



# THE SWIB REPORT

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## Preparing for Disaster Is Routine Business

Several businesses faced overwhelming challenges as a result of the destruction of the World Trade Center in New York City on Sept. 11. In the days following this disaster, not only were corporate leaders coping with the emotional tragedy, but also the critical task of resuming business after the loss of records, equipment and, for some, staff.

SWIB's Business Resumption Plan, which is headed by **Lori Wersal**, Investment and Management Services Director, is an important part of our work that would enable us to continue operation in the wake of a disaster here. "Our goal is to provide a complete working environment for each division outside of the SWIB building using remote locations equipped with the technology and tools needed for research, trading and managing portfolios," Wersal said. "In other words, we want to provide our staff with whatever they need to do their jobs." The plan includes three aspects: Remote satellite sites with technology and equipment currently used by staff; a state facility to house SWIB's communications center and a long-term, off-site location to be used by SWIB staff, if necessary. SWIB now has laptop computers, Internet access, cell phones, and cable to provide the service and back-up at locations throughout the area for staff to manage each of the portfolios. Those sites are tested and updated on a regular basis.

"While we don't like to think about the possibility of losing staff in a disaster, we also are preparing for continuing our services if there was such a tragic loss," she added. What happened in New York has made people realize what a deep impact a crisis can have. The next phase will include a co-processing site, using an existing location that is equipped with all of SWIB's technology and equipment. Being prepared is an important part of what we do as fiduciaries of the funds we manage.



*Some of the staff involved in setting up Disaster Recovery sites include (left to right) Dan Parenteau, Lori Wersal, Carissa Callison and Doug Adler.*

## Performance Update:

For the period ending September 30, 2001, the one-year return for the Fixed Trust Fund was even with the benchmark, and the Variable Trust Fund remained ahead of its benchmark. Returns remained negative reflecting the downturn in the stock market that began in early 2000. However, the market has continued to move upward in October.

Based on preliminary estimates as of October 31, 2001, the Fixed Fund calendar year-to-date return was -6.6% ahead of the benchmark of -7.9%. The Variable Fund year-to-date return was -16.9%, ahead of the benchmark of -17.5%. From Sept. 21 through Nov. 19, the market was up about 21%, which helped push October returns for the Trust Funds up and provided the same trend for first part of November.

Annualized Performance Ending 9/30/01			
Retirement Funds	1-year return	5-year return	10-year return
<b>Fixed Fund</b>	<b>-12.2%</b>	<b>8.2%</b>	<b>10.0%</b>
<i>Benchmark</i>	-12.2	7.6	9.2
<b>Variable Fund</b>	<b>-26.7%</b>	<b>7.7%</b>	<b>10.9%</b>
<i>Equity Benchmark</i>	-27.3	6.3	10.1
<i>S&amp;P 500</i>	-26.6	10.2	12.7

# Biennial Audit Released

Earlier this month, the Legislative Audit Bureau (LAB) released its regular biennial evaluation of the Investment Board. This report looked at the overall investment performance of the Fixed Retirement Fund. It also focused on the Opportunity Portfolio and, in particular, its investments in Heartland Inc. and Korea Online. The Opportunity Portfolio represents 2% of the assets of the Fixed Fund.

As a part of the audit process, the SWIB staff prepares a response. The following points provide an overview of our comments. The audit is available from LAB's website (<http://www.legis.state.wi.us/lab/>). SWIB's full response is available on-line or by contacting SWIB (see below).

## **Fixed Fund Outperforms Goals**

- The audit confirmed that long-term the Fixed Fund is exceeding the 8% annual average rate of return needed to pay pension benefits.
- The audit confirmed that the Fixed Fund is beating the markets on a one-, five- and ten-year basis. Over the five years ending June 30, 2001, SWIB added \$1.8 billion of cumulative investment return over the market benchmark.
- The Fixed Fund's returns ranked below large state pension funds surveyed by the LAB. SWIB concluded it was too risky to put as much into domestic stocks as these other pension funds. More recent Fixed Fund

returns place SWIB among the top performing funds surveyed in the audit. Also, the WRS is the only pension fund surveyed offering participants who want greater stock exposure that option (the Variable Fund).

## **Opportunity Portfolio**

- The Opportunity Portfolio seeks investments with the potential to earn higher returns that may carry greater risk than the broader asset mix of the Fund. It is one part of a total strategy and should not be viewed outside of its role in the overall Fund portfolio.
- In 1999, the Opportunity Portfolio changed managers and adopted a new strategy.
- The portfolio has some large private equity investments in emerging markets. It is too early to judge the long-term success of our strategy. We have retained a leading consulting firm to examine the viability of the strategies going forward. It is expected to be done by year-end.
- We agree with LAB's recommendation that documentation of the investments in the portfolio can be improved.
- We also agree with the recommendation to report on the status of the Opportunity Portfolio in our next annual report to the Legislature.

## **Heartland Investment**

- The LAB report found no evidence that guidelines were violated or improper influence exerted in an

investment SWIB made with Heartland, Inc. in September 2000.

- We believe this investment will have the expected 20% return.

## **Korea Online Investment**

- Korea Online (KOL) is a financial services holding company in which SWIB has invested \$110 million alongside a number of other prominent investors.
- Our investment is now valued at \$18.6 million, reflecting a weak economy, slower than expected regulatory reform and accusations of fraud by a KOL shareholder.
- KOL has now restructured its underlying companies. In January 2001, SWIB hired an outside audit firm to confirm our ownership position in each company. We are also conducting a legal review.

Finally, the audit noted the appearance of a conflict of interest for one current and one former Trustee in a vote taken on one of the investments in KOL. Be assured that compliance with ethics requirements is very important to us. There is a system in place for Trustees to report financial information to the Ethics Board, for the LAB to monitor compliance and for the Ethics Board to enforce requirements. The Board of Trustees has asked the Ethics Board to review this matter. We have offered to provide whatever documents or reports would assist them.

SWIB provides updated information as it becomes available. To receive email updates, send a request to the email address below. To contact SWIB:

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