State of Wisconsin Investment Board
2014 Retirement Funds Annual Report

SWIB State of Wisconsin Investment Board

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Introduction

Message from the Executive Director

In over 35 years of public service, the one thing I have learned is that there is little time to celebrate success, because each day brings new challenges to embrace. I have found this is especially true in the financial world. But, as difficult as it might be, I think it is important to take a moment to reflect on the accomplishments of the past year and to identify opportunities to make the coming year better.

As I look back at 2014, I am proud of our work in providing positive returns for the beneficiaries of the funds entrusted to us, while successfully controlling our costs and managing the risk taken to earn those returns. As a result, the State of Wisconsin Investment Board (SWIB) continues to be recognized as an investment leader, especially for its management of the Wisconsin Retirement System (WRS) assets. Funds from the WRS account for 93 percent of the over $102 billion SWIB manages. SWIB takes its responsibility to manage a large part of the retirement assets for more than 596,000 WRS participants very seriously. We know the decisions we are making today will have a direct impact on our participants and the health of the pension system far into the future. Over the past several years, we have worked to increase internal management of assets, negotiate lower fees for external managers and invest in a mix of low-cost investment options. Our work is paying off. Independent reports from Callan Associates, Inc. and CEM Benchmarking, Inc., found that SWIB, when compared to its peers, continues to provide a significant financial benefit to the retirement system and the mix of investments, diversification and long-term investment strategy allow for favorable returns.

As proud as I am of the investment results from the past, I am equally as proud of the work we are doing as an organization to protect the funds we oversee for the long-term while continuing to grow and make ourselves better. Last year, we embarked on a three-year strategic plan designed to better position SWIB for meeting the challenges presented by an evolving investment landscape. We realize that it is not enough to maintain the status quo. As a premiere public investment organization, we must continue to seek out opportunities that will allow us to remain agile, integrated and innovative in the way we manage risk, control costs and achieve target returns over the long-term. The strategic planning work we have accomplished over the past year focused on investment strategies designed to provide solid returns. We are improving our operations and technology systems which will give us a competitive edge by increasing our access to and management of financial data. We have also examined our people, our business processes, our management systems and how we are organized to ensure optimal alignment of resources with our strategic direction.

There is still a great deal to be accomplished as we continue to work to meet our goals. We know while we can and should take a moment to celebrate the successes of today, we must quickly use that success as the framework to move forward toward the future.

Michael Williamson
Executive Director

The State of Wisconsin Investment Board (SWIB) is the state agency responsible for investing the assets of the Wisconsin Retirement System (WRS), the State Investment Fund (SIF) and five smaller trust funds established by the State. Investments are made according to the purpose and risk profile of each trust. The WRS -- the 9th largest U.S. public pension fund and the 25th largest pension fund in the world -- includes the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund).

The Investment Board was created under section 15.76 of the state statutes and its duties as manager of these trust funds are provided in Chapter 25 of the statutes. SWIB staff and Trustees are fiduciaries of the pension funds and are governed by the "prudent investor" standard, which requires them to use the diligence, skill and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund. The law also requires SWIB to make investment decisions and conduct every aspect of its operations in the best financial interest of the trust funds.

Strong Governance

SWIB is directed by a nine-person, independent Board of Trustees. The Board of Trustees appoints the executive director of the Investment Board and sets the overall policy for SWIB. The executive director oversees the staff, develops and recommends agency and investment policies for Board adoption, and ensures adherence to state law and policies. The chief investment officer (CIO) serves as chair of the Investment Committee. The committee provides oversight to the agency's investments, reports to trustees and makes recommendations to trustees.

Experienced Staff

SWIB's investments are managed by its own professional staff and by outside money management firms. With support from the Governor and Legislature, SWIB has the flexibility to build a stronger internal management program. SWIB employs a staff of approximately 155 people, including portfolio managers, analysts and traders who are responsible for daily investment decisions made within the parameters of the investment policy, as well as well-trained professionals with legal, technical, accounting and administrative expertise. SWIB adheres to Chartered Financial Analyst (CFA) ethical standards. About 70 percent of SWIB staff holds advanced degrees or professional certifications and 52 percent hold multiple degrees or certifications.

Internal Management

Having a strong internal management program provides a significant financial benefit to the WRS. SWIB's Board of Trustees has committed to this concept, growing the number of internal staff positions over the years and, enabling SWIB to increase the share of WRS assets managed internally from 21 percent in 2007 to 58 percent in 2014. Further increases in internal management are under consideration. As an added benefit, SWIB's dedication to internal management has also resulted in new investment jobs being created in Wisconsin. Independent reports from Callan Associates, Inc. and CEM Benchmarking, Inc. found that SWIB, when compared to its peers, continues to be a low-cost pension fund manager that produces favorable results.

Mission

To be a trusted and skilled global investment organization contributing to a strong financial future for the beneficiaries of the funds entrusted to us.

Vision

SWIB will be an innovative, agile, integrated organization that optimizes investment returns while managing risk and cost over the long term.

Board of Trustees

The Board of Trustees is responsible for setting long-term investment policies, asset allocation, benchmarks, fund level risk and monitoring investment performance. The Board is comprised of the following:

- Six public members appointed by the governor and confirmed by the state Senate including four with at least 10 years investment experience, and one with at least 10 years financial experience and who works for a local government in the Local Government Investment Pool.
- Educator participant in the Wisconsin Retirement System (WRS) appointed by the Teachers Retirement Board.
- Non-educator participant in the WRS appointed by the Wisconsin Retirement Board.
- Secretary of the Department of Administration or designee.


Lon Roberts


Thomas Boldt


Bruce Colburn


Norman Cummings


William Levit, Jr.


Sandra Claflin-Chalton


Robert Conlin


David Stein


Mike Huebsch

Public Members*

1. Lon Roberts, Board Chair, Attorney at Ruder Ware, Wausau
2. Thomas Boldt, Board Vice Chair, President of the Boldt Group, Inc. and CEO of The Boldt Co., Appleton
3. Bruce Colburn, Board Secretary, Director at Central States Property Services Division, Services Employees International Union, Milwaukee
4. Norman Cummings, Director of Administration, Waukesha County
5. William Levit, Jr., Attorney, Levit ADR LLC, Milwaukee
6. David Stein, Executive Vice-President and Head of Retail Banking, Associated Banc-Corp, Madison

WRS Participant Members*

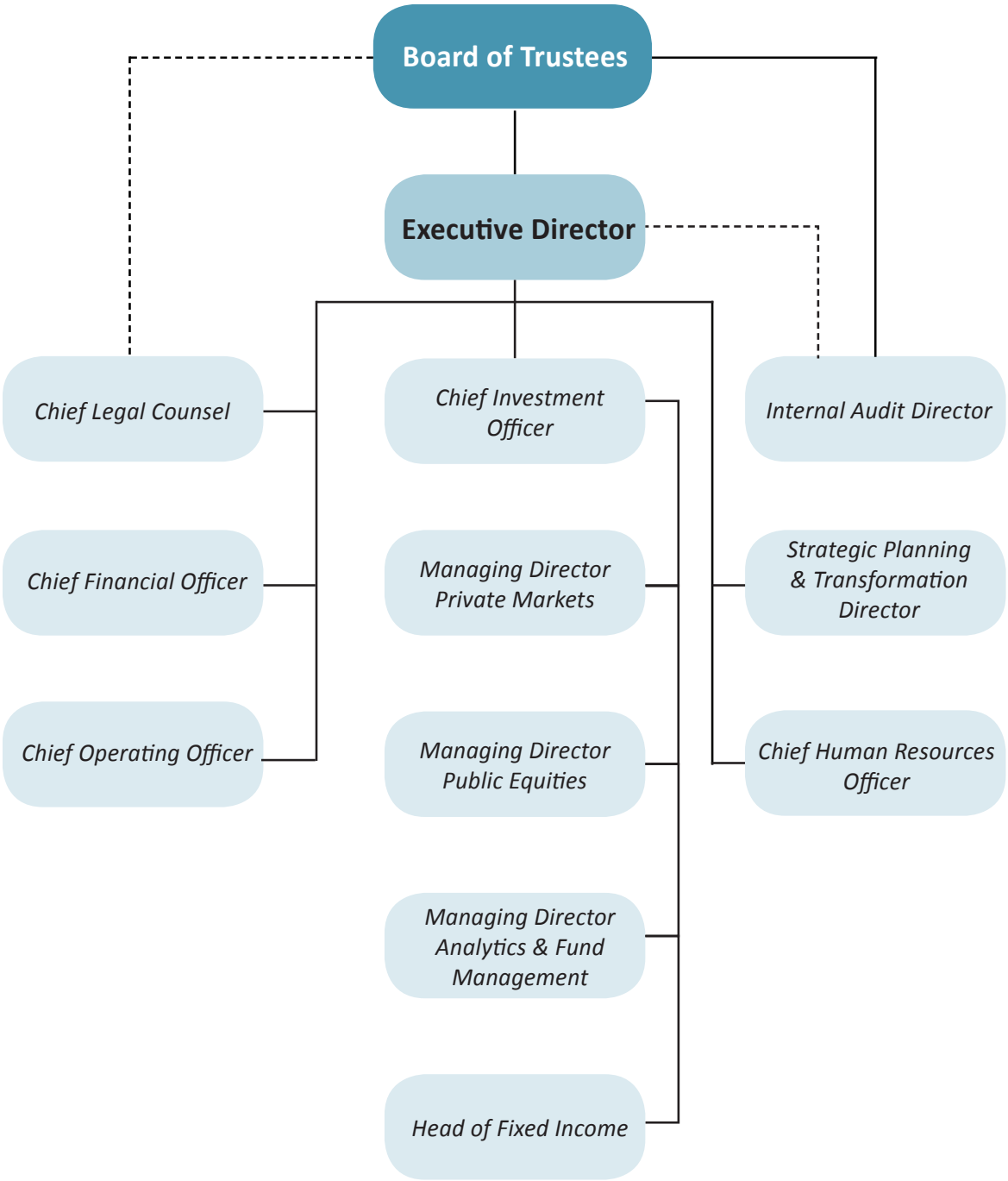
1. Sandra Claflin-Chalton, Educator, Retired Teacher, Menomonie
2. Robert Conlin, Non-educator, Secretary of the Department of Employee Trust Funds

Department of Administration

1. Mike Huebsch, Department Secretary *(Scott Neitzel became Secretary in March 2015.)*

*Appointed Board members serve six-year terms.

