ANNUAL REPORT
FISCAL YEAR 2011

SWIB State of Wisconsin Investment Board

Agency Information

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Introduction

Message from the Chairman

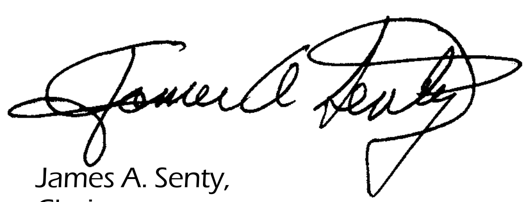
In my role as one of nine members of the independent Board of Trustees that governs SWIB, I have served as a fiduciary for the Wisconsin Retirement System (WRS) Trust since 1999. I am acutely aware that the current state of the financial world is unstable and uncertain. Regardless, I also know WRS beneficiaries, and the beneficiaries of other funds managed by SWIB, rely on SWIB's staff and Trustees to uphold our fiduciary responsibilities.

What does that mean? Fiduciary comes from the Latin words meaning trust and faith. To have a fiduciary duty means to have a legal relationship of trust regarding the management of money or property. As fiduciaries, we are required to manage investments with the highest standard of professional conduct solely for the purpose of the trust funds. In the case of the WRS, that is to provide for retirement benefits for participants. It is the core principle by which SWIB operates. As Trustees, our job is to determine SWIB's overall investment management policies. Staff's job is to make the day-to-day decisions about investments and operations following the policies we set.

Investing the trust funds requires adherence to the "prudent investor standard." That means SWIB must act with the same care, skill, prudence and diligence as a person acting in a similar capacity with the same resources would. This requires a balance between seeking returns and taking appropriate risk.

Decisions made by the Board of Trustees and SWIB's staff require strategic planning that will benefit the trusts over a long period of time. The allocation process divides investments among different types of assets and is an important part of the fiduciary role. It is designed to meet the return and risk objectives of each fund through diversification strategies that manage risk and help stabilize returns. Implementing cost-saving strategies for managing the WRS trust funds is also an important part of SWIB's duty.

Over the past year, we have seen extreme volatility in the world's financial markets. There remains a great deal of uncertainty about the global economy. How long the road to economic recovery will be is unknown. What is certain, however, is that SWIB, no matter what the economic conditions, must continue to make sound investment decisions to meet its long term fiduciary requirements.



James A. Senty,
Chairman

Message from the Executive Director

Beginning with the technology bubble of the late twentieth century, the investment world has provided great challenge. Simultaneous bull markets in stocks and bonds that began in the early 1980s are not likely to be repeated in our lifetimes. Meeting the challenge presented requires change, and presents an opportunity to strengthen SWIB for the years ahead.

Over the past five years SWIB has made significant changes. Many were possible due to policymakers authorizing increased access to new resources: both staff and technology. These changes have helped SWIB reach its goals of improving the cost of management, strengthening the investment program and identifying new strategies to benefit system participants.

SWIB began by improving its selection and oversight processes for external managers. We then identified ways to use staff to reduce costs and generate added returns. In addition to substantially increasing the portion of assets invested internally, we enhanced currency and trading management by SWIB staff. Better technology and the addition of highly qualified staff enhanced our operations and oversight environment.

The Legislature and Governor also gave SWIB the flexibility to take advantage of new investment strategies and asset classes. SWIB can now consider all market opportunities and determine which are suitable for the trust funds. With the new flexibility, SWIB is focusing on reducing overall return volatility using asset allocation and approaches new to SWIB, though well established in the investment world. SWIB is gradually reducing the overwhelming reliance on stocks to provide long-term growth. While stocks remain the core portion of the investment strategy, we will be able to build a better diversified portfolio, better able to withstand major stock market upheavals.

Along with those changes in strategy, we increased operations and oversight staffing, technology systems, and external services to help with these tasks. Quantitative analytical and monitoring tools have been added.

These changes are beginning to provide positive results. SWIB has been ranked as a low cost manager compared to peer funds of a similar size and asset mix according to an annual independent review of Core Fund costs. Likewise, returns continue to compare favorably with peers and are generated with somewhat less risk. With new tools and resources at our disposal, we plan to continue a deliberate and careful migration to a better-diversified, lower risk portfolio in the coming years.

For SWIB and the more than 570,000 beneficiaries of the WRS, these changes provide the means to adapt to the new market realities and opportunities of a challenging twenty-first century.

Keith Bozarth,
CEO

Agency Overview

Mission

To provide prudent and cost-effective management of funds held in trust by the State. This is achieved with solid investment returns, consistent with the purpose and risk profile of each fund.

Vision

SWIB strives to be a premier public investment organization, a place where professional excellence and public service thrive. Superior investment returns, the highest ethical and professional standards, teamwork and a rewarding work environment will make SWIB the investment management organization of choice.

The State of Wisconsin Investment Board (SWIB) is a 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 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 statutes. The Board's duties as manager of the State's 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.

SWIB is directed by a nine-person, independent Board of Trustees and staffed with professional money managers and support personnel. The Board of Trustees appoints the executive director of the Investment Board. The executive director oversees the staff, develops and recommends agency and investment policies for Board adoption, and ensures adherence to state law and policies.

Assets Under Management - June 30, 2011

Fund	in Millions	% of Total
Core Retirement Investment Trust Fund	$ 76,726	87 %
Variable Retirement Investment Trust Fund	5,759	7
Wisconsin Retirement System	$ 82,486	94 %
State Investment Fund*	4,521	5
Various Funds		
• Injured Patients and Families Compensation Fund	700	1
• State Life Insurance Fund	100	0
• Local Government Property Insurance Fund	38	0
• Historical Society Trust Fund	11	0
• EdVest Tuition Trust Fund	8	0
Total Assets Under Management	$ 87,864	100 %

*Excludes deposits from Core Retirement Investment Trust Fund, Variable Retirement Investment Trust Fund and Various Funds.
Note: Values and percentages may not add due to rounding.

Management costs of the State of Wisconsin Investment Board include external management and advisory fees, external investment support services as well as expenses incurred to manage agency operations. Expenses are paid from investment earnings of the funds SWIB manages. The majority of expenses are fees paid to outside advisors and fund managers, which were $207.6 million in calendar year 2010 and represented about 85% of total costs. Costs of other external support services include custodial banking services, investment research, and legal services.

Agency operating expenses for staff compensation, overhead and equipment were $27.7 million in calendar year 2010 and represented about 11.3% of total costs.

SWIB participates in an annual independent review of costs which compares SWIB to other investment managers and public pension fund peers. The 2010 analysis provided by CEM Benchmarking, Inc. concluded that SWIB's total cost to manage the Core Fund was 38¢ per $100 managed. The CEM report indicated that this amount was **less than the medium costs** incurred by peers with a similar mix of assets.

The cost to manage the Core Fund was $237.1 million in 2010. This represents 96.7% of SWIB's total cost of management. In addition to the Core Fund, SWIB manages seven other funds. SWIB's costs to manage all assets were $245.2 million, or 30.9¢ per $100 managed in 2010.

Total Management Costs

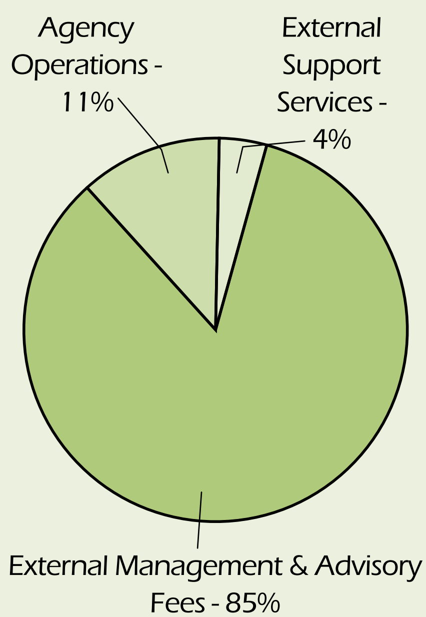
Calendar Year Ended 12/31/2010	
External Management & Advisory	$207,587,100
Agency Operations	27,744,700
Consulting*	4,319,900
Custodial Banking	587,200
Investment Research and Data Services	5,005,700
Total	$245,244,600

* Includes legal services

[1] CEM Benchmarking, Inc. is a Toronto-based firm that provides cost measurement and analysis of corporate and public pension funds.

