



The SWIB Report

Published by The State of Wisconsin Investment Board For WRS Participants

February 2006

Meeting Schedule

- March 8
- April 12
- May 10
- June 14
- No meeting in July
- August 9 (tentative)
- September 13
- October 18/19 (offsite location)
- November 8
- December 13

Agendas are posted on our website. Dates may change.

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Executive Director

David C. Mills

Deputy Executive Director

Gail Hanson

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Fixed Fund returns 8.6%, helped by diversification

Strong returns from private market and international investments helped push the Fixed Retirement Fund to an 8.6% return for 2005.

The Fixed Fund, the core fund of the Wisconsin Retirement System, has diversified holdings in domestic and international stocks, bonds, loans, real estate and private equity. The Variable Fund, an all-stock fund, had a return of 8.3% for the year.

Based on the performance of both funds, retirees may receive very modest increases. The amounts, calculated by the Department of Employee Trust Funds, will be announced this month.

The Fixed Fund return beat its one-year benchmark of 7.9% and the Lipper Index of Balanced Mutual Funds return of 5.2% in 2005. The Fixed Fund's five-year annual average return of 6.3% and ten-year annual average return of 9.1% are also ahead of performance benchmarks. The benchmark includes market indices for the various types

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2006 Asset Targets Are Set

Every two years, SWIB completes a comprehensive review of its mix of assets. Asset targets for 2006 were set in January.

Studies have shown that asset allocation -- choosing the mix of assets -- accounts for 80% to 90% of the difference in returns among pension funds. Selection of individual investments within each asset class accounts for the rest.

Targets are based on expected returns and risk levels for each asset class in conjunction with the cash flow needs of the retirement system.

Changes are a result of a review in 2005 that considered a study of a 50-year financial projection for the WRS.

Asset Targets

	2005	2006
Fixed Trust Fund		
Domestic Stocks	39%	36%
International Stocks	20%	22%
Fixed Income	29%	30%
Real Estate	5%	5%
Private Equity/Debt	5%	5%
Multi-Asset	2%	2%
Variable Trust Fund		
Domestic Stocks	79%	79%
International Stocks	20%	20%
Multi-Asset	1%	1%

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of assets managed by SWIB. The ten-year return is well ahead of the 7.8% annual average return assumed in the WRS funding projections.

The Variable Fund was above its one-year benchmark of 8.0% and the S&P 500 return of 4.9%. The fund's five- and ten-year annual average returns remain ahead of their respective benchmarks. By beating benchmarks, SWIB added about \$432 million in returns.

"SWIB's performance definitely benefited from our commitment to diversification," said **David Mills**, executive director. "Strong returns from international stocks, emerging markets, real estate and private equities made a significant difference in our overall

performance."

"Private market investments, which include private equity and real estate, had an outstanding year," said Mills. Strong performance in real estate was the result of excellent selling opportunities at attractive prices, especially in the international market, according to Mills. Private equity received a boost from energy related investments.

Emerging market stock portfolios had a 35.8% return helping to boost the performance of international stock investments. SWIB's domestic stock performance was led by the internally managed small company stock and healthcare portfolios, each of which exceeded their respective benchmarks.

Private equity manager hired



Francis Brenner

Francis Brenner is the new private equity portfolio manager at SWIB. Originally from Wisconsin, Brenner comes from Morgan

Stanley in New York City where he worked for five years. He recently served as vice president of Morgan Stanley Capital Group, managing \$800 million in private investments. Prior to receiving his master's degree in business from the University of Michigan, Brenner worked as an engineer and project manager for Tyco International LTD in Wisconsin. He graduated with a bachelor's degree in civil engineering from University of Wisconsin - Platteville.

Performance Ending 12/31/05

Investments	1-Year Return	Benchmark
Domestic Stocks	6.3%	6.1%
International Stocks	16.9%	16.0%
Public Fixed Income	0.9%	0.9%
Real Estate Equity	28.2%	19.2%
Private Equity Investments	44.2%	30.4%

Annual Report Available

Fiscal Year 2005 Annual Report and Schedule of Investments are now available. Download a copy from our website at www.swib.state.wi.us or contact SWIB using the information on page 1.

Emerging market investments add value in 2005

Public pension funds generally are anchored by investments in domestic and international stocks and fixed income, such as bonds. Additional return is pursued through investments in emerging markets

and other assets. These investments carry greater risk, but offer the prospect of greater return.

Emerging markets consist of nations with economies that are

considered to be developing (or emerging from under-development) and usually include all of Africa, Eastern Europe, Latin America, Russia, the Middle East and Asia, excluding Japan.

SWIB employs several tools to evaluate the risks of investing in particular emerging markets.

Over the past few years, SWIB's investments in emerging markets have been a big contributor to our returns.

Performance Ending 12/31/05

Investments	1-Year Return	Benchmark
Emerging Market Stocks	35.8%	34.0%
Emerging Market Fixed Income	15.9%	10.2%