Agency Management



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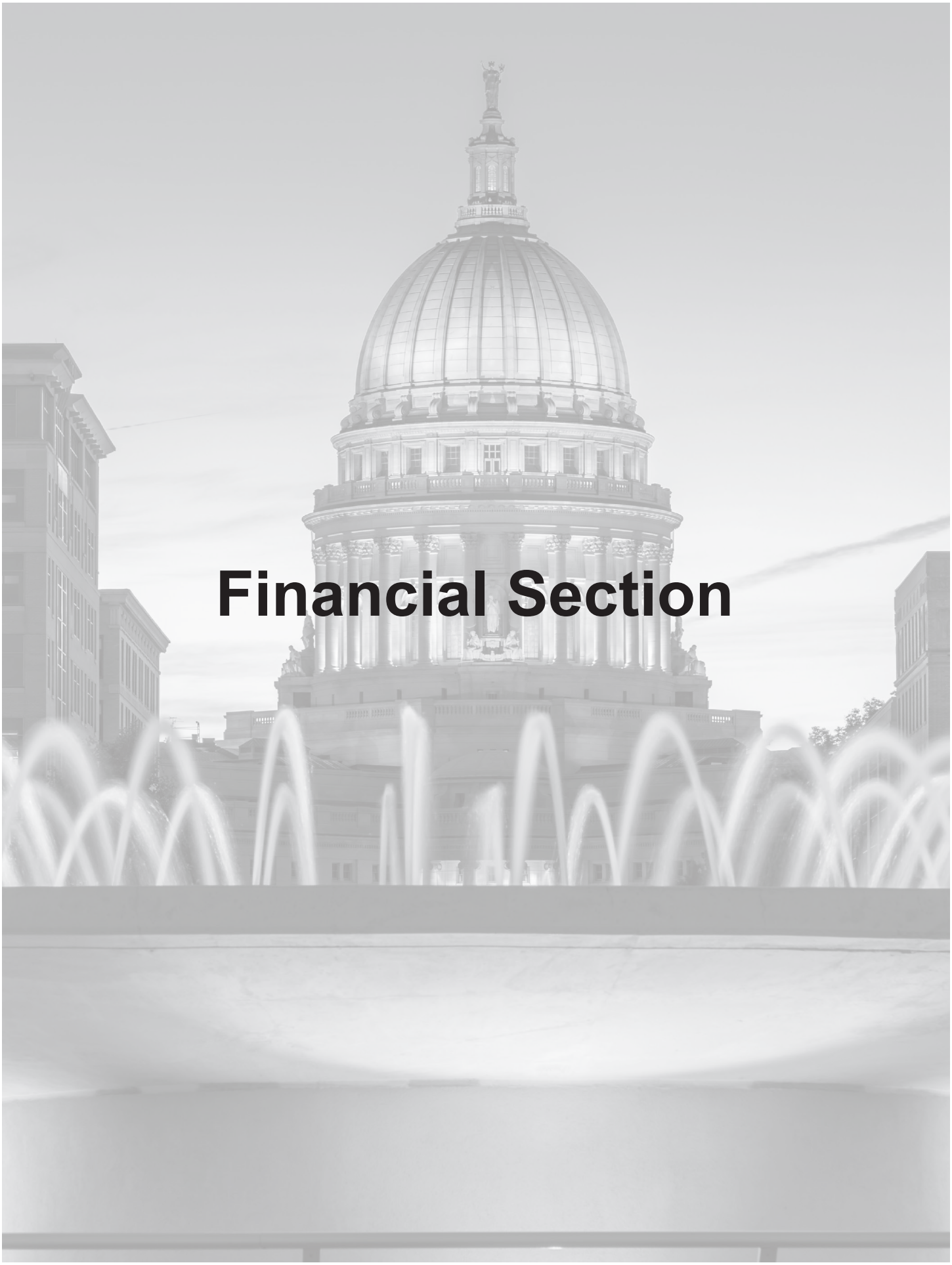

Financial Section

STATE OF WISCONSIN
Legislative Audit Bureau
Celebrating 50 Years of Service 1966-2016
22 East Mifflin Street, Suite 500 ▪ Madison, WI 53703 ▪ (608) 266-2818 ▪ Hotline: 1-877-FRAUD-17 ▪ www.legis.wisconsin.gov/lab

Joe Chrisman
State Auditor

Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Michael Williamson, Executive Director and
Members of the Audit Committee of the Board of Trustees
State of Wisconsin Investment Board

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund (Retirement Funds) of the State of Wisconsin as of and for the year ended December, 31, 2014, and as of and for the six-month period ended December 31, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management of the State of Wisconsin Investment Board (SWIB) is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on these financial statements.

Opinions

In our opinion, based on our audit, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Retirement Funds as of December 31, 2014, and December 31, 2013, and the respective changes in financial position for the year ended December 31, 2014, and the six-month period ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the investment activity of the Retirement Funds attributable to SWIB. The financial statements do not purport to, and do not, present fairly the financial activity of the Retirement Funds attributable to the Department of Employee Trust Funds. Further, they do not purport to, and do not, present fairly the financial position of SWIB or of the State of Wisconsin as of December 31, 2014, and December 31, 2013, or the changes in financial position for the year ended December 31, 2014, and for the six-month period ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 2c to the financial statements, the financial statements include investments that do not have readily ascertainable market prices and are valued based on a variety of third-party pricing methods. However, because of the inherent uncertainty of valuation, those estimated values may differ from the values that would have been used had a ready market for the investments existed.

As discussed in Note 2e to the financial statements, SWIB changed the fiscal year end for the Retirement Funds from June 30 to December 31. As a result, a six-month transition period from July 1, 2013, to December 31, 2013, is presented and opined on in this report.

Our opinions are not modified with respect to these matters.

Other Matter

Our audit was conducted for the purpose of forming opinions on the financial statements of the Retirement Funds. The supplementary information included as Management's Discussion and Analysis, which precedes the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements. We have applied certain limited procedures to the information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we

obtained during our audit of the financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so. The Introduction section of the annual report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2015, on our consideration of SWIB's internal control over financial reporting for the Retirement Funds; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering SWIB's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Joe Chrisman
State Auditor

May 27, 2015

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The State of Wisconsin Retirement Funds' discussion and analysis of the financial activities for the calendar years ended December 31, 2014 and December 31, 2013, is presented by management as an introduction to the financial statements. It is meant to assist the reader in understanding the financial statements by providing an overall review of the financial activities during the year as well as to provide a comparison of the prior year's activity and results.

Overview of Basic Financial Statements

The State of Wisconsin Investment Board (SWIB) is responsible for managing the assets of the Wisconsin Retirement System (WRS). The Core Retirement Investment Trust Fund (Core Fund) and Variable Retirement Investment Trust Fund (Variable Fund), collectively (Retirement Funds), represent the assets of the WRS. Following this section are the financial statements and footnotes which reflect only the investment activity of the Retirement Funds. Retirement reserves, contribution revenue and benefit expense are specifically excluded from presentation in these statements although contribution revenue and benefit expenses are reflected in "Net Disbursements" in the Statement of Changes in Net Investment Position. The Wisconsin Department of Employee Trust Funds (ETF) prepares a Comprehensive Annual Financial Report for the WRS, and can be found on their website: www.etf.wi.gov.

The **Statement of Net Investment Position** provides information on the financial position of the Retirement Funds at December 31, 2014 and December 31, 2013. It reflects the investment assets available for payment of future benefits and any current liabilities related to the investments.

The Statement of Changes in Net Investment Position presents the results of the investing activities for the twelve months ended December 31, 2014 and the six months ended December 31, 2013. The short period is due to a change in fiscal year further explained in Notes to the Financial Statements, Note 2.E. Change in Fiscal Year.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data presented in the financial statements. The notes provide more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies and subsequent events, if any.

The financial statements and related notes are prepared in accordance with Governmental Accounting Standards Board Pronouncements.

Retirement Funds

Approximately 596,000 people participate in the WRS, including current and former employees of Wisconsin's state agencies, most local governments and school districts in Wisconsin. Contributions made to the WRS by these employees, and their employers, are invested by SWIB to finance retirement and other benefits. The WRS had a combined Net Investment Position of $96.1 billion as of December 31, 2014 and $93.7 billion as of December 31, 2013.

Time Weighted Annualized Returns
As of December 31, 2014

	1-Year Return %	5-Year Return %	10-Year Return %
Core Fund	5.7	9.3	6.7
Benchmark	5.6	8.8	6.4
Variable Fund	7.3	12.7	7.1
Benchmark	7.5	12.3	7.0

Core Retirement Investment Trust Fund

The larger of the two trust funds comprising the WRS is the Core Fund with a Net Investment Position of $88.8 billion at December 31, 2014 and $86.5 billion at December 31, 2013. All WRS members have at least half, if not all, of their pension contributions invested in the Core Fund. It is a diversified, balanced fund invested for the long-term needs of the WRS. Diversification helps to stabilize the effects of market changes. The investment objective of this trust fund is to meet or exceed an average 7.2% annual return over the long-term, which consists of an annual rate of return of 4.0% above an estimated 3.2% growth in wages. This objective is based on market rate of return and actuarial assumptions needed to meet obligations of the WRS.

The financial statements reflect the investment activity of the Core Fund as well as changes in cash balances due to net disbursements related to ETF. Net disbursements include, but are not limited to, benefit payments, contribution receipts, transfers to/from the Variable Fund and administrative expenses.

The Statement of Changes in Net Investment Position presented in the Financial Statement section of this report include activity for the full calendar year ended December 31, 2014 and a six month period ended December 31, 2013. The short period is the result of a change in fiscal year from June 30 to December 31 in 2013. To effectively analyze the balances and activity from one period to the next, the following table compares the two calendar year reporting periods ended December 31, 2014 and December 31, 2013, rather than a full year comparison to a short period. The condensed Core Fund financial information for the full calendar years ended December 31, 2014 and December 31, 2013 is included in the table entitled **Core Fund Condensed Financial Information.**

Core Fund Condensed Financial Information
(In thousands)

	Twelve months ended December 31,		
	2014	**Change**	**2013**
Cash and Cash Equivalents	$ 3,242,707	-12%	$ 3,681,869
Receivables	732,695	-24%	961,645
Invested Securities Lending Collateral	739,162	-19%	908,388
Prepaid Expenses	26,088	5%	24,951
Investments	86,346,589	4%	83,317,104
Total Investment Assets	91,087,241	2%	88,893,957
Payables & Other Liabilities	753,521	22%	619,280
Securities Lending Collateral Liability	739,162	-19%	908,388
Obligations Under Reverse Repurchase Agreements	820,516	-5%	862,948
Total Investment Liabilities	2,313,199	-3%	2,390,616
Net Investment Position Held in Trust	$ 88,774,042	3%	$ 86,503,341
Investment Income	$ 4,928,219	-53%	$ 10,509,845
Investment Expense	(346,598)	-1%	(351,063)
Net Investment Income	4,581,621	-55%	10,158,782
Net Disbursements - Department of Employee Trust Funds	(2,310,920)	-7%	(2,489,641)
Net Increase (Decrease) in Net Investment Position Held in Trust	$ 2,270,701	-70%	$ 7,669,141

Cash and Cash Equivalents decreased by $439.2 million when comparing calendar year end 2014 to 2013. The decrease in cash balances can be primarily explained by a reduction in the liquidity portfolios' cash collateral balances. The liquidity portfolios are a source of cash for near term benefit payments and operating cash needs. To securitize cash balances SWIB has invested in public market instruments through the use of indexed futures contracts. Over the course of 2014 SWIB has moved away from this strategy as costs of trading futures contracts have increased compared to the investment of physical assets in equity index portfolios. This shift away from using indexed futures contracts has resulted in lower cash collateral balances.

Receivables decreased by 24% when comparing calendar year end 2014 to 2013. This decrease is in part due to a $103.8 million reduction in private equity limited partnership interest sales receivable balances. Per the various sales contracts, receipts are spread over a period of several years.

The Core Fund's Invested Securities Lending Collateral and Securities Lending Collateral Liability decreased by 19% as of December 31, 2014, as compared to December 31, 2013. The collateral balances represent the cash collateral held for securities lending transactions in separately managed accounts. This decrease was partially due to a reduction in interest rates on deposits to less than zero mid-year 2014. In addition, regulatory changes have required brokers to keep larger cash balances causing a shift to non-cash collateral for securities lending contracts.

Payables & Other Liabilities increased by 22% when comparing calendar year end 2014 to 2013. The majority of this increase is due to higher Short Sell Obligations balances in 2014 resulting from expansion in SWIB's shorting activities. Over the course of 2014 the Short Sell Obligation balance grew 225% to $465.6 million, reflecting portfolio managers more active role in short selling. A short sale transaction is created when a security not owned by the Core Fund is sold, in anticipation of purchasing the security at a lower price in the future. SWIB portfolio managers then borrow the same security to cover the short sale creating a liability. Short Sell Obligations are discussed further in the Notes to the Financial Statements, Note 6. Short Sell Obligations. The remaining offsetting difference is largely due to a decrease of $173.5 million of unsettled trades over 2014 year end.

Calendar year 2014 Investment Income decreased by $5.6 billion, when compared to calendar year 2013. This change is due to a total Core Fund investment return of 5.7% in 2014, compared to a total fund investment return of 13.6% for the previous calendar year. Asset class returns for calendar year 2014 and 2013 are presented in the table entitled **Core Fund Time Weighted Annualized Asset Class Returns**.

