Market volatility expected to continue

Looking back at 2008, public pension funds nationwide have been similarly affected by one of the worst market performances on record. Compared to approximately 30 large public pension funds in a survey of 2008 returns by the global financial services firm Bank of New York Mellon, SWIB’s Core Fund ranked in the top third with its return of -26.2%. The median fund return was -27.0%. In another survey by Northern Trust, a financial management firm, the median public fund return was -26.6% for the year, placing the Core Fund somewhat ahead of the median fund.

The start of 2009 looked familiar as the markets continued the same negative trend of 2008. Core and Variable Fund returns at the end of January and February were negative. In fact, all major U.S. and international stock and bond indexes reported negative returns at the end of February.

Most observers remain very cautious about the prospects for the remainder of the year. In March there were some indications of a rebound as the Dow Jones industrial average gained 7.7% for the month, the biggest monthly increase since October 2002. The S&P 500 Index returned almost 11% for month. In addition, governments around the globe continue to take actions in an effort to stimulate the economy.

Experienced professionals manage WRS funds

Being responsible for managing billions of dollars in retirement trust funds requires more than making sound investment decisions on a daily basis. It requires making long-term strategic decisions and developing best-in-class management processes to ensure that SWIB is providing the best overall service possible.

Over the past two years SWIB has been implementing new ways to improve its management processes. One of the biggest changes has been to strengthen investment procedures for our internally managed equity portfolios and, in the process, to contain investment costs. Since the beginning of 2008 we have moved nearly $9 billion from external to internal management, at an annual cost savings of over $3 million.

Calendar Year-to-Date Preliminary Returns
As of 3/31/09

<table>
<thead>
<tr>
<th>Fund</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Fund</td>
<td>-7.9%</td>
</tr>
<tr>
<td>Variable Fund</td>
<td>-10.4%</td>
</tr>
</tbody>
</table>

2008 Final Returns

<table>
<thead>
<tr>
<th>Fund</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Fund</td>
<td>-26.2%</td>
</tr>
<tr>
<td>Variable Fund</td>
<td>-39.0%</td>
</tr>
</tbody>
</table>

SWIB’s Fixed Income Group meets weekly to discuss the markets and relevant issues.
SWIB website offers answers

Would you like to know more about SWIB and the investments of the Wisconsin Retirement System (WRS)? The best place to start is www.swib.state.wi.us. SWIB’s website offers a wide range of information from lists of investments to our work advocating for policy and regulatory changes on Wall Street.

If you don’t find the answer or you need information sent by mail, contact SWIB at info@swib.state.wi.us or call our hotline at (800) 424-7942 or in Madison at 267-0957. You can also receive email notices about our newsletter and occasional updates by contacting SWIB. Here are some helpful links on the SWIB website:

News/updates: Links to news and timely announcements are posted on SWIB’s home page at www.swib.state.wi.us.

Investment Strategy: Core and Variable investment strategies are explained in a paper at www.swib.state.wi.us/variable.pdf.

Core and Variable Fund Investments: The 2008 Schedule of Investments lists SWIB holdings as of the end of the Fiscal Year, June 30, 2008, and is available at www.swib.state.wi.us/annual_reports.asp. A link to quarterly reports of domestic stock holdings filed with the Securities and Exchange Commission is at www.swib.state.wi.us/wrsinvest.asp.

Performance: SWIB posts calendar year-to-date returns monthly at www.swib.state.wi.us/performance.asp once the numbers are final, which can take up to four weeks.

Investing in down markets: Papers entitled “Strategy Helps Retirement Funds In Market Downturns” and “Market Conditions and the WRS - Frequently Asked Questions” can be found at www.swib.state.wi.us/updates.asp.

Corporate governance: Information about our work to advocate for reform in the U.S. financial markets can be found at www.swib.state.wi.us/governance.asp.

Quarterly newsletter: The SWIB Report offers timely updates and information at www.swib.state.wi.us/newsletters.asp.