Management Costs

Calendar year ended 12/31/2010



- Costs for managing all assets were 30.9¢ per $100 under management.
- All management costs are funded with earnings from the assets.
- Total costs for managing all funds for the calendar year ending December 31, 2010, were $245.2 million.
- According to CEM[1], SWIB's costs for the Core Fund in calendar year 2010 were considered low cost compared to its peers based on the mix of assets managed.

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.


James Senty


Thomas Boldt


Bruce Colburn


David Geertsen


Mike Huebsch


David Kruger


William Levit, Jr.


Wayne McCaffery


David Stella

Public Members*

1. James Senty, Board Chair, President of Midwest Gas Companies, La Crosse
2. Thomas Boldt, Board Vice Chair, President of the Boldt Group,Inc. and CEO of The Boldt Co., Appleton
3. Bruce Colburn, Director, Central States Property Services Division, Services Employees International Union
4. David Geertsen, Local Government, Finance Director, Kenosha County
5. David Kruger, CEO and Owner of the Fiore Companies, Madison
6. William Levit, Jr., Attorney, Godfrey & Kahn S.C., Milwaukee

WRS Participant Members*

1. Wayne McCaffery, Educator, Retired Teacher, Stevens Point
2. David Stella, Board Secretary, Non-educator, Secretary, Department of Employee Trust Funds

Department of Administration

1. Mike Huebsch, Department Secretary

*Appointed Board members serve six-year terms.

SWIB has 125.25 authorized positions. The executive director oversees the staff. Portfolio managers, analysts and traders are responsible for daily investment decisions made within the parameters of the investment policy. Investment managers are supported by a well-trained staff with legal, technical, accounting and administrative expertise.

There are three investment types — public equities (stocks), public fixed income, and private markets. The analytics and fund management group is responsible for a wide range of externally managed strategies and investment risk management.

Public stock investments are invested in publicly traded equity securities, including convertible bonds, common stocks, preferred stocks and Exchange Traded Funds (ETFs). Stock portfolios are invested in the U.S., other developed countries and emerging market countries.

Fixed income investments include fixed income obligations of governments, government-related entities, and corporations around the world, primarily in developed markets.

Private market investments include real estate, private equity and private debt investments. Real estate investments are real estate related assets with SWIB as a sole direct owner, or through a variety of investment vehicles and structures, including joint ventures and partnerships. Private equity investments are made on a global basis through limited partnership or other fund vehicles, and direct investments through strategic partnerships or as co-investments. Private debt investments are primarily private loans negotiated by SWIB directly or as part of an investor group that includes banks or other institutional investors.

The analytics and fund management group has a principle role in the development of external management strategies and oversees their execution. The group also is responsible for achieving performance targets within acceptable risk characteristics.

A majority of the investment staff holds or is pursuing the Chartered Financial Analyst (CFA) designation and the Board adheres to CFA standards. Senior investment staff experience ranges between 11 and 35 years.

Senior Staff

Keith S. Bozarth
Executive Director

David C. Villa
Chief Investment Officer

Cindy Klimke-Armatoski
Chief Financial Officer

Lori Wersal
Chief Operating Officer

L. Jane Hamblen
Chief Legal Counsel

Ronald Mensink
Managing Director Analytics and Fund Management

Charles Carpenter
Managing Director Private Markets

William McCorkle
Managing Director Public Equities

Brandon Duck
Enterprise Risk and Compliance Director

Ledell Zellers
Human Resources Director

Jim Knoeck
Internal Audit Director

Wisconsin Retirement System

- WRS includes current and former employees of state agencies, the university system, school districts and most local governments.
- 9th largest public pension fund in the U.S.
- 30th largest pension fund in the world.
- Comprised of the Core Fund, a balanced portfolio, and the Variable Fund, a stock fund.
- Core Fund investment earnings are spread over five years to smooth the effect on participants' accounts.
- Variable Fund participant accounts fully reflect investment earnings as of the end of the calendar year.
- About 110,000 people participate in the Variable Fund.

The Wisconsin Retirement System (WRS) makes up 94% of the assets managed by SWIB. As a fiduciary for the funds, SWIB is dedicated to earning the best possible rate of return within acceptable risk parameters consistent with "prudent investor" standards. As of June 30, 2011, the total assets of the WRS were $82.5 billion.

The WRS includes the pension funds available through most public employers in Wisconsin other than the City of Milwaukee and Milwaukee County. Contributions made to the WRS by participating employees and their employers are invested by the Investment Board to finance retirement benefits.

More than 572,000 people participate in the WRS. Over $3.9 billion in benefits were paid in 2010 to 156,000 annuitants in the WRS. Investment earnings account for the majority of the annuities paid, thus lowering the costs paid by taxpayers and employees.

The WRS is comprised of two trust funds. The larger of the two is the Core Fund, which is a broadly diversified portfolio of stocks, bonds, real estate and other holdings. The second fund is the Variable Fund, which is invested in stocks.

The process for determining the effect of investment returns on employee accounts ("effective rate") and changes in benefits for retirees differs between the Core and Variable Funds.

The Department of Employee Trust Funds (ETF) is responsible for administering the benefits of the WRS. Most employees who retire receive a pension annuity initially determined by a formula (calculated by ETF) using years of service, salary and job type.

ETF computes benefit changes based on the December 31 annual rate of return for each of the two trust funds to determine the impact on participants.

Annualized Performance Ending 6/30/11

Retirement Funds	1-Year Return	5-Year Return	10-Year Return
Core Fund	22.9%	5.2%	6.4%
Benchmark	22.1%	5.2%	6.2%
Variable Fund	32.1%	3.5%	4.1%
Benchmark	31.7%	3.4%	4.2%
S&P 500	30.7%	2.9%	2.7%

The State Investment Fund (SIF) is a pool of cash balances of various state and local governmental units. The objectives of this fund are to provide safety of principal, liquidity and a reasonable rate of return. SWIB's Public Fixed Income Group manages the State Investment Fund.

The State Investment Fund includes retirement trust funds' cash balances pending longer-term investment by SWIB's other investment groups. This fund also functions as the State's cash management fund. By pooling the idle cash balances of all state funds, it provides the State's general fund with the needed liquidity for operating expenses.

Over 1,000 local units of government also deposit revenues in the SIF until they are needed. These funds are commingled in the Local Government Investment Pool (LGIP). The cash balances available for investment vary daily as cash is accumulated or withdrawn from the agency funds. The SIF is invested primarily in obligations of the U.S. government and its agencies, and high quality commercial bank and corporate debt obligations. Net assets of the State Investment Fund as of June 30, 2011, were $6.5 billion.

SIF Portfolio Characteristics as of June 30, 2011

- 99% of Fund invested in U.S. government securities and U.S. government agency securities.
- Average maturity 73 days versus iMoneyNet* at 41 days.
- Short-term liquidity (0 - 3 months) equal to 144% of LGIP and 54% of SIF.
- 31% of portfolio assets change rates overnight, 54% in three months.

Portfolio Rankings

- SIF provided a superior rate of return, ranking 1st out of 188 government money market funds.
- SIF also ranked 30th out of 1,080 money market funds (top 3%).*

* iMoneyNet All Taxable Money Market Index
Source: The iMoneyNet financial company money fund statistics.

State Investment Fund Annualized Time-Weighted Returns

Fiscal Year^	Return
2001	5.97%
2002	2.50%
2003	1.49%
2004	1.03%
2005	2.08%
2006	4.23%
2007	5.40%
2008	4.02%
2009	1.33%
2010	0.25%
2011	0.19%

^Ended June 30

To achieve its objectives, the SIF adheres to rigorous quality standards, pays careful attention to maturity schedules and places emphasis on high liquidity. Enhanced return is sought through intensive portfolio management, which considers probable changes in the general structure of interest rates.

Earnings for the SIF are calculated and distributed monthly based on the participant's average daily balance as a percent of the total pool.

Various Funds

Contact Information

Injured Patients and Families Compensation Fund
(608) 266-3585 - Madison
(800)236-8517 - Toll Free Statewide
http://oci.wi.gov/pcf.htm

State Life Insurance Fund
(608) 266-0107 - Madison
(800) 562-5558 - Toll Free
http://oci.wi.gov/slif.htm

Local Government Property Insurance Fund
(608) 266-3585 - Madison
(800) 236-8517 - Toll Free
http://oci.wi.gov/lgpif.htm

State Historical Society
(608) 264-6400
www.wisconsinhistory.org

EdVest
(608) 264-7899 - Madison
(888) 338-3789 - Toll Free
www.wellsfargoadvantagefunds.com/wfweb/wf/ev/index.jsp

SWIB manages five funds for various state agencies. These funds represent about 1% of the total assets managed. Each is invested to meet specific objectives.