Core Fund
Time Weighted Annualized Asset Class Returns

	2014 Return %	2013 Return %
Public Equities	3.6	25.8
Fixed Income	4.6	(2.1)
Inflation Sensitive Assets	2.1	(8.6)
Real Estate	14.0	16.9
Private Equity	15.5	17.1
Multi Asset	7.0	5.8

Variable Retirement Investment Trust Fund

The Variable Fund allows active employees participating in the WRS to put half of their pension fund contributions into this global stock fund. Approximately 17% of WRS members participate in the Variable Fund, with a Net Investment Position of $7.3 billion at December 31, 2014 and $7.2 billion at December 31, 2013. Employees who choose this fund accept a higher degree of market risk and greater volatility in investment returns. The investment objective of the Variable Fund is to meet or exceed broad equity market indices over a full market cycle.

The Statement of Changes in Net Investment Position presented in the Financial Statement section of this report include activity for the full calendar year ended December 31, 2014 and a six month period ended December 31, 2013. The short period is the result of a change in fiscal year from June 30 to December 31 in 2013. To effectively analyze the balances and activity from one period to the next, the following table compares the two calendar year reporting periods ended December 31, 2014 and December 31, 2013, rather than a full year comparison to a short period. The condensed Variable Fund financial information for the full calendar years ended December 31, 2014 and December 31, 2013 is included in the table entitled **Variable Fund Condensed Financial Information**.

Cash and Cash Equivalents decreased by $79.3 million when comparing calendar year end 2014 to 2013. The decrease in cash balances can be primarily explained by a reduction of the liquidity portfolios' cash collateral balances. The liquidity portfolios are a source of cash for near term benefit payments and operating cash needs. To securitize cash balances SWIB has invested in public market instruments through the use of indexed futures contracts. Over the course of 2014 SWIB has moved away from this strategy as costs of trading futures contracts have increased compared to the investment of physical assets in equity index portfolios. This shift away from using indexed futures contracts has resulted in lower cash collateral balances.

Variable Fund Condensed Financial Information (In thousands)

	Twelve months ended December 31,		
	2014	**Change**	**2013**
Cash and Cash Equivalents	$ 78,431	-50%	$ 157,771
Receivables	31,551	-37%	50,329
Invested Securities Lending Collateral	94,339	0%	94,334
Prepaid Expenses	1,487	5%	1,410
Investments	7,229,017	3%	7,016,455
Total Investment Assets	7,434,825	2%	7,320,299
Payables & Other Liabilities	49,008	7%	45,914
Securities Lending Collateral Liability	94,339	0%	94,334
Total Investment Liabilities	143,347	2%	140,248
Net Investment Position Held in Trust	$7,291,478	2%	$7,180,051
Investment Income	$508,198	-69%	$1,629,827
Investment Expense	(10,213)	-7%	(10,948)
Net Investment Income	497,985	-69%	1,618,879
Net Disbursements - Department of Employee Trust Funds	(386,558)	55%	(249,042)
Net Increase (Decrease) in Net Investment Position Held in Trust	$ 111,427	-92%	$1,369,837

The Receivables decreased by 37% between calendar years primarily due to a reduction in pending sales receivable. At December 31, 2013 SWIB was in the process of selling the holdings of a portfolio slated for closing resulting in a number of unsettled trades pending at year end.

Payables & Other Liabilities increased by 7% when comparing calendar year end 2014 to 2013. The majority of this increase is due to higher Short Sell Obligations balances in 2014 resulting from expansion in SWIB's shorting activities. Over the course of 2014 the Short Sell Obligation balance grew roughly 600% to $27.8 million, reflecting portfolio managers more active role in short selling. A short sale transaction is created when a security not owned by the Variable Fund is sold, in anticipation of purchasing the security at a lower price in the future. SWIB portfolio managers then borrow the same security to cover the short sale creating a liability. Short Sell Obligations are discussed further in the Notes to the Financial Statements, Note 6. Short Sell Obligations. The remaining offsetting difference is primarily due to a decrease of $21.2 million of unsettled trades over 2014 year end.

Calendar year 2014 Investment Income decreased by $1.1 billion, when compared with the prior calendar year. The decrease in income was the result of a total fund investment return of 7.3% in 2014, as compared to 29.0% in 2013.

Statement of Net Investment Position
(In thousands)

	As of December 31, 2014		As of December 31, 2013	
	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Investment Assets				
Cash and Cash Equivalents	$ 3,242,707	$ 78,431	$ 3,681,869	$ 157,771
Due from Other Funds	-	-	-	-
Receivables:				
Interest & Dividends	222,744	10,294	226,780	9,797
Securities Lending Income	2,947	371	1,557	190
Investment Sales	507,004	20,886	733,308	40,342
Invested Securities Lending Collateral	739,162	94,339	908,388	94,334
Prepaid Expenses	26,088	1,487	24,951	1,410
Investments (at fair value):		-		-
Stocks	43,531,606	7,213,598	41,975,252	6,995,364
Fixed Income	27,139,271	-	26,372,170	-
Limited Partnerships	10,554,585	-	10,381,478	-
Multi Asset	3,906,835	-	3,544,183	-
Real Estate	1,017,433	-	739,443	-
Preferred Securities	206,910	14,475	214,077	17,178
Convertible Securities	3,779	-	52,398	-
Foreign Currency Contracts	(10,917)	1	(11,959)	(171)
Option Contracts	(1,603)	(13)	5,418	(348)
Futures Contracts	(1,282)	956	44,353	4,432
Swaps	(28)	-	291	-
Total Investment Assets	91,087,241	7,434,825	88,893,957	7,320,299
Investment Liabilities				
Payable for Investments Purchased	262,748	19,660	436,289	40,831
Obligations Under Reverse Repurchase Agreements	820,516	-	862,948	-
Short Sell Obligations	465,586	27,833	142,995	3,951
Collateral Due to Counterparty	-	-	1,180	-
Accounts Payable	23,286	1,394	38,139	1,104
Other Liabilities	1,901	121	674	28
Due to Other Funds	-	-	3	-
Securities Lending Collateral Liability	739,162	94,339	908,388	94,334
Total Investment Liabilities	2,313,199	143,347	2,390,616	140,248
Net Investment Position Held in Trust	$ 88,774,042	$ 7,291,478	$ 86,503,341	$ 7,180,051

The accompanying notes are an integral part of this statement.

Statement of Changes in Net Investment Position
(In thousands)

	For the Twelve Months ended December 31, 2014		For the Six Months ended December 31, 2013	
	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Additions				
Investment Income:				
Net Increase (Decrease) in the Fair Value of Investments	$2,824,142	$343,907	$6,875,712	$984,707
Interest	665,804	74	321,244	68
Dividends	1,193,523	161,241	434,875	61,628
Securities Lending Income	14,124	1,557	6,120	630
Securities Lending Rebates	11,082	1,690	2,921	447
Limited Partnership Income	174,775	-	92,058	-
Real Estate Income	46,906	-	23,585	-
Less				-
Investment Expense	346,598	10,213	182,780	5,804
Securities Lending Fees	2,137	271	577	69
Net Investment Income	4,581,621	497,985	7,573,158	1,041,607
Deductions				
Net Disbursements - Department of Employee Trust Funds	(2,310,920)	(386,558)	(1,365,233)	(88,496)
Net Increase (Decrease) in Net Investment Position Held in Trust	2,270,701	111,427	6,207,925	953,111
Net Investment Position Held in Trust:				
Beginning of Period	86,503,341	7,180,051	80,295,416	6,226,940
End of Period	$88,774,042	$7,291,478	$86,503,341	$7,180,051

The accompanying notes are an integral part of this statement.

1. Description of Funds

The Wisconsin Legislature created the State of Wisconsin Investment Board (SWIB) for the sole purpose of providing professional investment management of the funds entrusted to it, including the assets of the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund). The Board of Trustees for the State of Wisconsin Investment Board (SWIB) is responsible for the overall professional investment management of the assets of the Wisconsin Retirement System (WRS). The Core Fund and the Variable Fund, collectively (Retirement Funds), represent the investment assets of the WRS.

The statements presented here reflect only the investment activity of these funds. Excluded from presentation in the statements are, for example, retirement reserves, contribution revenue, and benefit expense.

All of the Retirement Funds' administrative expenses are funded through employer and employee contributions and investment earnings. The administrative expenses are reflected in "Investment Expense" in the Statement of Changes in Net Investment Position. This represents SWIB's operating expenses as well as expenses directly related to the investment function such as external management fees, legal fees, custodial bank fees, and investment consulting fees.

A. Core Retirement Investment Trust Fund

The Core Fund is managed by SWIB with oversight by a Board of Trustees as authorized in Wisconsin Statutes ss. 25.15 and 25.17. The Core Fund and SWIB are not registered with the Securities and Exchange Commission as an investment company. The investments of the Core Fund consist of a diversified portfolio of securities. SWIB is required to make investment management decisions for the Retirement Funds solely for the benefit of the members of the WRS. Wisconsin Statutes s. 25.182 authorizes SWIB to manage the Core Fund in accordance with the "prudent investor" standard of responsibility as described in Wisconsin Statutes s. 25.15(2) which requires that SWIB manage the Retirement Funds with the diligence, skill and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

The Core Fund consists primarily of assets invested for the WRS which is administered by the Department of Employee Trust Funds (ETF) in accordance with Chapter 40 of the Wisconsin Statutes. All WRS contributions are invested in this trust fund unless participants have elected to have one-half of their contributions invested in the Variable Fund. In addition to the retirement contributions, the assets of various other benefit programs are invested in the Core Fund as listed in the table entitled **Other Benefit Programs Within the Core Fund**.

Other Benefit Programs Within the Core Fund
As of December 31
(In millions)

Program	2014	2013
Accumulated Sick Leave	$2,535.3	$2,349.6
Duty Disability Insurance	644.6	597.7
Long-Term Disability Insurance	215.8	199.8
Active Employee Health Insurance	234.9	213.8
Milwaukee Board of School Director Supplemental Retirement/Benefits Plan	165.8	162.5
Income Continuation Insurance	101.3	94.5
Police and Firefighters Pension Group	20.8	20.4
Total	$3,918.5	$3,638.3

B. Variable Retirement Investment Trust Fund

The Variable Fund is managed by SWIB with oversight by a Board of Trustees as authorized by

Wisconsin Statutes ss. 25.15 and 25.17. The Variable Fund and SWIB are not registered with the Securities and Exchange Commission as an investment company. Wisconsin Statutes s. 25.17(5) states assets of the Variable Fund shall be invested primarily in equity securities which shall include common stocks, real estate or other recognized forms of equities whether or not subject to indebtedness, including securities convertible into common stocks and securities of corporations in the venture capital stage. Subject to that requirement, SWIB may invest the Variable Fund in any manner consistent with the "prudent investor" standard of responsibility in Wisconsin Statutes s. 25.15(2), which requires that SWIB manage the trust funds with the diligence, skill and care that a prudent person acting in a similar capacity and with the same resources would use in managing a large public pension fund.

The Variable Fund consists primarily of the assets invested for the WRS. In addition, the Milwaukee Board of School Directors Supplemental Retirement/Benefit Plans had net investments in the Variable Fund totaling $21.1 million and $21.7 million as of December 31, 2014 and December 31, 2013, respectively.

Participation in the Variable Fund is at the option of the employee. Participants have elected to invest one-half of their retirement contributions and matching amounts of employer contributions to this fund, and have the remainder invested in the Core Fund. Individual participants in the Variable Fund have a one-time option to terminate their Variable Fund participation and transfer their account to the Core Fund.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements were prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB).

B. Measurement Focus and Basis of Accounting

The financial statements are prepared based upon the flow of economic resources measurement focus and the full accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable. Security transactions and the related gains and losses are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

C. Valuation of Securities

The investments of the Retirement Funds are reported in the Statement of Net Investment Position at fair value as prescribed by GASB and per Wisconsin Statutes s. 25.17(14). Unrealized gains and losses are reflected in the Statement of Changes in Net Investment Position as "Net Increase (Decrease) in the Fair Value of Investments."