Core and Variable Funds 10-Year Return Comparisons
This chart shows the average annual ten-year returns as of December 31 for each year since 1987.

Core, Variable differ in objectives, strategies

The Core and Variable Funds are two different funds with different investment objectives and strategies. More importantly, the end results and impact on your pension will also be very different.

The Core Fund is a fully diversified, balanced fund. The Fund is anchored with equities (stocks) and fixed income (bonds) and includes other types of investments. (See asset allocations on page 3.) One very important aspect of the Core Fund is the smoothing of returns over five years, lessening the impact of market volatility on adjustments to employee accounts and annuity payments.

The basic objective of the Core Fund is to earn an optimum net rate of return while taking an acceptable level of risk. This objective reflects the purpose of the Core Fund, which is to continue to ensure the retirement system can meet its financial obligations now and into the future. A second goal is to exceed the benchmark established by the Board of Trustees, which measures SWIB’s performance against the markets.

State law requires that the Variable Fund be primarily invested in equities. The returns of the Variable Fund are not smoothed and, therefore, fully reflect market changes. Participants in the Variable Fund are exposed to a higher degree of risk because of possible losses from unfavorable stock market performance in exchange for the possibility of greater long-run returns.

Variable Fund negative returns could cause annuities to decrease below the initial base amount. The investment objective for the Variable Fund is to achieve returns equal to or above that of similar stock portfolios over a market cycle.

The Core Fund portfolio has about 55% of its assets invested in stocks. Stock exposure for those who participate in the Variable Fund -- depending on the amount of the individual account and length of time in the WRS and in the Variable Fund -- is estimated to be an average of 77%.
Private markets, multi-asset allocations targets increased
2009 asset targets include decrease in equities

Asset allocation changes approved for 2009 were small, but among the steps SWIB is taking to help the WRS during challenging times.

The Board of Trustees annually reviews the asset allocation to consider adjustments and new initiatives. After conducting its review, Trustees decreased domestic equities (stocks) and increased allocations for private markets and multi-asset strategies for 2009.

The changes are part of SWIB’s work to reduce the risk of extreme stock market volatility and to implement new strategies that are expected to provide even greater diversification and more added value. Target changes included:

- Reduced
  • public equities (stock) by 3 percent from 58 to 55 percent
  • fixed income by 1 percent to 29 percent
- Increased
  • private equity/debt by 1 percent from 5 to 6 percent
  • real estate by 1 percent from 5 to 6 percent
  • multi-asset strategies from 2 percent to 4 percent.

Asset allocation is an important part of the diversification strategy for investing the pension system funds. This process is one of the ways that SWIB manages risk and helps stabilize returns. For example, including equities, fixed income, and real estate helps to manage risk because all three of these assets are unlikely to experience the same value movement (either up or down) at the same time. Likewise, volatility of returns is limited because typically not all industries or individual companies within these asset classes move up or down in value at the same time or at the same rate. Diversification allows for more consistent performance under a wide range of economic conditions.

The Core Fund is fully diversified. It includes a mixture of holdings among asset classes, such as stocks, bonds, real estate and private equity. In addition, the Fund is invested in companies that differ by size, industry and location. Diversification in the Variable Fund, which includes only equities, is achieved by investing in different industries, company sizes and locations. Asset allocation targets include the following types of investments:

Public Equities (Stocks)
Domestic: primarily common stock in US companies diversified among small-, medium- and large-sized companies.

International: primarily common stock in foreign companies in developed countries.

Emerging markets: stocks in developing countries as defined by the World Bank.

Private Markets
Real estate: commercial real estate investments with SWIB as a sole direct owner, or in joint ventures and partnerships with outside managers and diversified by location and property types; and diversified sets of real estate investment trusts (REITs).

Private equity/debt: includes leveraged buyouts and venture capital; direct, long-term loans to Wisconsin companies; and private market investments.

Multi-Asset
Globally diversified; applies asset allocation strategies across world capital markets.

