



The SWIB Report

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Performance Update

Markets continue to be volatile as we move into the final quarter of 2006, but overall returns remain positive. The preliminary calendar year-to-date return for the Core Fund was 5.6% as of July 30, ahead of the 4.9% return for the benchmark. The Variable Fund return was 4.8% compared to 4.6 % for the benchmark.

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Contact SWIB

121 E. Wilson St.
Box 7842, Madison, WI 53707
www.swib.state.wi.us
info@swib.state.wi.us
Hotline: (800) 424-7942
(Madison) 267-0957

New investment leader brings excellent experience

As the new chief investment officer at SWIB, David Villa comes well-equipped to help SWIB meet the challenges of a changing investment world. With 17 years of experience, he brings a wealth of knowledge and a wide range of significant accomplishments in investment management. He also brings a passion for serving the public.

“Because the quality of the staff,



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Backdating of stock options is growing concern for SWIB

Companies often use stock options – rights to purchase stock at a specific price within a defined time frame – as a performance incentive for executives.

However, the federal government is investigating companies that may have engaged in the practice of backdating options, where the price of stock options issued as compensation are set at a previous date when the company's shares traded at lower prices. Originally only a handful of companies were thought to be involved in the practice. New information indicates it may be much more widespread.

Backdating options has gained national attention and is one of the concerns being addressed by SWIB's corporate governance program.

When a company is successful and the share price of the stock increases, the value of the option increases. The price of the option is typically set on the day the option is granted, but if options are backdated to times when share price was especially low, there is immediate value. Granting an option at

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leadership, and governance structure is outstanding, I believe we will have all the basic elements needed to meet the challenges of the future. It is an honor to be part of the SWIB leadership team and to have this opportunity to serve Wisconsin," says Villa.

"One of his strengths is that David brings experience with strategies and asset classes in which SWIB does not currently invest," says Dave Mills, executive director. "His depth and breadth of knowledge, as well as experience with both public and private sector investment organizations, will be an outstanding asset to the SWIB team."

New Manager for Wisconsin Private Investments Named

Chris Prestigiacomo has been promoted to manager of the Wisconsin Private Debt and Wisconsin Private Equity portfolios. Monica Jaehnig, who previously headed the portfolios retired in June.

He joined SWIB in 2001 as an investment officer in the private placements division. In 2002, he was promoted to senior investment analyst for the Wisconsin Private Debt Portfolio, which provides long-term loans to Wisconsin companies, and to assistant portfolio manager in 2003.



Prestigiacomo

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below-market value without disclosing the discount could violate Securities and Exchange Commission (SEC) rules. It also can lead to accounting and tax issues.

Numerous companies are being investigated by the SEC, and a new report by the University of Iowa shows that more than 2,000 companies may have used backdating during the last 10 years.

Backdating can have a negative impact on the value of stocks. If executives are allowed to choose a previous date for their option to purchase stock, they maximize stock appreciation. Shareholders cannot choose the best price from a prior date. In addition, this practice raises question about the integrity of the company's policies and internal controls, and whether performance incentives align the interests

David was previously chief investment officer for the Florida State Board of Administration. Prior to joining the Florida Board, David worked for UBS Global Asset Management/Brinson Partners in Chicago for more than 10 years, most recently serving as executive director, client relationship manager. His experience also includes positions with First Chicago and Arthur Andersen.

David obtained his B.A. degree in economics from Princeton University; M.A. in economics and Latin American studies from Stanford University and M.B.A. from Kellogg School of Management, Northwestern University. He has earned his Certified Public Accountant license and the Chartered Financial Analyst® designation.

Journalist to speak at SWIB

Business journalist, Bethany McLean, a writer for *Fortune* magazine and best known for her work regarding the Enron scandal, will be the featured speaker at SWIB's annual reception. McLean will speak at 4 p.m., Tuesday, September 12 at the Monona Terrace Community and Convention Center auditorium, 1 John Nolen Drive. A reception at Monona Terrace will follow.

The Board meeting be held on Wednesday, September 13 at the SWIB offices, 121 E. Wilson St. Both events are open to the public. McLean has coauthored the book *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron*, which has also been made into a film.

of company management and shareholders.

SWIB buys and sells stocks based on information disclosed by the company in financial and regulatory reporting. Lack of proper disclosure about options and their value can hamper investment decisions.

New requirements enacted by the SEC to disclose all executive compensation, including the date and value of options granted, retirement benefits and incentive awards will help. They will provide better information to shareholders, strengthen the connection between compensation and performance, and limit excessive pay practices.

SWIB has asked companies included in our investments that are under investigation to review compensation practices and reinstate losses associated with improprieties.