Injured Patients and Families Compensation Fund

The Fund was created by statute in 1975 to provide excess medical malpractice coverage for Wisconsin health care providers. Health care providers obtain primary medical malpractice insurance from private insurance companies in an amount required by law. Coverage in excess of the primary insurance is purchased by the Fund. The program is administered by the Office of the Commissioner of Insurance.

State Life Insurance Fund

The Fund is a state-sponsored life insurance program for the residents of Wisconsin. The applicant must be a state resident at the time of application for coverage through the Fund. The Fund operates on a nonprofit basis and receives no subsidies from the state. The program is administered by the Office of the Commissioner of Insurance.

Local Government Property Insurance Fund

The purpose of the Fund is to make reasonably priced property insurance available for tax-supported local government property such as government buildings, schools, libraries, and motor vehicles. The Fund provides policy and claim service to the policyholders. The program is administered by the Office of the Commissioner of Insurance.

Historical Society Trust Fund

The State Historical Society of Wisconsin is both a state agency and a private membership organization. SWIB is responsible for investing the endowment funds of the Historical Society to help with its goal to promote a wider appreciation of the American heritage, with an emphasis on the collection, advancement, and dissemination of knowledge of the history of Wisconsin and the region.

EdVest Tuition Trust Fund

The Fund was created to invest the funds for EdVest Wisconsin, a state-sponsored way to save for the cost of college expenses. This Fund is currently closed to new participants. Other options are administered through the Office of the State Treasurer.

Corporate Governance

SWIB's Corporate Governance Program was implemented in 1986 to protect SWIB's long-term investment earnings by exercising its rights as a shareholder. As a way to carry out SWIB's fiduciary obligation to the trust fund beneficiaries, SWIB works with companies and their board of directors to enhance value through engagement.

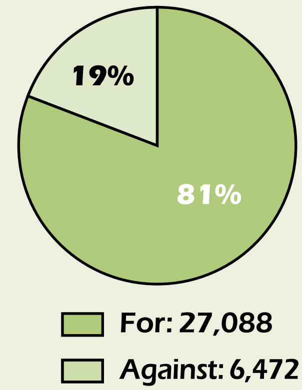
Corporate governance is the relationship between the shareholders, directors and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law. Each year, SWIB identifies key issues based on current investments and national trends. SWIB engages companies within its portfolios that could benefit from improvements in the identified areas. SWIB works with company management, corporate boards and shareholders to make positive changes.

SWIB actively participates in several industry groups such as Council of Institutional Investors and the Broadridge Investors Working Group to support and enhance corporate governance.

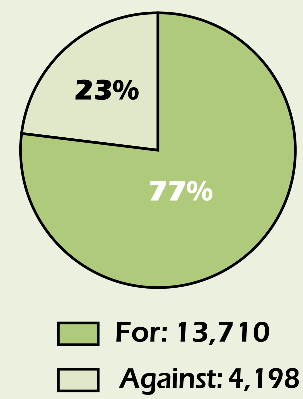
SWIB takes a very constructive role in strengthening corporate governance by directly engaging company management to discuss specific concerns that affect shareholder value. Each year, SWIB's Board of Trustees approve proxy voting guidelines, which provide direction for voting thousands of proxies. Since investments are global, so are the votes and engagements. The top three recurring themes are: Board structure, compensation, and disclosure of roles and responsibilities of board and management. Environmental and social concerns also continue to grow as they integrate more with investment decisions.

SWIB cast 33,560 votes on company ballots in 2010 around the world. The majority of those votes are management proposals, with the bulk of those for individual directors. SWIB believes directors should be accountable for their actions on the board and various committees. Overall, SWIB supports 77% of directors placed on the ballot.

Total Proxy Votes Calendar Year 2010



Election of Corporate Directors Calendar Year 2010



Total Management Proposals Calendar Year 2010

Financial Section

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Legislative Audit Bureau

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Joe Chrisman
State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE RETIREMENT INVESTMENT TRUST FUNDS

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

Members of the Board of Trustees and
Mr. Keith Bozarth, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying financial statements for the Retirement Investment Trust Funds (Core Retirement Investment Trust Fund and Variable Retirement Investment Trust Fund) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements as of and for the year ended June 30, 2010, are being presented for informational purposes only. These financial statements were audited by us and we expressed an unqualified opinion on them in our report dated November 29, 2010, but we have not performed any auditing procedures since that date.

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*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only the investment activity of the Retirement Investment Trust Funds attributable to the transactions of the Investment Board. The financial statements do not purport to, and do not, present fairly the financial activity of the Retirement Investment Trust Funds attributable to the Department of Employee Trust Funds. Further, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective net investment assets of each of the Retirement Investment Trust Funds as of

June 30, 2011, and the respective changes in net investment assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, 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. We have reviewed the procedures used by the Investment Board in arriving at estimates of the values of such investments and have inspected underlying documentation, and, given the circumstances, we believe the procedures are reasonable and the documentation appropriate. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2011, on our consideration of the Investment Board's internal control over financial reporting for the Retirement Investment Trust 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, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Retirement Investment Trust 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

LEGISLATIVE AUDIT BUREAU

December 5, 2011 by Joe Chrisman

Joe Chrisman
State Auditor

Retirement Funds

Management Discussion and Analysis

The State of Wisconsin Retirement Funds' narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2011 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

Following this section are the financial statements and footnotes which reflect only the investment activity of the 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 Receipts (Disbursements)" in the Statement of Changes in Net Investment Assets.

The **Statement of Net Investment Assets** provides information on the financial position of the funds at year-end. It indicates the investment assets available for payment of future benefits and any current liabilities related to the investments.

The **Statement of Changes in Net Investment Assets** presents the results of the investing activities during the year. The changes reflected on this statement support the overall change that has occurred to the prior year's net investment assets on the Statement of Net Investment Assets.

The **Notes to the Financial Statements** offer additional discussion that is essential to the full understanding of the data presented in the financial statements. The notes give 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 Trust Funds

Approximately 572,000 people participate in the Wisconsin Retirement System (WRS), including current and former employees of Wisconsin's state agencies and most local governments in Wisconsin. Contributions made to the WRS by these employees and their employers are invested by the State of Wisconsin Investment Board to finance retirement and other benefits. The WRS is comprised of the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) collectively, whose combined net investment assets total $82.5 billion as of June 30, 2011.

Core Retirement Investment Trust Fund

The larger of the two trust funds comprising the WRS is the Core Fund with $76.7 billion of net assets. All WRS members have invested at least half — if not all — of their pension account in the Core Fund. It is a fully diversified, balanced fund invested for the long-term needs of the WRS. Diversification helps to stabilize the effects of market changes. The basic investment objective of this trust fund is to achieve 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 statements presented here reflect the investment activity of these funds, as well as net cash flows related to the Department of Employee Trust Funds which include benefit payments, contribution receipts and transfers to/from the Variable Fund.

The Core Fund net investment income was $14.3

billion, due to a total fund investment return of 22.9%. Core Fund asset class returns for fiscal year 2011 were: public equities 31.7%, fixed income 7.1%, treasury inflation protected securities 9.3%, real estate 22.2%, private equity 23.7% and multi asset strategies 23.8%.

The invested securities lending collateral and the securities lending collateral liability decreased by 43.5% compared to the previous year-end. These balances represent the cash collateral held for securities lending transactions in separately managed accounts. The decrease in cash collateral was largely due to a change in securities lending collateral reinvestment practices which served to lower the credit and liquidity risk of the collateral reinvestment pools. Securities lending profits on loans collateralized with cash are earned when the reinvestment earnings exceed the cost to lend. SWIB's more conservative approach to reinvestment practices made some potential securities loans collateralized with cash unprofitable, which had the effect of reducing the overall cash collateral loan volume.