The fair value of the Retirement Funds' assets are obtained or estimated in accordance with a pricing hierarchy established with SWIB's custodian, Bank of New York Mellon (BNY Mellon). As prescribed by the hierarchy, a variety of independent pricing sources are used to price assets based on type, class or issue.

When a portfolio includes securities or instruments for which the custodial bank does not receive fair value information from its vendor pricing sources, a variety of third party pricing methods are used, including appraisals, pricing models and other methods deemed acceptable by industry standards.

The Cash and Cash Equivalents category reported on the Statement of Net Investment Position consists of short-term investments which are used to meet the liquidity requirements of the Retirement Funds. Cash and Cash Equivalents held by the Retirement Funds can include cash on deposit, foreign currencies, cash posted as collateral to counterparties, repurchase agreements, certificates of deposit, U.S. Treasury Bills, short-term investment funds, and other liquid financial instruments with maturities that are generally less than three months. Cash and Cash Equivalents are reported at fair value or cost, which approximates fair value.

Privately held debt, which is included in "Fixed Income" investments on the Statement of Net Investment Position, is priced using a multi-tiered approach that prices each holding based on the best available information using the following hierarchy of pricing sources:

1. Custodian supplied prices for assets that are in the Barclays Capital U.S Aggregate Bond Index
2. Prices provided by a third party with expertise in the bond market
3. Modeled prices where interest rate spreads are supplied by a third party

In a few instances, privately held debt cannot be priced by one of the above three sources. In these circumstances, the investment is priced using an alternative bond index price or, if no independent quotation exists, the investment may be valued at cost.

For alternative investments where no readily ascertainable market value exists, including limited partnerships and real estate pooled funds, fair value is estimated based on the net asset value as reported by the general partner. The capital account balance as stated in the most recent available quarterly reporting period is adjusted for subsequent cash flows to derive fair value. The financial statements of the limited partnerships and real estate pooled funds are audited by independent auditors annually.

Real estate properties wholly owned by SWIB are valued by independent appraisers every three years. In years when appraisals are not performed, properties are informally appraised by the asset advisor. Each year, audited financial statements are prepared for each property.

Monthly, SWIB values hedge funds based on statements received from each of the hedge fund's administrators. Essentially, a hedge fund administrator serves as an independent third party that protects the interests of investors. The main function of a third-party administrator is to independently calculate the net asset value of the fund. Generally, hedge fund administrators price financial instruments traded in active markets based on quoted market prices or binding dealer quotations. For certain over-the-counter instruments, fair value is determined based on valuation models used by the administrator. Annually, the financial statements prepared by the administrator are audited by independent auditors.

Derivative financial instruments are marked to fair value daily, with valuation changes recognized in income during the period the instruments are held and when the instrument is sold or expires. The nature and use of derivative instruments is discussed in Note 5.

A limited number of securities are carried at cost. Certain non-public or closely held stocks are not reported at fair value, but are carried at cost since no independent quotation is available to estimate fair value for these securities.

D. Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported herein. Due to the inherent uncertainty involved, actual results could differ from those estimates.

E. Change in Fiscal Year

On June 11, 2014, the Board of Trustees' Audit Committee was presented with staff recommendations for a change in the Retirement Funds' fiscal year end from June 30 to December 31 of each year. This change to a calendar year reporting cycle began July 1, 2013. As a result of the change, the Retirement Funds incurred a six month transition period from July 1, 2013 to December 31, 2013. The audited results for this period are included in this report. Specifically the Statement of Net Investment Position presents December 31, 2014 and December 31, 2013 year end balances. In addition, the Statement of Changes in Net Investment Position includes the twelve month period ended December 31, 2014 and the six month transition period beginning July 1, 2013 through December 31, 2013. The presentation of two fiscal periods is not intended to be comparative due to the difference in reporting periods.

3. Deposit and Investment Risk

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to SWIB. Fixed income credit risk investment guidelines outline the minimum ratings required at the time of purchase by individual portfolios, or groups of portfolios, based on the portfolios' investment objectives. In addition, some fixed income portfolios are required to carry a minimum weighted average rating at all times. Information regarding SWIB's credit risk related to derivatives is found in Note 5.

The table entitled **Credit Quality Distribution** displays the lowest credit rating assigned by nationally recognized statistical rating organizations on debt securities held by the Retirement Funds as of December 31, 2014 and December 31, 2013. Included in this table are fixed income securities, including certain short term securities, classified as cash equivalents on the Statement of Net Investment Position. Also included are interest rate sensitive investments held in the Retirement Funds' securities lending collateral reinvestment pools, which are managed by SWIB's custodian. See Note 4 for additional information regarding the securities lending program. The table also includes SWIB's investment in commingled fixed income funds, which are not assigned ratings. Although the funds themselves are not assigned ratings, external management investment guidelines govern minimum credit quality standards for the investments within each portfolio. These standards are determined based on the investment objectives and risk parameters of each fund. The table entitled **Credit Quality Breakdown of Commingled Fixed Income Funds** presents the aggregated credit ratings for the underlying investments held by commingled fixed income funds within the Retirement Funds.

Credit Quality Distribution
As of December 31
(In thousands)

	2014		2013	
Rating	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
P-1/A-1	$ 523,018	2	$417,298	1
P-2/A-2	341,452	1	32,730	-
AAA/Aaa	522,299	2	632,093	2
AA/Aa	12,487,930	41	11,660,818	38
A	2,551,816	8	2,494,861	8
BBB/Baa	2,768,461	9	2,816,290	9
BB/Ba	579,923	2	461,363	1
B	559,934	2	519,574	2
CCC/Caa	171,795	1	199,764	1
CC/Ca	88	-	3,813	-
C	-	-	284	-
D	-	-	1,188	-
Commingled Fixed Income Funds	8,816,196	29	9,962,443	32
Not Rated	865,207	3	1,775,187	6
Total	$ 30,188,119	100	$30,977,706	100

Credit Quality Breakdown of Commingled Fixed Income Funds As of December 31 (In thousands)				
	2014		2013	
Rating*	Fair Value	% of Total	Fair Value	% of Total
P-1/A-1	$1,122,451	13	$1,642,132	16
AAA/Aaa	2,478,416	28	3,062,506	31
AA/Aa	831,060	9	1,305,089	13
A	1,804,313	20	1,512,252	15
BBB/Baa	2,107,882	24	1,907,009	19
BB/Ba	151,766	2	142,056	1
B	173,721	2	270,966	3
CCC/Caa	59,667	1	56,277	1
CC/Ca	2,455	-	-	-
C	-	-	1,859	-
D	4,459	-	-	-
Not Rated	80,006	1	62,297	1
Total Commingled Fixed Income Funds	$8,816,196	100	$9,962,443	100

*Reflects aggregated ratings of underlying investments as reported by commingled fixed income fund managers.

SWIB held $820.5 million in reverse repurchase agreements at December 31, 2014 and $862.9 million at December 31, 2013. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase the securities in the future at the same price plus a stated rate of interest. The market value of the securities underlying reverse repurchase agreements exceeds the cash received, providing the counterparty a margin against a decline in market value of the securities. If the counterparty defaults on their obligation to sell these securities back to SWIB or provide cash of equal value, SWIB could suffer an economic loss equal to the difference between the market value of the underlying securities plus accrued interest and the agreement obligation, including accrued interest.

During calendar year 2014 SWIB began entering into reverse repurchase agreements under a new Master Repurchase Agreement with an agent who retains full control of the underlying securities, effectively eliminating the possibility of rehypothecation of the securities. Under this new arrangement credit risk exposure is limited to $200 million per reverse repurchase agreement counterparty. The counterparty credit exposure is monitored daily and managed through the transfer of margin, in the form of cash or securities, between SWIB and the counterparty. At December 31, 2014 approximately half of the reverse repurchase agreements were entered into under this arrangement. The Retirement Funds' counterparty credit exposure for reverse repurchase agreements at December 31, 2014 and December 31, 2013 is summarized in the table entitled **Reverse Repurchase Agreements Counterparty Credit Exposure**.

The cash proceeds from reverse repurchase agreements are reinvested by the Retirement Funds. The maturities of the purchases made with the proceeds of reverse repurchase agreements are not necessarily matched to the maturities of the agreements. The agreed-upon yields earned by the counterparty for the reverse repurchase agreements held were between .15% and .30% at December 31, 2014 and between 0.05% and 0.08% at December 31, 2013. The reverse repurchase agreements had open maturities, whereby a maturity date is not established upon entering into the agreement; however, interest rates on the agreements are negotiated daily. The agreements can be terminated at the will of either SWIB or the counterparty.

Reverse Repurchase Agreements Counterparty Credit Exposure As of December 31 (In thousands)				
	2014		**2013**	
Fair Value of Collateral and Margin Held by Counterparty/Agent		$838,237		$873,721
Less:				
Cash due to Counterparty	$820,516		$862,948	
Collateral and Interest due to Counterparty	728		2,617	
Total due to Counterparty		821,244		865,565
Net Counterparty Credit Exposure		$16,993		$8,156

The cash due to counterparties resulting from reverse repurchase agreements is reported as "Obligations Under Reverse Repurchase Agreements" and the interest due to counterparties is included in "Other Liabilities" on the Statement of Net Investment Position. The underlying assets, as well as the reinvested proceeds, are reported in the "Investments" section on the Statement of Net Investment Position.

B. Custodial Credit Risk

Deposits — Custodial credit risk related to deposits is the risk that, in the event of the failure of a depository financial institution, SWIB will not be able to recover deposits that are in possession of an outside party. Deposits totaled $1.0 billion as of December 31, 2014 and $430.4 million as of December 31, 2013. Of the total deposits $732.5 million and $187.5 million at calendar year end 2014 and 2013, respectively, were collateralized by securities borrowed. Additionally, a portion of the total deposits were uninsured and uncollateralized representing balances held in foreign currencies in SWIB's custodian's nominee name and cash posted as collateral for derivatives transactions as well as cash collateral posted exceeding the market value of securities held by SWIB related to SWIB's shorting program. The sum of uninsured and uncollateralized deposits amounted to $247.9 million and $242.6 million as of December 31, 2014 and December 31, 2013, respectively. The remaining deposits were covered by depository insurance at year end.

The Retirement Funds also held time deposits with foreign financial institutions with a fair value of $17.9 million as of December 31, 2014 and $50.9 million as of December 31, 2013, which were uncollateralized and uninsured. In addition, the Retirement Funds held certificates of deposit which were covered by depository insurance with a fair value of $56.7 million as of December 31, 2014 and $25.3 million as of December 31, 2013.

Investments — Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, SWIB will not be able to recover the value of investments that are in the possession of an outside party. The repurchase agreements held by the Retirement Funds were 13 agreements totaling $151.5 million as of December 31, 2014 and 27 agreements totaling $1.1 billion as of December 31, 2013. All of these repurchase agreements were tri-party agreements held in short-term cash management portfolios managed by SWIB's custodian. The underlying securities for these repurchase agreements were held by the tri-party's agent, not in SWIB's name.

Although SWIB has not adopted a formal deposit or investment policy specifically related to custodial credit risk, SWIB investment staff monitor the creditworthiness of SWIB's custodian as a counterparty, depository financial institution and as agent for certain reverse repurchase agreements and securities lending activity. Concerns and issues are discussed with SWIB's credit task force for further action. Additionally, SWIB's custodian reviews each subcustodian's operations, local market activity, financial strength, regulatory compliance and overall service performance throughout the year.

C. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups of portfolios that generally restrict issuer concentrations in any one company or Rule 144A securities to less than 5% of the portfolio's market value. The Retirement Funds did not hold any investments with a single issuer, exclusive of investments issued or explicitly guaranteed by the U.S. government, representing 5% or more of the Retirement Funds' value at December 31, 2014 or December 31, 2013.

