



The SWIB Report

Published by the State of Wisconsin Investment Board for WRS Participants

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New Initiative Targets State Technology

SWIB has committed an additional \$100 million for venture capital investing in technology in Wisconsin and the Midwest. Monica Jaehnig, Portfolio Manager, is managing the project.

Currently, SWIB is seeking proposals from qualified venture capital firms interested in providing investment management services within the designated technology and geographic areas. Depending upon the expertise and qualifications of interested venture firms, SWIB may select a single manager with a broad mandate or may assemble a portfolio of multiple managers, each with a more narrowly defined focus.

A copy of the request for proposals (RFP), which details services SWIB is seeking and the process and timeline we plan to follow, is available at www.swib.state.wi.us. The deadline is December 16, 2002, and new managers should be named by early next year.

SWIB has been involved with venture capital investing since 1985. A new

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Annualized Performance Ending 9/30/02

| Retirement Funds | 1-Year Return | 5-Year Return | 10-Year Return |
|-------------------------|---------------|---------------|----------------|
| Fixed Fund | -6.6% | 2.1% | 8.2% |
| <i>Benchmark</i> | <i>-7.4</i> | <i>1.7</i> | <i>7.5</i> |
| Variable Fund | -17.0% | -2.1% | 7.9% |
| <i>Equity Benchmark</i> | <i>-17.7</i> | <i>-3.3</i> | <i>7.0</i> |
| <i>S&P 500</i> | <i>-20.5</i> | <i>-1.6</i> | <i>9.0</i> |

Markets Weaken in September; Show Improvement in October

The Dow Jones Average experienced its largest September decline in 65 years as the market continued to drop in the third quarter of 2002. As of September 30, the S&P 500 had dropped 44.7% in two years - its deepest sustained decline since 1929.

These exceptional declines are reflected in the -26.3% return for the total stock investments of the Fixed and Variable Trust Funds during the first nine months of 2002. However, three portfolios in the Fixed Trust Fund earned positive returns. They were Fixed Income (38% of the fund) up 7.2%, Real Estate (4% of the fund) up 5.9% and Alternative Investments (5% of the fund) up 3.8%.

The one-, five- and ten-year returns for the Fixed and Variable Funds also remained ahead of their performance benchmarks as of September 30. (See chart above.)

As the markets began to improve in October, so did Fixed and Variable Funds' performances. As of October 31, the Fixed Fund returned -10.1% and the

Variable Fund returned -22.4% for the first ten months of the year.

Market conditions over several economic cycles are taken into account in SWIB's investment strategy, which has a long-term focus.

Some of the steps we have taken to enhance performance in this difficult market include:

- Increased diversification of our stock portfolios;
- Moved funds from overvalued assets (bonds) to undervalued assets (stocks);
- Continued pursuing litigation to recover losses from Worldcom and other corporate fraud cases.
- Reviewed WRS assets and liabilities so that our investment strategies are aligned with the long-term financial needs of the retirement system.

In addition to poor market conditions

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Q&A: Should I Join or Stay in the Variable Fund ?

A. The Variable Fund is an all stock fund. Approximately 80% of the Fund's assets are invested in domestic stocks and 20% in international stocks. Dividend payments to annuitants are directly tied to the previous year's investment return.

As with any investment decision, WRS members should consider their own risk tolerance, other sources of retirement income and time horizon. The severe market downturn of the last three years followed a five-year period of unprecedented gains. Stocks are more volatile, but have outperformed most other types of investments over the long term. Participants also have exposure to the stock market through the portion of their account that is invested in the Fixed Fund, which was 51% invested in stocks as of September 30.

Contact the Department of Employee Trust Funds (ETF) at 877-533-5020 or <http://etf.wi.gov> for more information about how participation in the Variable Fund affects your benefits. To withdraw from or join the Variable Fund beginning in 2003, notify ETF before January 1, 2003.

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over the past three years, changes resulting from 1999 Act 11 are affecting the system. It is now gradually beginning to realize the impact of Fixed Fund investment gains and losses more quickly than in the past. As a result, the up and down movements in the market will be more noticeable than before Act 11.

The rates of return for the Fixed and Variable Funds as of December 31 are used by the Department of Employee Trust Funds to determine the impact on participants. The rates are expected to be announced by SWIB in mid-January.

| Largest S&P 500 Downturns Since 1926 | | | | |
|---|-----------------|---------------|-----------------|--------------------------------|
| Rank | Downturn | Months | | Time Period |
| | | Length | Recovery | |
| 1 | -83.4% | 34 | 151 | Sept. 1929 - June 1932 |
| 2 | -44.7% | 25 | ? | Sept. 2000 - Sept. 2002 |
| 3 | -42.6% | 21 | 21 | Jan. 1973 - Sept. 1974 |
| 4 | -29.5% | 3 | 18 | Sept. 1987 - Nov. 1987 |
| 5 | -29.2% | 19 | 9 | Dec. 1968 - June 1970 |

Source: Baker Investment Group

The current market has fallen 44.7% in the past 25 months, second only to the decline from September 1929 to June 1932 when market dropped 83.4%.

Newsletter Is Available Electronically

The SWIB Report newsletter is also available at www.swib.state.wi.us. If you would like to receive your newsletter electronically, we will be happy to notify you by email when the new



edition has been published and provide you with a direct link. The newsletter is provided in a Portable Document Format (PDF file) with a link to Adobe Reader.

contact us by email at info@swib.state.wi.us, or by calling toll-free, (800) 424-7942 or in Madison, 267-0957.

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push came in March 1999 when the Investment Board allocated up to \$50 million for venture capital firms invested in early stage companies such as those being developed out of local research institutions such as University of Wisconsin and Medical College of Wisconsin. Funds are currently being invested by Madison-based Venture Investors and Mason Wells in Milwaukee. Investment decisions are the responsibility of the venture capital organizations.