Expenses increased by approximately 5.5% when comparing fiscal year 2011 to 2010. The majority of the change can be attributed to fees incurred

Core Retirement Investment Trust Fund
Condensed Financial Information

Fiscal Year Ended:	2011	2010	% Change
Cash and Cash Equivalents	$2,298,440,567	$2,327,289,323	(1.2)
Receivables	576,755,692	554,887,566	3.9
Invested Securities Lending Collateral	2,805,343,492	4,967,590,150	(43.5)
Prepaid Expenses	7,421,337	10,837,217	(31.5)
Investments	74,416,384,371	62,306,127,743	19.4
Total Investment Assets	$80,104,345,459	$70,166,731,999	14.2
Payables	$552,187,331	$562,641,134	(1.9)
Securities Lending Collateral Liability	2,805,343,492	4,967,590,150	(43.5)
Other Liabilities	20,478,710	18,256,397	12.2
Total Investment Liabilities	$3,378,009,533	$5,548,487,681	(39.1)
Net Investment Assets Held in Trust	$76,726,335,926	$64,618,244,318	18.7
Investment Income	$14,566,184,480	$7,886,388,201	84.7
Investment Expense	(246,490,151)	(233,560,554)	5.5
Net Investment Income	$14,319,694,329	$7,652,827,647	87.1
Net Disbursements - Department of Employee Trust Funds	($2,211,602,721)	($2,249,066,115)	(1.7)
Net Increase in Investment Assets Held in Trust	$12,108,091,608	$5,403,761,532	124.1

on private market assets. Such fees increased by $7.5 million over the prior fiscal year. This asset type generally has higher fees at the beginning of the investment's life because management fees are based on committed assets, rather than assets under management. During the fiscal year, SWIB committed to funding an additional $1.9 billion, contributing to the increase in fees.

Fees accruing to external managers, including base and performance fees, increased by $3.9 million over the prior period. Base management fees, which are generally assessed as a percentage of assets managed, increased by $1.9 million compared to fiscal year 2010. A large portion of the increase in base fees is attributable to multi asset strategies, including hedge funds which were introduced to the Core Fund's asset mix in fiscal year 2011. The other component of fees accruing to external managers, performance-based fees, increased by $2.0 million in fiscal year 2011. Performance-based fees are earned by certain external managers when the returns they generated for SWIB exceed their benchmarks. After fees, these portfolios generated $55.9 million in excess of their benchmark returns for the fiscal year ended June 30, 2011. Externally managed strategies are typically higher-cost, where SWIB seeks to capitalize on external managers' expertise in specialized markets or products. In strategies where it is prudent to capitalize on SWIB's cost-effective internal investment management, SWIB continues to reduce the share of the Core Fund's assets managed externally. At the end of fiscal year 2011, 51.1% of the Core Fund assets were managed internally, compared to 43.2% the prior year.

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 stock fund. Approximately 19% of WRS members participate in the Fund, which totaled $5.8 billion at the end of fiscal year 2011. Employees who choose this fund accept a higher degree of market risk for the potential of greater long-term returns. The investment objective of the Variable Fund is to exceed similar equity-oriented portfolios over a full market cycle.

The Variable Fund net investment income was $1.4 billion, which was the result of a total fund investment return of 32.1%. Equity portfolios matched this return of 32.1% for the fiscal year ended June 30, 2011. The Variable Fund also contains an equitized cash component, whereby futures contracts are used to earn equity returns on cash balances. This category was initiated for the purpose of meeting the liquidity needs of the Variable Fund, assuring minimal disruption to other investment strategies when the fund needs to raise cash to make benefit payments. This strategy also earned 32.1% for the Variable Fund for the year ended June 30, 2011.

Cash and cash equivalent balances decreased by 5.9% over the prior fiscal year-end. This decrease can be attributed to changes in securitized cash positions and the use of futures contracts to execute asset class exposure management strategies within the Variable Fund. These types of strategies require cash, thus contributing to cash balance fluctuations.

Receivables and payables decreased significantly over the previous fiscal year due to a reduction in pending investment sales and purchases. The 2010 balances were larger in magnitude due to a rebalancing of equity assets which transpired over the 2010 fiscal year-end.

The Variable Fund's invested securities lending collateral decreased by 27.9% over the prior fiscal

Variable Retirement Investment Trust Fund
Condensed Financial Information

Fiscal Year Ended:	2011	2010	% Change
Cash and Cash Equivalents	$258,861,444	$275,077,418	(5.9)
Receivables	20,789,268	49,812,373	(58.3)
Invested Securities Lending Collateral	277,675,120	385,136,468	(27.9)
Investments	5,493,260,176	4,251,424,104	29.2
Total Investment Assets	$6,050,586,008	$4,961,450,363	22.0
Payables	$13,669,338	$44,445,623	(69.2)
Securities Lending Collateral Liability	277,675,120	385,136,468	(27.9)
Other Liabilities	1,286	193,541	(99.3)
Total Investment Liabilities	$291,345,744	$429,775,632	(32.2)
Net Investment Assets Held in Trust	$5,759,240,264	$4,531,674,731	27.1
Investment Income	$1,435,895,184	$612,972,121	134.3
Investment Expense	(7,214,459)	(7,204,509)	0.1
Net Investment Income	$1,428,680,725	$605,767,612	135.8
Net Disbursements - Department of Employee Trust Funds	($201,115,192)	($199,724,859)	0.7
Net Increase in Investment Assets Held in Trust	$1,227,565,533	$406,042,753	202.3

year end. As was the case with the Core Fund, the decrease in cash collateral was largely due to a change in securities lending collateral reinvestment practices which served to lower the credit and liquidity risk of the collateral reinvestment pools. Securities lending profits on loans collateralized with cash are earned when the reinvestment earnings exceed the cost to lend. SWIB's more conservative approach to reinvestment practices made some potential securities loans collateralized with cash unprofitable, which had the effect of reducing the overall cash collateral loan volume.

Retirement Funds
Statement of Net Investment Assets
as of June 30, 2011

	Core Retirement Investment Trust Fund		Variable Retirement Investment Trust Fund	
Assets				
Cash and Cash Equivalents	$	2,298,440,567	$	258,861,444
Due from Other Funds		1,286		-
Receivables:				
Interest & Dividends		232,054,686		9,296,010
Securities Lending Income		2,623,195		244,003
Investment Sales		342,076,525		11,249,255
Prepaid Expenses		7,421,337		-
Invested Securities Lending Collateral		2,805,343,492		277,675,120
Investments (at fair value):				
Stocks		41,939,015,528		5,469,523,452
Fixed Income		22,327,022,072		-
Limited Partnerships		8,195,684,374		-
Multi Asset		1,215,190,146		-
Real Estate		390,777,761		-
Preferred Securities		201,387,393		14,499,441
Convertible Securities		79,170,678		-
Commercial Mortgages		22,541,314		-
Foreign Currency Contracts		9,879,143		1,114,366
Option Contracts		(143,072)		(18,886)
Financial Futures Contracts		35,859,034		8,141,803
Total Investment Assets	$	80,104,345,459	$	6,050,586,008
Liabilities				
Payable for Investments Purchased	$	388,925,920	$	12,074,104
Obligations Under Reverse Repurchase Agreements		134,881,823		-
Collateral Due to Counterparty		50,000		-
Accounts Payable		28,329,588		1,595,234
Due to Other Funds		20,478,710		1,286
Securities Lending Collateral Liability		2,805,343,492		277,675,120
Total Investment Liabilities	$	3,378,009,533	$	291,345,744
Net Investment Assets Held in Trust	$	76,726,335,926	$	5,759,240,264

The accompanying notes are an integral part of this statement.

Retirement Funds
Statement of Changes in Net Investment Assets
For Fiscal Year Ended June 30, 2011

	Core Retirement Investment Trust Fund		Variable Retirement Investment Trust Fund	
Additions:				
Investment Income:				
Net Increase in the Fair Value of Investments	$	12,943,388,710	$	1,330,975,553
Interest		656,870,813		443,137
Dividends		855,823,396		103,118,536
Securities Lending Commissions		13,319,721		1,258,814
Other Income		98,870,600		-
Less:				
Investment Expense		246,490,151		7,214,459
Securities Lending Rebates		(198,402)		(322,191)
Securities Lending Fees		2,287,162		223,047
Net Investment Income	$	14,319,694,329	$	1,428,680,725
Deductions:				
Net Receipts (Disbursements) - Department of Employee Trust Funds		(2,211,602,721)		(201,115,192)
Net Increase (Decrease) in Investment Assets Held in Trust	$	12,108,091,608	$	1,227,565,533
Net Investment Assets Held in Trust:				
Beginning of Year		64,618,244,318		4,531,674,731
End of Year	$	76,726,335,926	$	5,759,240,264

The accompanying notes are an integral part of this statement.