### 2009 Core Asset Targets

- Real Estate 6%
- Multi-Asset 4%
- Fixed Income 29%
- Domestic Equities 29%
- International Equities 26%

### 2009 Variable Asset Targets

- Multi-Asset 1%
- Domestic Equities 69%
- International Equities 30%
Staff (continued from page 1)

Some types of investments can be more efficiently and effectively managed by outside firms. However, the simple fact is that having SWIB staff managing money costs less than hiring external managers. To be successful, SWIB seeks experienced, well-trained staff.

All SWIB investment staff have undergraduate degrees, most have master’s degrees and we have several with PhDs. Experience for seasoned investment staff ranges between 8 and 32 years. Typically, investment staff have spent several years working for another investment or financial organization before joining SWIB. Some candidates join SWIB through internships sponsored with the Applied Securities Program at the UW-Madison School of Business or other graduate programs.

Most of the nearly 60 investment staff holds or is pursuing the Chartered Financial Analyst (CFA) designation and the Board adheres to CFA standards. CFA certification is achieved after successful completion of three levels of exams which test knowledge of investment analysis, responsibilities to clients and ethics. It is administered by the CFA Institute, a global association of investment professionals that promotes standards for professional conduct, uniform reporting of investment performance and continuing education.

In accordance with current state law, SWIB has adopted rigorous processes for establishing investment standards and assuring compliance with those standards by our own staff and external managers. These processes create a disciplined approach for avoiding conflicts of interest, ensuring investments are made within approved guidelines and providing ongoing monitoring of investment activities. Standards are created in an open, public fashion and are reported on our website and to the Legislature.

Two years ago SWIB received resources to increase internal investment management. Using those additional staff, SWIB took steps to increase its capacity to manage investments internally and strengthen returns -- particularly in public equities. Portfolios have been realigned by industry sector, staff redeployed and new screening tools put in place, drawing on practices of “best in class” investment managers. The results thus far have been encouraging. In 2008 the restructured large company stock portfolios outperformed their market benchmarks by over $203 million.

<table>
<thead>
<tr>
<th>Year</th>
<th>Core Fund</th>
<th>Variable Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>-26.2%</td>
<td>-39.0%</td>
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<tr>
<td>2007</td>
<td>8.7%</td>
<td>5.6%</td>
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<tr>
<td>2006</td>
<td>15.8%</td>
<td>17.6%</td>
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<tr>
<td>2005</td>
<td>8.6%</td>
<td>8.3%</td>
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<tr>
<td>2004</td>
<td>12.8%</td>
<td>12.7%</td>
</tr>
<tr>
<td>2003</td>
<td>24.2%</td>
<td>32.7%</td>
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<tr>
<td>2002</td>
<td>-8.8%</td>
<td>-21.9%</td>
</tr>
<tr>
<td>2001</td>
<td>-2.3%</td>
<td>-8.3%</td>
</tr>
<tr>
<td>2000</td>
<td>-0.8%</td>
<td>-7.2%</td>
</tr>
<tr>
<td>1999</td>
<td>15.7%</td>
<td>27.8%</td>
</tr>
<tr>
<td>1998</td>
<td>14.6%</td>
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<tr>
<td>1997</td>
<td>17.2%</td>
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<tr>
<td>1996</td>
<td>14.4%</td>
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<tr>
<td>1995</td>
<td>23.1%</td>
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<td>1994</td>
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<td>0.8%</td>
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<tr>
<td>1993</td>
<td>15.0%</td>
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<tr>
<td>1992</td>
<td>9.7%</td>
<td>10.7%</td>
</tr>
<tr>
<td>1991</td>
<td>20.4%</td>
<td>27.1%</td>
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<td>1990</td>
<td>-1.5%</td>
<td>-11.3%</td>
</tr>
<tr>
<td>1989</td>
<td>19.2%</td>
<td>22.6%</td>
</tr>
</tbody>
</table>

20-year Annualized Return
8.2% 7.2%