D. Interest Rate Risk

Fixed income instruments held by the Retirement Funds include investments with variable rate securities, stepped rate securities, securities with no coupon, such as discount notes and coupons that range between .01% and 15.95% at December 31, 2014 and .01% and 16.25% at December 31, 2013. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SWIB uses a number of different methods to manage interest rate risk.

Interest Rate Sensitivity by Investment Type
As of December 31
(In thousands)

	2014			2013		
Investment Type	**Fair Value**	**Duration (years)**	**Weighted Average Maturity (days)**	**Fair Value**	**Duration (years)**	**Weighted Average Maturity (days)**
Asset Backed Securities	$49,368	1.61	-	$42,621	2.70	-
Commercial Paper	870,435	0.17	-	469,554	0.14	-
Corporate Bonds & Private Placements	4,992,052	5.74	-	4,793,338	5.44	-
Corporate Bonds & Private Placements	-	-	-	1,105	N/A	-
Foreign Government/Agency Bonds	3,752,326	7.73	-	4,026,104	7.03	-
Futures Contracts*	3,690,696	4.94	-	3,285,118	4.61	-
Municipal Bonds	117,639	10.73	-	113,392	10.18	-
Repurchase Agreements	151,526	-	3	1,078,825	-	2
U.S. Government Agencies	633,802	1.78	-	859,071	1.58	-
U.S. Treasury Inflation Protected Securities	6,878,808	7.87	-	6,218,093	7.37	-
U.S. Treasury Securities	3,925,967	4.78	-	3,413,160	5.02	-
Commingled Funds:			-	-		-
Short Term Cash Management	1,462,719	-	117	2,482,734	-	89
Emerging Market Fixed Income	526,942	7.15	-	444,151	6.72	-
Global Fixed Income	500,984	4.66	-	546,906	4.51	-
Domestic Fixed Income	6,325,551	6.23	-	6,488,653	5.55	-
Total	$33,878,815			$34,262,825		

* Notional amount presented for fair value.
N/A - Not Available.

Generally, SWIB analyzes long or intermediate term portfolios' interest rate risk using various duration calculations. Modified duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. The calculation is based on the weighted average of the present values for all cash flows. Some pooled investments are analyzed using an option adjusted duration calculation which is similar to the modified duration method. Option adjusted duration incorporates the duration shortening effect of any embedded call provisions in the securities.

Short-term portfolios' interest rate risk is analyzed using the weighted average maturity (to next reset). Weighted average maturity is the maturity of each position in a portfolio weighted by the dollar value of the position to compute an average maturity for the portfolio as a whole. This measure indicates a portfolio's sensitivity to interest rate changes: a longer weighted average maturity implies greater volatility in response to interest rate changes.

SWIB's investment guidelines related to interest rate risk vary by portfolio. Some fixed income portfolios are required to be managed within a range of a targeted duration, while others are required to maintain a weighted average maturity at or below a specified number of days or years.

The table entitled **Interest Rate Sensitivity by Investment Type** presents the aggregated interest rate exposure for the Retirement Funds' assets at December 31, 2014 and December 31, 2013. Weighted average maturity, where reset dates are assumed to be the effective maturity date for the security, is presented for repurchase agreements and short term pooled investments. Longer term instruments held by the Retirement Funds are presented using modified duration, as this measure more accurately states the interest rate sensitivity of these investments. The duration statistic is calculated utilizing reset dates for some floating rate instruments, such as term loans.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. It includes the risk that currencies in which a portfolio's investments are denominated, or currencies in which a portfolio has taken on an active position, will decline in value relative to the U.S. dollar.

Foreign currency exchange rates may fluctuate significantly for a number of reasons, including the forces of supply and demand in the foreign exchange markets, actual or perceived changes in interest rates, intervention by U.S. or foreign governments or central banks, currency controls, or political developments in the U.S. or abroad.

SWIB's policies include foreign currency risk management objectives relating to each individual portfolio. These guidelines address the foreign currency management activities permitted for each portfolio based on the portfolios mandates, risk tolerances and objectives. SWIB also employs discretionary currency overlay strategies at the total fund level when currency market conditions suggest such strategies are warranted. Additional information related to the management of foreign currencies through the use of derivatives is discussed in Note 5.

The tables entitled **Currency Exposures by Investment Type** present the Retirement Fund investments which were exposed to foreign currency risk at December 31, 2014 and December 31, 2013.

4. Securities Lending Transactions

State statutes and Board policies permit SWIB to use investments of the Retirement Funds to enter into securities lending transactions. These transactions involve the lending of securities to broker-dealers and other entities in exchange for collateral, in the form of cash or securities, with the simultaneous agreement to return the collateral for identical securities in the future. SWIB's custodian is an agent in lending the Retirement Funds' directly held domestic and international securities. When the Retirement Funds' securities are delivered to a borrower as part of a securities lending agreement, the borrower is required to place collateral equal to at least 102% of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent, so long as the securities and the collateral are denominated in the same currency. In the event that securities are loaned against collateral denominated in a different currency, the borrower

Currency Exposures by Investment Type As of December 31, 2014 Stated in U.S. Dollars (In thousands)							
Currency	**Cash & Cash Equivalents**	**Stocks**	**Fixed Income**	**Limited Partnerships**	**Multi-Asset**	**Real Estate**	**Preferred Securities**
Australian Dollar	$ 9,818	$ 978,266	$ 55,218	$ -	$ -	$ -	$ -
Brazilian Real	2,866	91,190	21,715	-	-	-	71,964
Canadian Dollar	14,416	1,372,518	54,010	-	-	-	-
Colombian Peso	-	-	1,858	-	-	-	-
Czech Koruna	-	732	-	-	-	-	-
Danish Krone	-	224,419	26,054	-	-	-	-
Egyptian Pound	3	-	-	-	-	-	-
Euro Currency Unit	23,738	4,866,354	1,640,002	703,358	-	-	94,221
Hong Kong Dollar	3,256	702,509	-	-	-	-	-
Hungarian Forint	-	-	7,274	-	-	-	-
Indian Rupee	1,602	154,348	-	-	-	-	-
Indonesian Rupiah	148	8,517	15,413	-	-	-	-
Israeli New Shekel	1,207	46,912	-	-	-	-	-
Japanese Yen	14,977	3,238,178	969,331	-	-	-	-
Malaysian Ringgit	1,703	47,850	37,461	-	-	-	-
Mexican New Peso	38,116	34,207	82,795	-	-	-	-
Moroccan Dirham	13	-	-	-	-	-	-
New Taiwan Dollar	14	197,709	-	-	-	-	-
New Turkish Lira	5	69,894	-	-	-	-	-
New Zealand Dollar	598	31,898	7,408	-	-	-	-
Norwegian Krone	1,105	113,961	7,806	-	-	-	-
Peruvian Nuevo Sol	-	-	698	-	-	-	-
Philippine Peso	13	4,398	-	-	-	-	-
Polish Zloty	1,161	26,358	33,006	-	-	-	-
Pound Sterling	19,555	3,610,558	366,387	77,407	-	-	-
Russian Ruble	-	-	4,270	-	-	-	-
South African Rand	2,498	72,628	32,835	-	-	-	-
Singapore Dollar	2,278	187,008	503	-	-	-	-
South Korean Won	405	280,381	8,770	-	-	-	-
Swedish Krona	3,126	436,375	11,509	20,886	-	-	-
Swiss Franc	-	1,492,807	-	-	-	-	-
Thailand Baht	3	77,266	-	-	-	-	-
United States Dollar	3,178,513	32,377,964	23,749,740	9,752,935	3,906,835	1,017,433	55,200
Uruguayan Peso	-	-	5,208	-	-	-	-
Total	$ 3,321,138	$50,745,204	$ 27,139,271	$10,554,585	3,906,835	$1,017,433	$221,385

1) Commingled funds (including limited partnerships and other pooled vehicles) represent investments where the Retirement Funds own only a portion of the overall fund. While the overall fund may be denominated in U.S. dollars, the underlying investments may be exposed to foreign currency risk in various currencies. Commingled funds are shown in the denomination used by the fund for financial reporting.

2) Short Sell Obligations are reported as liabilities on the Statement of Net Investment Position. They are included in the above table because they have exposure to foreign currency risk.

3) Values may not add due to rounding.

Currency Exposures by Investment Type
As of December 31, 2014
Stated in U.S. Dollars (In thousands)

Currency	Convertible Securities	Options	Futures Contracts	Swaps	Short Sell Obligations	Total
Australian Dollar	$ -	$ -	$ 988	$ -	$ -	$ 1,044,289
Brazilian Real	-	-	-	-	-	187,736
Canadian Dollar	-	-	1,297	-	(3,000)	1,439,240
Colombian Peso	-	-	-	-	-	1,858
Czech Koruna	-	-	-	-	-	732
Danish Krone	-	-	-	-	-	250,473
Egyptian Pound	-	-	-	-	-	3
Euro Currency Unit	-	(567)	1,401	-	(88,474)	7,240,033
Hong Kong Dollar	-	-	-	-	-	705,766
Hungarian Forint	-	-	-	-	-	7,274
Indian Rupee	-	-	-	-	-	155,950
Indonesian Rupiah	-	-	-	-	-	24,078
Israeli New Shekel	-	-	-	-	(54)	48,065
Japanese Yen	-	-	(2,590)	-	(78,250)	4,141,646
Malaysian Ringgit	-	-	-	-	-	87,014
Mexican New Peso	-	-	-	-	-	155,117
Moroccan Dirham	-	-	-	-	-	13
New Taiwan Dollar	-	-	-	-	-	197,723
New Turkish Lira	-	-	-	-	-	69,899
New Zealand Dollar	-	-	-	-	-	39,905
Norwegian Krone	-	-	-	-	-	122,873
Peruvian Nuevo Sol	-	-	-	-	-	698
Philippine Peso	-	-	-	-	-	4,411
Polish Zloty	-	-	-	-	-	60,525
Pound Sterling	-	-	1,855	-	-	4,075,761
Russian Ruble	-	-	-	-	-	4,270
South African Rand	-	-	-	-	-	107,962
Singapore Dollar	-	-	-	-	(4,635)	185,154
South Korean Won	-	-	-	-	-	289,555
Swedish Krona	-	-	-	-	(15,836)	456,059
Swiss Franc	-	-	-	-	(15,903)	1,476,904
Thailand Baht	-	-	-	-	-	77,269
United States Dollar	3,779	(1,049)	(3,276)	(28)	(287,267)	73,750,778
Uruguayan Peso	-	-	-	-	-	5,208
Total	$ 3,779	$(1,616)	$ (326)	$ (28)	$ (493,419)	$96,414,241

Currency Exposures by Investment Type As of December 31, 2013 Stated in U.S. Dollars (In thousands)							
Currency	Cash & Cash Equivalents	Stocks	Fixed Income	Limited Partnerships	Multi-Asset	Real Estate	Preferred Securities
Australian Dollar	$ 10,769	$ 1,018,596	$ 72,183	$ -	$ -	$ -	$ -
Brazilian Real	820	76,128	31,145	-	-	-	108,263
British Pound Sterling	29,873	4,047,565	329,479	114,426	-	-	-
Canadian Dollar	8,277	1,401,826	54,495	9,237	-	-	-
Chilean Peso	-	-	667	-	-	-	-
Colombian Peso	-	-	4,647	-	-	-	-
Czech Koruna	-	1,824	-	-	-	-	-
Danish Krone	720	154,883	28,027	-	-	-	-
Euro Currency Unit	52,493	5,037,574	1,718,097	850,023	-	-	96,524
Hong Kong Dollar	2,865	706,879	-	-	-	-	-
Hungarian Forint	-	-	8,272	-	-	-	-
Indian Rupee	81	80,738	-	-	-	-	-
Indonesian Rupiah	104	5,451	3,595	-	-	-	-
Israeli New Shekel	857	39,745	-	-	-	-	-
Japanese Yen	23,548	3,563,753	1,164,770	-	-	-	-
Malaysian Ringgit	2,774	44,265	32,771	-	-	-	-
Mexican New Peso	1,657	39,860	93,608	-	-	-	-
Moroccan Dirham	15	-	-	-	-	-	-
New Taiwan Dollar	20	198,238	-	-	-	-	-
New Zealand Dollar	92	14,981	5,802	-	-	-	-
Norwegian Krone	879	117,701	9,733	-	-	-	-
Peruvian Nuevo Sol	92	45	3,410	-	-	-	-
Philippine Peso	1,650	2,774	5,300	-	-	-	-
Polish Zloty	292	21,455	39,134	-	-	-	-
Russian Ruble	350	-	7,486	-	-	-	-
Singapore Dollar	1,255	173,281	836	-	-	-	-
South African Rand	551	43,957	31,367	-	-	-	-
South Korean Won	339	304,988	8,864	-	-	-	-
Swedish Krona	8,679	423,986	12,656	17,056	-	-	-
Swiss Franc	1,336	1,588,263	-	-	-	-	-
Thailand Baht	-	77,059	-	-	-	-	-
Turkish Lira	103	69,222	2,728	-	-	-	-
United States Dollar	3,689,146	29,715,581	22,698,009	9,390,736	3,544,183	739,443	26,468
Uruguayan Peso	-	-	5,085	-	-	-	-
Total	$ 3,839,640	$ 48,970,615	$ 26,372,170	$ 10,381,478	$ 3,544,183	$ 739,443	$ 231,255

1) Commingled funds (including limited partnerships and other pooled vehicles) represent investments where the Retirement Funds own only a portion of the overall fund. While the overall fund may be denominated in U.S. dollars, the underlying investments may be exposed to foreign currency risk in various currencies. Commingled funds are shown in the denomination used by the fund for financial reporting.