Retirement Funds
Statement of Net Investment Assets
Comparative Amounts as of June 30, 2010

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Assets		
Cash and Cash Equivalents	$ 2,327,289,323	$ 275,077,418
Due from Other Funds	193,541	40
Receivables:		
Interest & Dividends	203,178,915	6,673,155
Securities Lending Income	2,853,566	691,580
Investment Sales	348,661,544	42,447,598
Prepaid Expenses	10,837,217	-
Invested Securities Lending Collateral	4,967,590,150	385,136,468
Investments (at fair value):		
Stocks	33,605,683,588	4,257,481,703
Fixed Income	20,771,407,598	60
Limited Partnerships	6,446,075,085	-
Multi Asset	1,073,263,812	-
Real Estate	337,274,292	-
Preferred Securities	88,533,280	6,660,991
Convertible Securities	68,290,865	-
Commercial Mortgages	44,840,896	-
Foreign Currency Contracts	(1,132,901)	469,695
Option Contracts	(3,366,840)	(536,728)
Financial Futures Contracts	(124,741,932)	(12,651,617)
Total Investment Assets	$ 70,166,731,999	$ 4,961,450,363
Liabilities		
Payable for Investments Purchased	$ 420,848,415	$ 42,722,332
Obligations Under Reverse Repurchase Agreements	107,529,792	-
Accounts Payable	34,262,927	1,723,291
Due to Other Funds	18,256,397	193,541
Securities Lending Collateral Liability	4,967,590,150	385,136,468
Total Investment Liabilities	$ 5,548,487,681	$ 429,775,632
Net Investment Assets Held in Trust	$ 64,618,244,318	$ 4,531,674,731

The accompanying notes are an integral part of this statement.

Retirement Funds

Statement of Changes in Net Investment Assets
Comparative Amounts for Fiscal Year Ended June 30, 2010

	Core Retirement Investment Trust Fund	Variable Retirement Investment Trust Fund
Additions:		
Investment Income:		
Net Increase in the Fair Value of Investments	$ 6,613,943,688	$ 538,073,075
Interest	569,984,117	443,736
Dividends	604,096,127	72,671,246
Securities Lending Commissions	20,130,065	1,634,801
Other Income	79,454,019	-
Less:		
Investment Expense	233,560,554	7,204,509
Securities Lending Rebates	(357,781)	(304,342)
Securities Lending Fees	1,577,596	155,079
Net Investment Income	$ 7,652,827,647	$ 605,767,612
Deductions:		
Net Receipts (Disbursements) - Department of Employee Trust Funds	(2,249,066,115)	(199,724,859)
Net Increase (Decrease) in Investment Assets Held in Trust	$ 5,403,761,532	$ 406,042,753
Net Investment Assets Held in Trust:		
Beginning of Year	59,214,482,786	4,125,631,978
End of Year	$ 64,618,244,318	$ 4,531,674,731

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

1. Description of Funds

The State of Wisconsin Investment Board (SWIB) has control of the investment and collection of principal, interest, and dividends of all monies invested by the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund). The Core Fund and Variable Fund collectively represent the Retirement Funds (Retirement Funds). 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 the "Investment Expense" account included in the Statement of Changes in Net Investment Assets. This account 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 highly diversified portfolio of securities. SWIB is required to make investment management decisions for the trust funds solely for the benefit of the members of the Wisconsin Retirement System (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 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 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 retirement fund contributions are invested in this trust fund unless participants have elected to have half of their contributions invested in the Variable Fund. In addition to the retirement contributions, the assets of various other benefit programs are invested as part of the Core Fund as listed in the table entitled **Other Benefit Programs Within the Core Fund**.

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

Other Benefit Programs Within the Core Fund

June 30, 2011, (Dollars in Millions)

Programs	
Accumulated Sick Leave	$2,116.5
Duty Disability	436.1
Long Term Disability Insurance	239.9
Active Employee Health Insurance	281.5
Milwaukee Retirement System	148.8
Income Continuation Insurance	92.1
Police and Firefighters Pension Group	31.9
State Retiree Health Insurance	21.1
Total	$3,367.9

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 also consists primarily of the assets invested for the WRS. In addition, the Milwaukee Retirement Systems had $16.1 million invested in the Variable Fund as of June 30, 2011.

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 program 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 Assets at fair value as prescribed by GASB and per Wisconsin Statutes s. 25.17(14). Monthly, the investments are adjusted to fair value, with unrealized gains and losses reflected in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in the Fair Value of Investments."

Generally, fair value information represents actual bid prices or the quoted yield equivalent for securities of comparable maturity, quality and type as obtained from one or more major investment brokers. If quoted market prices are not available, a variety of third party pricing methods are used, including appraisals, pricing models and other methods deemed acceptable by industry standards.

Privately held debt, which is included in the Fixed Income category on the Statement of Net Investment Assets, 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 is priced by SWIB management, usually at cost.

Limited partnerships' fair value is estimated based on periodic reports from the limited partnerships' management. Annually, the reports are audited by independent auditors.

Real estate valuations are based on generally accepted industry standards and are most typically based on discounted cash flow and comparable sales methodologies. The basis for valuing direct real estate holdings is independent appraisals, which are prepared once every three years. In years when appraisals are not performed, the asset managers are responsible for providing market valuations. Annually, direct real estate holdings, including valuation assumptions, are audited by independent auditors.

Commercial mortgages are priced via a matrix pricing system. The traditional discounted cash flow methodology is employed, where discount rates are developed based on market derived spreads over a base Treasury or London inter-bank offering rate yield. Spreads incorporate such factors as coupon rates, term to maturity, agency ratings, and sector/industry information.

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.

Derivative financial instruments are reported at fair value in the Statement of Net Investment Assets. The instruments are marked to fair value at least monthly, with valuation changes recognized in income. Gains and losses are recorded in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in Fair Value of Investments" 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.

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.

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 spell out 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 three of the main statistical rating organizations on debt securities held by the Core Fund and the Variable Fund as of June 30, 2011. Included in this table are fixed income securities including certain short term securities classified as cash equivalents on the Statement of Net Investment Assets. Also included are investments held in the Retirement Funds securities lending collateral reinvestment pools, which are managed by SWIB's securities custodian. See Note 4 for additional information regarding the

Credit Quality Distribution - June 30, 2011

Rating	Fair Value	% of Total
P-1 or A-1	$ 455,471,453	2 %
UST	4,525,582,368	16
AGY	602,399,281	2
AAA/Aaa	1,901,974,352	6
AA/Aa	3,003,768,148	11
A	1,812,973,669	6
BBB/Baa	1,580,825,070	6
BB/Ba	448,237,792	2
B	635,734,154	2
CCC/Caa	230,161,937	1
CC/Ca	8,313,724	0
C	10,292,901	0
D	3,935,400	0
Collective Trust Funds	10,295,019,201	36
Not Rated	2,837,469,963	10
Total	$ 28,352,159,413	100%

UST - United States Treasury obligation
AGY - Obligations of the United States federal government or an agency of the federal government

securities lending program. The table also includes SWIB's investment in externally managed collective trust funds which have not been assigned a rating. Although the funds themselves do not carry 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 Collective Trust Funds** presents the aggregated credit ratings for the underlying investments within the Core and Variable Funds.

United States Treasury obligations (UST) and obligations explicitly guaranteed by the U.S. government (AGY) generally are not considered to have credit risk, and as of June 30, 2011 carried a

Credit Quality Breakdown of Collective Trust Funds*- June 30, 2011

Rating	Fair Value	% of Total
P-1 or A-1	$ 452,770,954	4 %
AAA/Aaa	5,858,786,746	57
AA/Aa	638,576,837	6
A	1,322,116,459	13
BBB/Baa	1,308,956,155	13
BB/Ba	244,325,412	2
B	170,834,631	2
CCC/Caa	51,775,060	1
CC/Ca	741,956	0
Not Rated	246,134,991	2
Total Collective Trust Funds	$ 10,295,019,201	100 %

*reflects aggregated ratings of underlying investments as assigned by nationally recognized statistical rating organizations

"AAA" rating. However, subsequent to June 30, 2011, certain credit rating agencies downgraded United States government debt credit ratings. See Note 10 for additional information regarding subsequent events relating to U.S. credit ratings.

