a minimum of ten years. The Patients Comp Fund guidelines require the average duration of the aggregate bond portfolio to be less than ten years. Summary duration or WAM analysis is

Various Funds

Notes to the Financial Statements

Duration or WAM (in years) for Fixed Income Securities

June 30, 2012

Investment Type	LGP		State Life		Patients Comp		EdVest		Historical Society	
	Fair Value	Duration	Fair Value	WAM	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Govt/Agcy	\$ 5,558,750	0.45	\$ 45,323,872	14.39	\$ 294,943,115	5.28	\$ 5,599,736	3.33	\$ -	
Corporate	-		67,109,686	16.76	484,127,879	5.85	748,622	3.64	-	
Bond Fund	-		-		-		-		2,502,510	5.68
Subtotal / Wtd Ave	\$ 5,558,750	0.45	\$ 112,433,558	15.80	\$ 779,070,994	5.64	\$ 6,348,358	3.37	\$ 2,502,510	5.68
SIF (WAM)	24,631,000	0.21	1,824,000	0.21	73,898,000	0.21	1,027,000	0.21	149,000	0.21
Total / Wtd Ave	\$ 30,189,750	0.25	\$ 114,257,558	15.55	\$ 852,968,994	5.17	\$ 7,375,358	2.93	\$ 2,651,510	5.37

found in the table entitled **Duration or WAM (in Years) for Fixed Income Securities**.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Various Funds' investment guidelines do not specifically address foreign currency risk with the exception that the State Life Fund only allows investments in U.S. dollar denominated instruments. As of June 30, 2012, the Various Funds did not directly own any issues denominated in a foreign currency.

fluctuations, which results in greater price volatility, and thus the market risk is higher than for traditional United States Treasury obligations.

As of June 30, 2012, the EdVest Fund held interest only strips valued at \$5.6 million, representing approximately 75.9% of portfolio investments.

4. Derivative Financial Instruments

Interest Only Strips — Interest only strips are securities that derive cash flow from the payment of interest on underlying debt securities. The EdVest Fund held several interest only strips for yield enhancement purposes. Because the underlying securities are United States Treasury obligations, the credit risk is low. On the other hand, interest only strips may be more sensitive to interest rate

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