2) Short Sell Obligations are reported as liabilities on the Statement of Net Investment Position. They are included in the above table because they have exposure to foreign currency risk.

3) Values may not add due to rounding.

Currency Exposures by Investment Type As of December 31, 2013 Stated in U.S. Dollars (In thousands)						
Currency	**Convertible Securities**	**Options**	**Futures Contracts**	**Swaps**	**Short Sell Obligations**	**Total**
Australian Dollar	$ -	$ -	$ 4,605	$ -	$ -	$ 1,106,153
Brazilian Real	-	-	-	-	-	216,356
British Pound Sterling	-	-	8,073	-	-	4,529,416
Canadian Dollar	-	(3)	2,849	-	-	1,476,682
Chilean Peso	-	-	-	-	-	667
Colombian Peso	-	-	-	-	-	4,647
Czech Koruna	-	-	-	-	-	1,824
Danish Krone	-	-	-	-	-	183,630
Euro Currency Unit	-	(2)	8,180	-	(1,135)	7,761,754
Hong Kong Dollar	-	-	-	-	-	709,744
Hungarian Forint	-	-	-	-	-	8,272
Indian Rupee	-	-	-	-	-	80,819
Indonesian Rupiah	-	-	-	-	-	9,150
Israeli New Shekel	-	-	-	-	-	40,603
Japanese Yen	-	-	5,592	-	(12,620)	4,745,042
Malaysian Ringgit	-	-	-	-	-	79,810
Mexican New Peso	51	-	-	-	-	135,176
Moroccan Dirham	-	-	-	-	-	15
New Taiwan Dollar	-	-	-	-	-	198,258
New Zealand Dollar	-	-	-	-	-	20,875
Norwegian Krone	-	-	-	-	-	128,313
Peruvian Nuevo Sol	-	-	-	-	-	3,547
Philippine Peso	-	-	-	-	-	9,724
Polish Zloty	-	-	-	-	-	60,882
Russian Ruble	-	-	-	-	-	7,837
Singapore Dollar	-	-	-	-	(3,229)	172,144
South African Rand	-	-	-	-	-	75,875
South Korean Won	-	-	-	-	-	314,191
Swedish Krona	-	-	-	-	-	462,377
Swiss Franc	-	-	-	-	(6,390)	1,583,209
Thailand Baht	-	-	-	-	-	77,059
Turkish Lira	-	-	-	-	-	72,053
United States Dollar	52,347	5,075	19,486	291	(123,572)	69,757,195
Uruguayan Peso	-	-	-	-	-	5,085
Total	$ 52,398	$ 5,070	$ 48,785	$ 291	$ (146,945)	$ 94,038,383

is required to place collateral totaling at least 105% of the loaned securities' fair value, including interest accrued, as of the delivery date with the lending agent. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level. Pledging or selling non-cash collateral securities cannot be done without a borrower default.

Cash collateral is reinvested by the lending agent in two separate pools, a U.S. dollar cash collateral pool and a pool denominated in Euros. These pools are administered in accordance with contractual investment guidelines which are designed to minimize the risk of principal loss and provide a modest rate of return. Investment guidelines limit credit and liquidity risk by restricting new investments to overnight repurchase agreements collateralized with high quality U.S. government, U.S. government agencies, and sovereign debt securities. To further reduce credit risk, SWIB's custodian provides indemnification to SWIB against counterparty default. The earnings generated from the collateral investments, plus or minus the rebates received from or paid to the dealers and less fees paid to agents, results in the net earnings from lending activities, which are then split on a percentage basis with the lending agent. Cash from the U.S. dollar pool may be posted as collateral relating to short sale transactions and earns a comparable overnight repurchase agreement market rate of return for the duration of the posting. See Note 6 for additional information relating to short sales.

At December 31, 2014 and December 31, 2013, the Retirement Funds had minimal credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the Retirement Funds. In addition to the cash collateral reinvestment indemnification, the contract with the lending agent requires it to indemnify the Retirement Funds if the borrowers fail to return the loaned securities and the collateral is inadequate to replace the securities lent. The Retirement Funds are also indemnified against losses resulting from violations of investment guidelines.

The majority of security loans are open-ended and can be terminated on demand by the Retirement Funds or the borrower. Maturities of investments made with cash collateral are not necessarily matched to the maturities of the securities loaned because most loans do not have a fixed maturity date. The risk that SWIB would be unable to return collateral to securities borrowers upon termination of the loan is low because the majority of investments made with cash collateral mature in one to two business days. The average maturities of the loans and the average maturities of the assets held in the collateral reinvestment pools did not materially differ at December 31, 2014 and December 31, 2013.

Securities lending is allowed in certain commingled fund investments. As an investor in such funds, SWIB does not own the underlying securities and does not separately report on securities lending activity. All earnings of these funds are reported in the Statement of Changes in Net Investment Position as "Net Increase (Decrease) in the Fair Value of Investments."

5. Derivatives

A derivative instrument, as defined by GASB Statement No. 53, is a financial instrument or other contract that has all of the following characteristics:

- Settlement factors. It has (1) one or more reference rates and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements and, in some cases, whether or not a settlement is required.
- Leverage. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- Net settlement. Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Derivatives may be used to implement investment strategies for the Retirement Funds. All derivative instruments are subjected to risk analysis and monitoring processes at the portfolio, asset class and fund levels. Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been approved by the Board. Where derivatives are permitted, guidelines stipulate allowable instruments and the manner and degree to which they are to be used.

A derivative can take the form of a contract negotiated between the Retirement Funds and a specific counterparty. This is referred to as an over-the-counter (OTC) contract, such as a forward contract. Alternatively, standardized derivative instruments, such as futures contracts, may be traded on an organized exchange and are referred to as "exchange-traded."

Inherent in the use of OTC derivatives, the Retirement Funds may be exposed to counterparty credit risk on OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligations under the terms of the derivative contract. SWIB seeks to mitigate this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. Additionally, policies have been established which seek to implement master netting arrangements with counterparties that permit the closeout and netting of transactions with the same counterparty upon the occurrence of certain events, such as payment default, rating downgrade, bankruptcy, illegality or force majeure. Agreements may also require daily collateral postings to further mitigate credit risk. Cash collateral on deposit with OTC counterparties was $18.7 million at December 31, 2014 and $15.1 million at December 31, 2013. No securities were pledged relating to OTC positions.

The Retirement Funds OTC positions included foreign currency contracts, OTC options and a total return swap. The table entitled **OTC Derivative Investments Subject to Counterparty Credit Risk**, summarizes, by credit rating, the Retirement Funds' exposure to OTC derivative instruments' counterparty credit risk as of December 31, 2014 and December 31, 2013, without respect to any collateral or netting arrangement.

OTC Derivative Investments Subject to Counterparty Credit Risk
As of December 31
(In thousands)

	2014			2013		
Counterparty Credit Rating	**Payable**	**Receivable**	**Fair Value**	**Payable**	**Receivable**	**Fair Value**
AA	$ (227,113)	$ 228,808	$ 1,695	$ (705,692)	$ 703,771	$ (1,921)
A	(2,063,478)	2,051,559	(11,919)	(2,164,538)	2,154,185	(10,353)
BBB	(1,716,512)	1,715,793	(720)	(1,437,866)	1,438,301	435
Total	$(4,007,103)	$3,996,160	$(10,944)	$(4,308,096)	$4,296,257	$(11,839)

The aggregate fair value of receivables relating to OTC derivative contracts was $4.0 billion at December 31, 2014 and $4.3 billion at December 31, 2013. These amounts represent the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The number of OTC counterparties with credit exposure was 16 and 15 respectively. This maximum exposure is reduced to $196.4 million at December 31, 2014 and $245.7 million at December 31, 2013 when counterparty collateral and master netting arrangements are taken into account.

Conversely, counterparty credit risk is mitigated by an intermediary for exchange-traded derivatives. For this type of derivative investment, the clearinghouse interposes itself as counterparty to all trades and extends a guarantee that trades will be settled as originally intended. To ensure performance, the exchange establishes, and the clearinghouse monitors, margin requirements to cover nearly all expected price changes for a given product within a specified time period based on market risk. Margin payments are settled daily based upon the price movements of the contracts, thereby significantly reducing counterparty credit risk. The Retirement Funds posted $98.0 million in cash and $68.7 million in securities as collateral with exchange clearing brokers as of December 31, 2014 and $84.7 million in cash and $62.6 million in securities as of December 31, 2013.

Gains and losses for all derivative instruments are reported in the Statement of Changes in Net Investment Position as "Net Increase (Decrease) in the Fair Value of Investments."

SWIB invests in derivative investments directly, as well as indirectly through commingled or pooled investments. Information relating to investments held in commingled funds has not been separately disclosed in the financial statements or the accompanying footnotes.

A. Foreign Currency Spot and Forward Contracts

Foreign Currency Spot and Forward contracts are OTC agreements between two counterparties to exchange designated currencies at a specific time in the future. No cash is exchanged when a foreign exchange spot or forward contract is initiated. Amounts due are paid or received on the contracted settle date.

Currency exposure management is permitted through the use of currency derivative instruments. Direct hedging of currency exposure back to the U.S. dollar is permitted when consistent with the strategy of the portfolio. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. In some portfolios, currencies of non-benchmark countries may be held through the use of forward contracts, provided that the notional value of any single non-benchmark currency does not exceed 5% of the market value of the portfolio. SWIB may employ discretionary currency overlay strategies at the total fund and asset class level when currency market conditions suggest such strategies are warranted.

Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not perform under the terms of the contract. Spot and forward contracts are valued daily with the changes in fair value included in "Net Increase (Decrease) in Fair Value of Investments" on the Statement of Changes in Net Investment Position. The net receivable or payable for spot and forward contracts is reflected as "Foreign Currency Contracts" on the Statement of Net Investment Position. The table entitled **Foreign Currency Spot and Forward Contracts** presents the fair value of foreign currency spot and forward contract assets and liabilities held by the Retirement Funds as of December 31, 2014 and December 31, 2013.

B. Futures Contracts

A futures contract is an exchange-traded agreement to buy or sell a financial instrument, index or commodity at an agreed upon price and time in the future.