SWIB had $134.9 million reverse repurchase agreements outstanding at June 30, 2011. Investment guidelines permit certain portfolios to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase the exact 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 dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities or provide cash of equal value, SWIB would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. This credit exposure at June 30, 2011 was $2.7 million.

Since the proceeds from reverse repurchase agreements are used for short term financings, the maturities of the purchases made with the proceeds of reverse repurchase agreements are not matched to the maturities of the agreements. The repurchase agreement transactions as of June 30, 2011, had underlying collateral with fair values of approximately 102% of the cost of the repurchase agreements. The agreed-upon yields were between 0.09% and 0.16% with maturity dates through July 26, 2011.

The liabilities resulting from reverse repurchase agreements are reported as "Obligations Under Reverse Repurchase Agreements" and the underlying assets used as collateral are reported in the "Investments" section on the Statement of Net Investment Assets. Any interest cost associated with the reverse repurchase agreements is reported as "Investment Expense" on the Statement of Changes in Net Investment Assets.

B. Custodial Credit Risk

The Retirement Funds do not have a deposit or investment policy specifically related to 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. Bank deposits as of June 30, 2011 were $224.1 million. A portion of the deposits, totaling $20.7 million, are covered by federal depository insurance. The remaining uninsured and uncollateralized deposits, totaling $203.4 million, were held in foreign currencies in SWIB's custodian's nominee name or in uninsured margin accounts. In addition, SWIB held time deposits with foreign financial institutions with a fair value of $28.8 million, all of which were uncollateralized and uninsured.

Investments — Custodial credit risk for investments is the risk that, in the event of the 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. As of June 30, 2011 the Retirement Funds held eleven repurchase agreements totaling $1.6 billion. Ten of these repurchase agreements, representing all but a fraction of the total repurchase agreement value, were tri-party agreements held in SWIB's securities lending cash collateral reinvestment portfolios, which are managed by SWIB's custodian. The underlying securities for these repurchase agreements were held by the counterparty's agent, not in SWIB's name.

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 assets.

D. Interest Rate Risk

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.

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 use the weighted average maturity (to next reset) to analyze interest rate risk. 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 interest rate exposure for the Core and Variable Fund assets. Weighted average maturity, where reset dates are assumed to be the effective maturity date for

Interest Rate Sensitivity by Investment Type
June 30, 2011

Investment Type	Fair Value*	Modified Duration (years)
Asset Backed Securities	$ 30,209,551	3.49
Asset Backed Securities	1,664,912	N/A
Certificates of Deposit	15,300,000	0.24
Commercial Paper	94,432,540	0.17
Corporate Bonds & Private Placements	5,057,645,960	4.88
Corporate Bonds & Private Placements	79,397,395	N/A
Futures Contracts	141,580,930	6.54
Futures Contracts	(6,258,063)	N/A
United States Government Agency	595,150,472	2.58
United States Government Agency	7,248,810	N/A
Commercial Mortgages	22,541,314	N/A
Municipal Bonds	93,824,621	11.01
Repurchase Agreements	749,613	0.12
Foreign Government/Agency Bonds	3,750,726,766	6.88
Foreign Government/Agency Bonds	3,226,110	N/A
United States Treasury Securities	4,525,582,368	7.33
	$ 14,413,023,298	
Intermediate and Long Term Collective Trust Funds		
Emerging Market Fixed Income	$ 305,886,275	6.75
Global Fixed Income	463,722,795	4.73
Domestic Fixed Income	7,547,138,461	5.24
	$ 8,316,747,531	
		Weighted Average Maturity (days)
Short Term Collective Trust Funds	$ 1,978,271,670	73
Securities Lending Collateral Pool		
Certificates of Deposit	$ 292,304,767	35
Commercial Paper	46,744,685	31
Corporate Bonds	1,150,653,298	27
Repurchase Agreements	2,289,737,031	2
	$ 3,779,439,781	
Total Fair Value	$ 28,487,482,280	

N/A = data not available
* Notional amount presented for futures contracts
Note: Values may not add due to rounding

Currency Exposures by Investment Type
June 30, 2011

Currency	Cash & Cash Equivalents	Stocks	Fixed Income	Limited Partnerships	Multi Asset	Real Estate
Argentina Peso	$ 451,308	$ -	$ 6,473,356	$ -	$ -	$ -
Australian Dollar	2,858,888	909,455,072	47,353,881	-	-	-
Brazilian Real	2,527,471	36,065,636	35,386,318	-	-	-
British Pound Sterling	22,939,861	3,151,458,911	239,592,075	96,219,554	-	-
Canadian Dollar	10,358,168	1,237,800,458	109,902,928	39,878,411	-	-
Chinese Renminbi	-	205,484	-	-	-	-
Colombian Peso	-	-	8,920,448	-	-	-
Czech Koruna	240,364	9,973,313	-	-	-	-
Danish Krone	357,798	116,882,233	32,815,808	-	-	-
Euro Currency Unit	71,977,169	4,008,061,764	1,325,082,435	875,434,147	-	-
Hong Kong Dollar	3,749,589	540,588,602	-	-	-	-
Hungarian Forint	557,422	287,262	5,092,328	-	-	-
Indian Rupee	557,996	140,426,493	3,829,941	-	-	-
Indonesian Rupiah	49,224	5,517,016	22,485,250	-	-	-
Israeli New Shekel	268,303	33,278,075	-	-	-	-
Japanese Yen	27,812,411	2,612,991,255	1,201,404,723	-	-	-
Malaysian Ringgit	2,989,228	22,719,964	47,995,729	-	-	-
Mexican New Peso	6,050,566	37,332,698	65,143,378	-	-	-
Moroccan Dirham	76,588	2,232,150	-	-	-	-
New Taiwan Dollar	97,861	208,346,310	-	-	-	-
New Turkish Lira	288	54,457,018	-	-	-	-
New Zealand Dollar	33,226	9,752,925	6,763,244	-	-	-
Norwegian Krone	1,555,774	93,451,832	17,522,324	-	-	-
Peruvian Nuevo Sol	175,752	76,369	7,708,334	-	-	-
Philippine Peso	109,563	1,855,455	9,524,392	-	-	-
Polish Zloty	207,561	49,779,649	39,879,682	-	-	-
South African Rand	1,212,238	35,833,118	27,196,750	-	-	-
Singapore Dollar	677,109	178,724,289	-	-	-	-
South Korean Won	50,653	305,707,052	18,401,626	-	-	-
Swedish Krona	1,497,359	276,809,680	36,149,446	12,418,614	-	-
Swiss Franc	7,844,896	1,110,267,481	-	-	-	-
Thai Baht	953,627	67,145,039	-	-	-	-
United States Dollar	2,389,063,749	32,151,056,376	19,001,705,327	7,171,733,648	1,215,190,146	390,777,761
Uruguayan Peso	-	-	10,692,348	-	-	-
Total	$2,557,302,011	$47,408,538,980	$22,327,022,072	$8,195,684,374	$1,215,190,146	$390,777,761

Note: Values may not add due to rounding

the security, is presented for the securities lending collateral reinvestment pool 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.

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.

Currency Exposures by Investment Type
June 30, 2011

Currency	Preferred Securities	Convertible Securities	Commercial Mortgages	Options	Financial Futures Contracts	Total
Argentina Peso	$ -	$ -	$ -	$ -	$ -	$ 6,924,664
Australian Dollar	-	-	-	-	668,689	960,336,530
Brazilian Real	79,319,992	-	-	-	-	153,299,416
British Pound Sterling	-	-	-	-	3,384,457	3,513,594,859
Canadian Dollar	-	-	-	-	682,119	1,398,622,084
Chinese Renminbi	-	-	-	-	-	205,484
Colombian Peso	-	-	-	-	-	8,920,448
Czech Koruna	-	-	-	-	-	10,213,677
Danish Krone	-	-	-	-	-	150,055,840
Euro Currency Unit	66,810,575	190,934	-	-	6,605,995	6,354,163,020
Hong Kong Dollar	-	-	-	-	-	544,338,192
Hungarian Forint	-	-	-	-	-	5,937,013
Indian Rupee	-	-	-	-	-	144,814,430
Indonesian Rupiah	-	-	-	-	-	28,051,490
Israeli New Shekel	-	-	-	-	-	33,546,378
Japanese Yen	-	123,762	-	-	5,575,808	3,847,907,958
Malaysian Ringgit	-	-	-	-	-	73,704,921
Mexican New Peso	-	-	-	-	-	108,526,643
Moroccan Dirham	-	-	-	-	-	2,308,739
New Taiwan Dollar	-	-	-	-	-	208,444,170
New Turkish Lira	-	-	-	-	-	54,457,306
New Zealand Dollar	-	-	-	-	-	16,549,396
Norwegian Krone	-	-	-	-	-	112,529,929
Peruvian Nuevo Sol	-	-	-	-	-	7,960,455
Philippine Peso	-	-	-	-	-	11,489,410
Polish Zloty	-	-	-	-	-	89,866,892
South African Rand	-	-	-	-	-	64,242,106
Singapore Dollar	-	-	-	-	-	179,401,398
South Korean Won	-	-	-	-	-	324,159,331
Swedish Krona	-	-	-	-	-	326,875,099
Swiss Franc	-	-	-	-	-	1,118,112,377
Thai Baht	-	-	-	-	-	68,098,665
United States Dollar	69,756,267	78,855,982	22,541,314	(161,958)	27,083,769	62,517,602,381
Uruguayan Peso	-	-	-	-	-	10,692,348
Total	$ 215,886,834	$ 79,170,678	$ 22,541,314	$ (161,958)	$ 44,000,837	$ 82,455,953,049