The fair value of futures contracts represents the unrealized gain/(loss) on the contracts, since trade inception, and is reflected as "Futures Contracts" on the Statement of Net Investment Position. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. Gains and losses resulting from investments in futures contracts are included in the "Net Increase (Decrease) in the Fair Value of Investments" on the Statement of Changes in Net Investment Position.

Futures Contracts
As of December 31
(In thousands)

	2014			2013		
Description	**Expiration**	**Notional Amount**	**Unrealized Appreciation (Depreciation)***	**Expiration**	**Notional Amount**	**Unrealized Appreciation (Depreciation)***
Long Fixed Income Futures	Mar 15	$ 4,197,590	$ 30,167	Mar 14	$ 3,477,182	$ (31,558)
Short Fixed Income Futures	Mar 15	(506,895)	(4,417)	Mar 14	(192,064)	1,576
Long Equity Index Futures	Mar 15	897,669	19,319	Jan 14-Mar 14	2,113,016	80,033
Short Equity Index Futures	Mar 15-May 15	(15,481)	(358)	Feb 14-Mar 14	(14,523)	131
Long Commodity Futures	Jan 15-Mar 15	792,416	(45,037)	-	-	-
Short Commodity Futures	-	-	-	Jan 14-Mar 14	(43,166)	(1,397)
Total		$ 5,365,299	$ (326)		$ 5,340,445	$ 48,785

* Unrealized appreciation/(depreciation) includes foreign currency gains/(losses).

Foreign Currency Spot and Forward Contracts As of December 31 (In thousands)						
	2014			2013		
Currency	Notional (local currency)	Fair Value ($US)	Unrealized Gain/ (Loss) ($US)	Notional (local currency)	Fair Value ($US)	Unrealized Gain/ (Loss) ($US)
Foreign Currency Contract Receivables						
Australian Dollar	294,008	$ 240,248	$ (3,611)	289,171	$ 258,158	$ (3,925)
Brazilian Real	54,475	20,291	(53)	-	-	-
British Pound Sterling	138,317	215,643	(4,601)	164,472	272,368	6,790
Canadian Dollar	431,270	372,181	(2,108)	556,368	523,308	746
Chilean Peso	5,563,000	9,109	21	4,690,000	8,886	(212)
Colombian Peso	2,630,645	1,107	4	-	-	-
Danish Krone	98,967	16,086	(331)	211,035	38,983	540
Euro Currency Unit	364,423	441,036	(11,087)	304,024	418,928	1,965
Hong Kong Dollar	552,944	71,302	(2)	192,254	24,795	(6)
Indian Rupee	3,004,637	47,169	(151)	1,072,536	17,242	707
Indonesian Rupiah	-	-	-	44,640,000	3,650	(397)
Israeli New Shekel	39,279	10,094	188	41,126	11,847	175
Japanese Yen	51,562,580	430,130	(15,807)	47,358,425	450,624	(20,181)
Malaysian Ringgit	2,000	570	(40)	2,410	732	2
Mexican New Peso	795,472	53,873	(1,174)	1,011,284	77,044	(413)
New Zealand Dollar	6,473	5,059	33	3,823	3,145	21
Norwegian Krone	177,273	23,632	(1,167)	106,343	17,507	176
Singapore Dollar	82,506	62,241	(963)	82,256	65,148	(294)
South African Rand	-	-	-	1,254	120	(5)
South Korean Won	-	-	-	747,000	709	9
Swedish Krona	832,355	106,329	(4,009)	535,024	83,272	1,402
Swiss Franc	93,010	93,616	(1,947)	50,659	56,964	980
Turkish Lira	-	-	-	3,563	1,656	(76)
United States Dollar	1,766,466	1,766,466	-	1,950,875	1,950,875	-
		3,986,182	(46,805)		4,285,961	(11,996)
Foreign Currency Contract Payables						
Australian Dollar	(81,808)	(66,917)	1,989	(28,821)	(25,734)	1,063
Brazilian Real	(29,504)	(10,988)	164	(24,422)	(10,211)	72
British Pound Sterling	(357,699)	(557,642)	3,888	(265,151)	(439,083)	(6,414)
Canadian Dollar	(267,778)	(231,065)	5,438	(201,957)	(190,011)	138
Colombian Peso	(5,261,289)	(2,213)	34	-	-	-
Danish Krone	(274,879)	(44,670)	869	(145,227)	(26,825)	(395)
Euro Currency Unit	(442,646)	(535,736)	12,885	(440,286)	(606,688)	(7,582)
Hong Kong Dollar	(531,020)	(68,476)	3	(650,226)	(83,861)	16
Indonesian Rupiah	(7,175,223)	(573)	8	-	-	-
Israeli New Shekel	(16,869)	(4,335)	(92)	(11,839)	(3,410)	(52)
Japanese Yen	(17,912,001)	(149,432)	1,707	(51,144,722)	(486,655)	14,144
Malaysian Ringgit	(48,000)	(13,678)	611	(48,000)	(14,608)	205
Mexican New Peso	(553,570)	(37,425)	1,589	(948,569)	(72,283)	148
New Zealand Dollar	(9,010)	(7,034)	185	(7,060)	(5,805)	(30)
Norwegian Krone	(199,958)	(26,668)	1,710	(41,835)	(6,894)	(76)
Peruvian Nuevo Sol	(1,978)	(658)	11	(9,888)	(3,505)	(18)
Polish Zloty	(32,155)	(9,040)	519	(61,563)	(20,362)	(375)
Russian Ruble	-	-	-	(256,371)	(7,730)	(111)
Singapore Dollar	(23,392)	(17,652)	140	(15,076)	(11,941)	65
South African Rand	(100,882)	(8,691)	141	(43,470)	(4,130)	28
South Korean Won	(9,160,000)	(8,372)	88	(747,000)	(709)	(15)
Swedish Krona	(559,285)	(71,446)	2,277	(188,630)	(29,364)	(392)
Swiss Franc	(111,660)	(112,410)	1,725	(124,043)	(139,498)	(630)
Turkish Lira	-	-	-	(3,563)	(1,656)	77
United States Dollar	(2,011,977)	(2,011,977)	-	(2,107,128)	(2,107,128)	-
		(3,997,098)	35,889		(4,298,091)	(134)
Total		$ (10,916)	$ (10,916)		$ (12,130)	$ (12,130)

Futures contracts involve, to varying degrees, risk of loss in excess of the margin deposited with the broker. Losses may arise from future changes in the value of the underlying instrument.

Futures contracts may be entered into to efficiently gain or adjust market exposures for purposes that include trust fund rebalancing, sector, interest rate, or duration types of exposure adjustments; the securitization of cash or as a substitute for cash market transactions. The table entitled **Futures Contracts** presents the Retirement Funds investments in futures contracts as of December 31, 2014 and December 31, 2013.

C. Options

An option contract gives the purchaser of the contract the right, but not the obligation, to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration of the option contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk, to the extent of the premium paid to enter into the contract.

Trust fund rebalancing policies and portfolio investment guidelines permit the use of exchange-traded and OTC options. Investment Guidelines allow options to be used to improve market exposure efficiency, enhance expected returns, or provide market exposure hedges. Exchange rules require that the seller of exchange-traded call option contracts cover these positions either by collateral deposits in the form of cash or securities or by pledging, in escrow, the actual securities that would be transferred to the option purchaser in the event the option contract were exercised.

The fair value of option contracts is based upon the closing market price of the contract and is reflected as "Option Contracts" on the Statement of Net Investment Position. Gains and losses as a result of investments in option contracts are included in the "Net Increase (Decrease) in the Fair Value of Investments" on the Statement of Changes in Net Investment Position. The table entitled **Option Contracts** presents the fair value of option contracts as of December 31, 2014 and December 31, 2013.

Option Contracts
As of December 31
(In thousands)

	2014				2013			
Description	**Expiration**	**Notional**	**Unrealized Gain (Loss)**	**Fair Value**	**Expiration**	**Notional**	**Unrealized Gain (Loss)**	**Fair Value**
Options Sold								
Exchange-Traded								
Equity-Call	Jan 15 - Jul 15	(34,029)	$ (10)	$ (875)	Jan 14 - Apr 14	(155,058)	$ 2,251	$ (3,259)
Equity-Put	Jan 15 - Apr 15	(250,029)	1,140	(1,140)	Jan 14 - Apr 14	(52,473)	576	(1,592)
Commodity-Put	Jan 15 - Mar 15	(4,673)	(489)	(601)	Feb 14 - Mar 14	(1,965)	1	(20)
Over-the-Counter								
Equity-Call	Jan 15 - Jul 15	(660)	5	(10)	-	-	-	-
Equity-Put	Jan 15 - Feb 15	(163,176)	(67)	(557)	Jan 14	(1,950)	10	(5)
		(452,567)	579	(3,183)		(211,446)	2,838	(4,876)
Options Purchased								
Exchange-Traded								
Equity-Call	Jan 15 - Jul 15	31,746	124	1,543	Jan 14 - Feb 14	6,861,263	(12,011)	9,939
Equity-Put	Jan 15 - Jul 15	3,482	(169)	24	Jan 14 - Feb 14	7,985	(11)	7
		35,228	(45)	1,567		6,869,248	(12,022)	9,946
Total		(417,339)	$ 534	$ (1,616)		6,657,802	$ (9,184)	$ 5,070

D. Swaps

Swaps are negotiated contractual agreements between two counterparties. The Retirement Funds entered into a total return swap in 2013 with a termination date of December 1, 2014 and entered into a similar agreement in 2014 with a termination date of November 18, 2015. Under the terms of each swap, the Retirement Funds receive the total return of an equity index while paying the counterparty a variable rate of return based on the 3-month London Interbank Offering Rate (LIBOR). Each of these swaps had a notional value of $10 million. Fair value is determined based on the change in quoted market price of the underlying equity index less the accrued interest owed to the counterparty. Gains and losses resulting from investments in swap contracts are included in the "Net Increase (Decrease) in the Fair Value of Investments" on the Statement of Changes in Net Investment Position. The fair value of the swaps is reported as "Swaps" on the Statement of Net Investment Position in a loss position of $27,829 at December 31, 2014 and a gain position of $290,736 at December 31, 2013. As is specified in SWIB's investment guidelines, OTC derivatives, including swaps, may be used as an alternative to physical securities when it is deemed advantageous for portfolio construction. In addition, swaps may be used to adjust asset class exposures for the Retirement Funds. Guideline limits and soft risk parameters for each portfolio are applied to the aggregate exposures which includes both physical and synthetic securities.

6. Short Sell Obligations

The Retirement Funds may sell a security it does not own in anticipation of purchasing the security later at a lower price. This is known as a short sale transaction. For the duration of the short sale transaction, a liability is recorded under "Short Sell Obligations" on the Statement of Net Investment Position. The liability presented on the Statement of Net Investment Position represents the fair value of the shorted securities necessary for delivery to the purchaser and is marked-to-market daily. Realized and unrealized gains and losses associated with short sales are recorded on the Statement of Changes in Net Investment Position and within in the "Net Increase (Decrease) in Fair Value of Investments" category. While the transaction is open, the Retirement Funds incur expenses for securities borrowing costs. In addition, as a security borrower, the Retirement Funds may incur dividend and interest expense as such payments must be remitted to the security lender during the course of the loan. Such expenses are included in "Investment Expense" on the Statement of Changes in Net Investment Position.

Risks arise from short sales due to the possible illiquidity of the securities markets and from potential adverse movements in security values. The cost to acquire the securities sold short may exceed the amount of proceeds initially received, as well as the amount of the liability recorded as "Short Sell Obligations" in the Statement of Net Investment Position. Short sales expose the short seller to potentially unlimited liability because there is no upward limit on the price a shorted security could attain. Certain portfolio guidelines permit short sales and, to mitigate risks, the total value of short sales in any portfolio may not exceed 50% of a portfolio's value. In addition, portfolios which engage in short sales have long only benchmarks established by the Board. Investment performance and risk associated with each portfolio is measured against benchmarks and monitored by management.

When a short sale occurs, the shorting portfolio must borrow the security and deliver it to the buyer. If the shorted security is owned by another Retirement Fund portfolio, investment policies allow the borrowing of the shorted securities from other Retirement Fund portfolios, including inter-fund borrowings.

Except in the case of borrowings within the same trust fund, the Retirement Funds are required to post collateral to the lender, at the required rate of 102% for in-currency loans and 105% for cross-currency loans. The Retirement Funds posted $772.7 million in collateral to security lenders representing $33.1 million in excess of the fair market value of the securities borrowed as of December 31, 2014 and $198.1 million in collateral to security lenders representing $4.6 million in excess of the fair value of the securities borrowed as of December 31, 2013. If the security lender recalled the security and SWIB was not able to supply the lender with the security, the lender would be permitted to use SWIB's collateral to fund the purchase of the security.

7. Multi Asset

SWIB employs portfolio strategies which involve investment across multiple asset classes. The "Multi Asset" category on the Statement of Net Investment Position consists primarily of risk parity and hedge fund multi asset strategies. Risk parity and hedge fund investments are either in the form of a commingled fund, with ownership through fund shares, or a limited partnership.

The risk parity portfolios seek to equally weight asset allocation risk across multiple assets and geographies. Exposures are expected to deliver improved risk and return tradeoffs versus conventional portfolios comprised primarily of stocks and bonds. The risk parity portfolios also intend to provide more diversified exposure over various economic environments.

The Retirement Funds invest in a diversified set of hedge fund strategies, invested across multiple asset classes. In general, a hedge fund is a private investment fund that seeks to produce absolute returns using a broad range of strategies with low to moderate levels of volatility, typically employing both long and short positions. An allocation to a diversified hedge fund portfolio is intended to have low correlation to traditional publicly traded equities.

Hedge funds can be illiquid, either by virtue of the illiquidity of underlying assets or due to lock-up terms. However, SWIB has taken steps to minimize this risk by investing in hedge funds with more liquid asset classes and by structuring its investments to stagger lock-up periods. Hedge funds also use leverage to varying degrees, and while it is possible that a hedge fund can lose a significant portion of its capital, SWIB has limited the amount it invests in hedge funds in total and with any individual hedge fund manager.

As of December 31, 2014 and December 31, 2013, the majority of SWIB's risk parity and hedge fund investments are reflected within the "Multi Asset" category on the Statement of Net Investment Position. Hedge fund portfolios with a long only equity strategy are included within the "Stocks" classification on the Statement of Net Investment Position.

8. Long-Term Receivables

Included in the Core Fund's Investment Sales Receivable balance on the Statement of Net Investment Position is $73.0 million in receivables as of December 31, 2014 and $176.6 million in receivables as of December 31, 2013 which are due on or before January 2017. These receivables represent the final payments from the sale of private equity limited partnership interests.

9. Investment Policy and Asset Allocation

SWIB's Board of Trustees has established investment guidelines pursuant to a comprehensive and ongoing evaluation of the appropriate risk and return standards for each fund under management. Trustees have a fiduciary responsibility, with respect to the Core Fund and the Variable Fund, to act solely in the interest of the WRS. The Board of Trustees consists of nine members meeting specific requirements as follows:

- Six Governor appointed and State Senate approved members including:
  - Four with at least ten years investment experience
  - One with at least ten years financial experience and who works for a local government participant in the Local Government Investment Pool
  - One additional member
- Educator participant in the WRS appointed by the Teachers Retirement Board
- Non-educator participant in the WRS appointed by the Wisconsin Retirement Board
- Secretary of the Department of Administration or designee

Board approved guidelines are intended to assist in development of a diversified portfolio of investments, tailored to accomplish the purpose of each fund within acceptable risk parameters. They represent a delegation of standing authority to the Executive Director and investment managers within the organization to make prudent investments within the investment guidelines, pursuant to sections 15.02(4) and 25.16(1) of the Wisconsin Statutes and section IB 2.02 of the Wisconsin Administrative Code.

Additionally the Investment Committee (IC) was created to provide oversight of SWIB investments within the parameters established by the Board of Trustees. Oversight includes analysis of risk and return of the portfolio, asset class, and Core and Variable Funds. The IC is responsible for proposing to the Board of Trustees changes to investment guidelines for internally managed portfolios, for approving investment guidelines for externally managed portfolios, and for approving individual strategies within the Multi Asset portfolios.

The Retirement Funds' asset allocation policy is recommended by the IC and adopted by the Board. SWIB undertakes a review of its strategic asset allocation plan every other year, including asset/liability modeling, to determine a suitable target allocation for each asset class included in the Core and Variable Fund. The strategic nature of these reviews contemplates a long-term time horizon over which potential results are evaluated. This exercise is not an attempt to predict short-term market movements, but an effort to understand the long-term impacts of poor, normal and above average market results. In the "off year" of the two-year cycle, structural asset allocation adjustments and other funding initiatives are considered.

In addition to potential future market impact, SWIB also contemplates the objectives of the funds, the impact of actuarial analysis and the soundness of investment return and risk expectations. SWIB's asset allocation policies reflect the Board's program of risk allocation that involves reduced equity exposure coupled with leveraged low-volatility assets, such as "fixed income" securities. This investment strategy results in Core Fund strategic targets which exceed 100% of invested assets. Currently the Core Fund has adopted an asset allocation target of 6% leverage, however over time it is anticipated that SWIB will move toward an asset allocation that includes 20% leveraging of low volatility assets. As SWIB increases the degree of leverage as it moves toward the destination target asset allocation, the Board will be informed of the nature and method used for each incremental step. Before implementing leverage beyond 10%, the Board, asset allocation consultants and staff will engage in additional focused asset allocation discussion. The table entitled **Asset Allocation Targets** presents the current policy targets as well as the destination targets for the Core and Variable Funds.

For purposes of determining asset allocation targets, investments may be categorized differently than they are within the financial statements. For example, SWIB's management considers inflation sensitive assets separately from other "fixed income" investments for asset allocation purposes.

Asset Allocation Targets

Core Fund Asset Class	Current Target Asset Allocation	Destination Target Asset Allocation
U.S. Equities	26%	21%
International Equities	24%	23%
Fixed Income	27%	36%
Inflation Sensitive Assets	9%	20%
Real Estate	7%	7%
Private Equity/Debt	7%	7%
Multi-Asset	6%	6%
Total	106%	120%
Variable Fund Asset Class		
U.S. Equities	70%	70%
International Equities	30%	30%
Total	100%	100%

10. Unfunded Capital Commitments

SWIB entered into a number of agreements that commit the Core Fund to make investment purchases up to predetermined amounts over certain investment time periods. The unfunded capital commitments for private equity, real estate and multi asset investments not reported on the Core Fund's Statement of Net Investment Position totaled $6.2 billion as of December 31, 2014 and $6.1 billion as of December 31, 2013.

11. Loss Contingency

On September 5, 2008, the Internal Revenue Service (IRS) provided SWIB with a "Notice of Transferee Liability". This claim seeks taxes, penalties and interest relating to the sale of Shockley Communications Corporation (SCC) stock in 2001.

SWIB is classified as a tax exempt entity by the IRS. However, the IRS asserts that the shareholders' sale of SCC stock in 2001 should have been characterized as a sale of assets by SCC, on which SCC should have paid income taxes. Based on the theory of transferee liability, the IRS asserts that the former SCC shareholders, including SWIB, would be liable for those taxes, plus penalties and interest. Transferee liability is limited to the amount actually received by the putative transferee, plus interest. As a result, SWIB's potential liability, as a putative transferee of SCC assets, is estimated to be $48.3 million as of December 31, 2014 and $46.9 million as of December 31, 2013. These estimates include taxes, interest and potential penalties.

SWIB is aggressively contesting the IRS' assertions of SWIB's tax liability. Furthermore, SWIB believes that the loss, if any, resulting from the claim is not probable and therefore will not have a material impact on SWIB's Net Investment Position Held in Trust or Net Investment Income in future years. As such, SWIB has not recognized a loss relating to this matter in the current year, nor does it appear as a contingent liability in the Statement of Net Investment Position.

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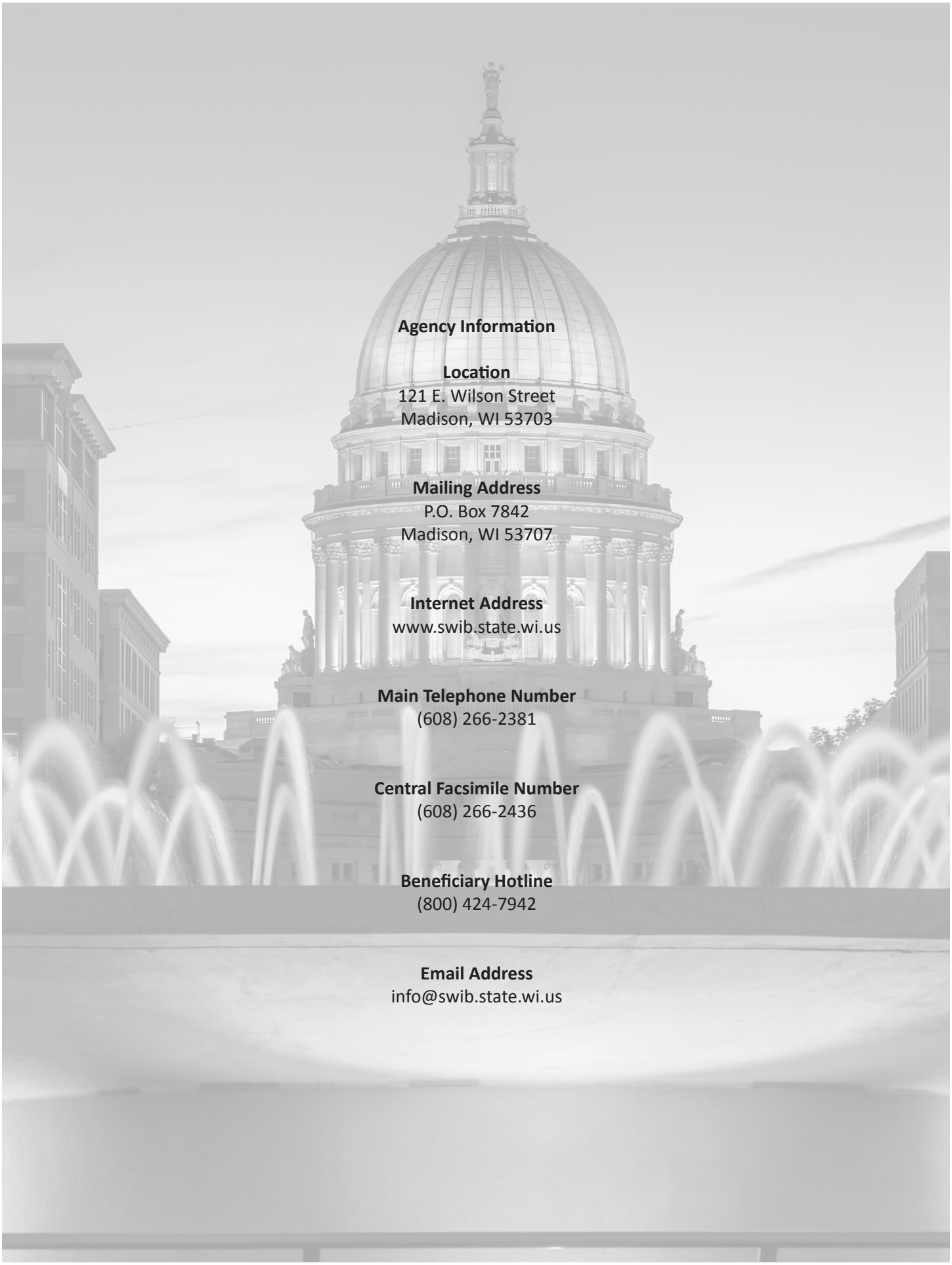

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