Note: Values may not add due to rounding

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. The Retirement Funds hold foreign currency denominated cash and securities invested directly in designated actively managed portfolios and indirectly through their investment in certain collective trust funds.

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.

As of June 30, 2011, the Core Fund and the Variable Fund assets were denominated in the currencies shown in the table entitled **Currency Exposures by Investment Type**.

4. Securities Lending Transactions

State statutes and Board policies permit SWIB to use investments of the Core and Variable 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 securities 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 102 percent 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 foreign securities are loaned against collateral denominated in a different currency, the borrower is required to place collateral totaling 105 percent 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.

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 obtain a money market rate of return. The investment guidelines include very high credit quality standards and also require a significant portion of the collateral investments to be invested in short-term securities. The earnings generated from the collateral investments, less the amount of rebates paid to the dealers and fees paid to agents, results in the gross earnings from lending activities, which are then split on a percentage basis with the lending agent.

In accordance with money market mutual fund industry standards, the cash collateral reinvestment pools are valued at amortized cost. The amortized or book value of a fund's assets and underlying fair market value of the assets may differ based on market conditions. The pools' market value relative to its amortized cost is expressed as net asset value (NAV) and is derived by dividing total market value by amortized cost. During the fiscal year ending June 30, 2011, the U.S. dollar pool's NAV dipped slightly below the typical money market fund market floor value of $.9950. However, both collateral pools ended the fiscal year with NAVs in excess of this floor. As of June 30, 2011, the U.S. dollar cash collateral reinvestment pool's NAV was $.9992 while the foreign reinvestment pool had a NAV of $.9999.

At fiscal year-end, the Retirement Funds had no credit risk exposure to borrowers because the amounts the Retirement Funds owed the borrowers exceeded the amounts the borrowers owed the Retirement Funds. 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 margin 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 can be terminated on demand by the Retirement Funds or the borrower. The average term of the loans is approximately two days which is shorter than the weighted average maturity/days to reset of 16 days for investments made with the U.S. dollar cash collateral and the weighted average maturity/days to reset of 6 days for investments made with foreign cash collateral at June 30, 2011.

Pledging or selling collateral securities cannot be done without a borrower default. The quantity or dollar value of securities lending contracts that the Retirement Funds may enter into is not restricted by statute.

The Retirement Funds also earn securities lending income as part of total net earnings from the investment in several collective trust funds. These earnings are automatically reinvested in the collective trust fund, and as a result the earnings are combined with all other earnings and gains and losses for these funds, and reported in the Statement of Changes in Net Investment Assets as "Net Increase (Decrease) in the Fair Value of Investments".

5. Derivative Financial Instruments

Derivatives may be used to implement investment strategies for the Core and Variable 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 in which they are to be used.

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

The following are the types of derivatives that SWIB uses in its dedicated account portfolios. SWIB also invests in derivative instruments indirectly through several collective trust funds. These derivatives have not been included in the following narrative.

A. Foreign Currency Spot and Forward Contracts

Currency exposure management is permitted through the use of exchange traded currency instruments and through the use of over-the-counter spot and forward contracts in foreign currencies. 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. Only the currencies of developed market countries in the MSCI World Index may be used to implement the currency overlay.

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. The net receivable or payable for spot and forward contracts is reflected as "Foreign Currency Contracts" on the Statement of Net Investment Assets. Losses may arise from future changes in the value of the underlying currency, or if the counterparties do not

Exposures Aggregated by Counterparty Credit Rating

June 30, 2011
Foreign Currency Spot and Forward Contracts

Counterparty Credit Rating	Payable	Receivable	Net Unrealized Gain/(Loss)
AAA	$ (51,387,438)	$ 52,677,024	$ 1,289,586
AA	(895,784,260)	901,814,618	6,030,358
A	(1,740,774,715)	1,744,448,280	3,673,565
Total	$(2,687,946,413)	$2,698,939,922	$ 10,993,509

perform under the terms of the contract. Spot and forward contracts are valued daily with the changes in fair value included in "Net Increase (or Decrease) in Fair Value of Investments" on the Statement of Changes in Net Investment Assets.

SWIB's policies for requiring collateral postings relating to spot and forward contracts vary by portfolio and counterparty and are intended to mitigate the credit risk associated with the counterparty. On June 30, 2011, SWIB's custodian held cash collateral posted by counterparties of foreign exchange contracts totaling $50,000, which is reflected as "Collateral Due to Counterparties" on the Statement of Net Investment Assets.

SWIB executes spot and forward contracts with various counterparties. Guidelines have been established which provide minimum credit ratings for counterparties. Additionally, policies have been established which seek to implement master netting arrangements with counterparties to over-the-counter derivative transactions. Such arrangements 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. The table entitled **Exposures Aggregated by Counterparty Credit Rating**, summarizes by credit rating the Core and Variable Funds' exposure to the nineteen counterparties with whom SWIB has entered into spot and forward contracts as of June 30, 2011.

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 Core and Variable Funds as of June 30, 2011, without respect to any collateral or netting arrangement.

B. Futures Contracts

A financial futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Upon entering into a futures contract, collateral is deposited with the broker, in SWIB's name, in accordance with initial margin requirements. 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. The resulting gain/loss is typically received/paid the following day until the contract expires.

The fair value of futures contracts represents the unrealized gain/loss on the contract and is reflected as "Financial Futures Contracts" on the Statement of Net Investment Assets. Gains and losses resulting

Foreign Currency Spot and Forward Contracts
June 30, 2011

	Notional (local currency)	Fair Value of Foreign Currency Contracts Receivable ($US)
Foreign Currency Contracts Sold		
Australian Dollar	218,501,815	$ 3,072,641
Brazilian Real	6,095,226	81,649
British Pound Sterling	99,315,896	(1,978,921)
Canadian Dollar	303,067,092	4,462,306
Danish Krone	102,421,245	180,203
Euro Currency Unit	221,094,664	2,012,317
Hong Kong Dollar	572,262,299	38,707
Indian Rupee	16,299,854	(1,330)
Indonesian Rupiah	3,269,524,778	(2,926)
Israeli New Shekel	16,240,189	58,513
Japanese Yen	34,189,604,647	752,648
Malaysian Ringgit	4,967,220	8,016
Mexican New Peso	206,334,000	173,627
New Turkish Lira	8,697,400	(422)
New Zealand Dollar	3,609,000	61,840
Norwegian Krone	78,087,028	182,963
Philippine Peso	366,639,000	(5,075)
Polish Zloty	13,532,984	(21,997)
South African Rand	21,661,000	5,548
Singapore Dollar	40,686,776	232,301
South Korean Won	2,625,600,351	(406)
Swedish Krona	657,345,518	1,532,307
Swiss Franc	34,755,395	(178,564)
		$ 10,665,945
	Notional (local currency)	**Fair Value of Foreign Currency Contracts Payable ($US)**
Foreign Currency Contracts Purchased		
Australian Dollar	(26,615,690)	$ (837,720)
Brazilian Real	(43,093,451)	(843,885)
British Pound Sterling	(215,500,725)	2,314,829
Canadian Dollar	(19,117,396)	(100,204)
Colombian Peso	(4,941,866,875)	(9,416)
Czech Koruna	(1,403,390)	(210)
Danish Krone	(54,895,557)	(111,992)
Euro Currency Unit	(202,087,225)	(1,588,397)
Hong Kong Dollar	(132,489,567)	(14,354)
Hungarian Forint	(101,844,011)	(854)
Indian Rupee	(150,076,325)	17,526
Israeli New Shekel	(45,720,000)	(164,728)
Japanese Yen	(22,996,902,982)	1,614,254
Mexican New Peso	(88,371,999)	(14,799)
New Zealand Dollar	(7,625,000)	(84,017)
Norwegian Krone	(4,498,951)	(1,220)
Peruvian Nuevo Sol	(15,185,000)	(66,867)
Philippine Peso	(478,633)	(23)
South African Rand	(153,990,974)	(460,147)
Singapore Dollar	(1,817,859)	(14,767)
Swedish Krona	(57,836,927)	(59,609)
Swiss Franc	(88,315,168)	754,811
Thai Baht	(11,013,033)	(647)
		$ 327,564
Net Unrealized Gain (Loss) on Foreign Currency Spot and Forward Contracts		$ 10,993,509

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 Assets.

Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the Statement of Net Investment Assets. Losses may arise from future changes in the value of the underlying instrument.

Financial futures contracts may be entered into for the following objectives: facilitate asset class rebalancing, adjust sector exposures, protect

Futures Contracts
June 30, 2011

Description	Expiration	Notional Amount	Unrealized Appreciation/ (Depreciation)*
Interest Rate Futures			
3 Month Euroyen TIFFE	Dec 11 - Sep 12	$ (5,860,915)	$ (170)
90 Day Bank Accepted Bill	Dec 11 - Jun 12	2,292,897	(233)
90 Day Sterling LIBOR	Dec 11 - Sep 12	(1,389,216)	(40)
Fixed Income Futures			
Australian 10 year Bond	Sep 11	26,910,094	(49,567)
Australian 3 year Bond	Sep 11	885,364	2,051
Canadian 10 year Bond	Sep 11	28,778,116	(15,584)
Euro Buxl 30 year Bond	Sep 11	2,836,806	(77,045)
Euro BOBL	Sep 11	48,340,725	145,289
Euro Bund	Sep 11	6,549,378	8,757
Euro Schatz	Sep 11	182,448,182	337,699
Japanese 10 year Mini Bond	Sep 11	16,600,298	28,727
UK Long Gilt	Sep 11	3,857,896	6,984
US 10 year Note	Sep 11	(77,556,031)	(111,258)
US 2 year Treasury Note	Sep 11	(130,948,219)	(172,735)
US 5 year Treasury Note	Sep 11	5,602,180	11,273
US Treasury Bond	Sep 11	1,230,313	(14,313)
US Ultra Bond	Sep 11	24,745,000	(423,656)
Equity Futures			
Dow Jones Euro Stoxx 50 Index	Sep 11	144,066,839	6,191,295
Dow Jones E-mini Globex	Sep 11	3,333,150	118,529
FTSE 100 Index	Sep 11	111,250,220	3,377,514
MSCI EAFE Index	Sep 11	2,059,080	67,845
Russell 2000 E-mini Index	Sep 11	165,987,940	8,263,110
S&P 500 E-mini Index	Sep 11	531,790,875	17,362,333
S&P Mid 400 E-mini Index	Sep 11	51,949,800	1,982,640
S&P/TSE 60 Index	Sep 11	64,918,496	697,936
SPI 200 Index	Sep 11	53,322,116	716,205
TOPIX Index	Sep 11	106,134,910	5,547,251
Net Futures Contracts		$ 1,370,136,294	$ 44,000,837

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

portfolios against the risk of changing asset values or interest rates, enhance liquidity, aid in cash flow management, manage interest rate exposure, adjust duration, equitize cash and receivable positions or as a substitute for cash market transactions. Futures contracts are secured by collateral deposited with brokers, which can be in the form of cash, U.S. Treasuries and equity securities.

The table entitled **Futures Contracts** presents the Retirement Funds investments in futures contracts as of June 30, 2011.

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 over-the-counter options. Options may be used to improve the efficiency or to enhance the expected return of the Core and Variable Funds' strategic rebalancing procedures. Exchange traded options may be purchased or sold in conjunction with managing asset class exposure if the exercise of the options will move the asset allocation closer to the target established by the Board. The aggregate notional value of the options is limited to 2% of the market value of the trust fund at the date of purchase. The term of options used for this purpose may not exceed one year. During fiscal year 2011, the Retirement Funds did not make any investments in over-the-counter option contracts.

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 Assets. 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 Assets. The table entitled **Option Contracts** presents the fair value of option contracts written by the Core and Variable Funds as of June 30, 2011.

Option Contracts
June 30, 2011

Security Description	Contract Type	Expiration	Number of Contracts Written	Notional	Cost/ (Proceeds)	Market Value	Unrealized Gain/(Loss)
Alere, Inc.	Put	Jul 11	(350)	$ (1,281,700)	$ (15,400)	$ (8,750)	$ 6,650
Cephalon, Inc.	Put	Aug 11	(165)	(1,318,350)	(10,231)	(1,650)	8,581
Cliffs Natural Resources, Inc.	Call	Jul 11	(50)	(462,250)	(5,007)	(1,050)	3,957
Freeport-Mcmoran Copper & Gold	Put	Jul 11	(100)	(529,000)	(8,707)	(1,100)	7,607
Intuitive Surgical, Inc.	Call	Oct 11	(50)	(1,860,550)	(43,099)	(71,000)	(27,901)
ITT Corp	Put	Oct 11	(304)	(1,791,472)	(35,521)	(18,240)	17,281
ITT Corp	Put	Jul 11	(1,028)	(6,058,004)	(133,036)	(10,530)	122,506
Monsanto Co.	Call	Aug 11	(100)	(725,400)	(11,650)	(14,800)	(3,150)
Newmont Mining Corp.	Put	Jul 11	(100)	(539,700)	(4,901)	(950)	3,951
Ralcorp Holding, Inc.	Put	Jul 11	(300)	(2,597,400)	(23,215)	(12,000)	11,215
Rio Tinto, Plc	Put	Jul 11	(75)	(542,400)	(7,425)	(750)	6,675
S&P 500 Eom Index Future Sep 11	Put	Jul 11	(159)	(52,291,125)	(138,646)	(17,888)	120,759
Thoratec Corp.	Put	Jul 11	(260)	(853,320)	(20,540)	(3,250)	17,290
Total Option Contracts				$ (70,850,671)	$ (457,378)	$ (161,958)	$ 295,421

6. Summary of Investments

The tables entitled **Summary of Investments - Core Retirement Investment Trust Fund** and **Summary of Investments - Variable Retirement Investment Trust Fund** provide summary information by investment classification for the Core Fund and Variable Fund at June 30, 2011.

7. Milwaukee Retirement System

The Milwaukee Retirement System (MRS), consisting of several funds within the Milwaukee Public School Retirement System, invests in the Core Fund and Variable Fund through the WRS. Since the MRS is a separate legal entity from the WRS, both the Core Fund and the Variable Fund qualify as external investment trust funds. Participation by the MRS in the Core Fund and Variable Fund is described in the ETF Administrative Code, Chapter 10.12. MRS provides assets to ETF for investment in the Core Fund and Variable Fund which are managed by SWIB. Each month the ETF distributes to the MRS their pro-rata share of the total Core Fund's earnings less administrative expenses, as well as the Variable Fund's earnings less administrative expenses. The

Summary of Investments - Core Retirement Investment Trust Fund
June 30, 2011

Classification	Coupon Rate (%)	Maturity Dates	Cost	Fair Value
Stocks	N/A	N/A	$34,423,404,920	$41,939,015,528
Fixed Income	Variable & 0.00 - 15.5	7/2011 - 3/2105	20,886,554,415	22,327,022,072
Limited Partnerships	N/A	N/A	8,466,571,634	8,195,684,374
Multi Asset	N/A	N/A	1,026,625,412	1,215,190,146
Real Estate	N/A	N/A	297,667,034	390,777,761
Preferred Securities	N/A	N/A	166,979,556	201,387,393
Convertible Securities	Variable & 0.25 - 8.25	9/2011 - 12/2041	69,581,673	79,170,678
Commercial Mortgages	7.13	7/2011	22,654,020	22,541,314
Foreign Currency Contracts	N/A	7/2011 - 9/2011	-	9,879,143
Option Contracts	N/A	7/2011 - 10/2011	(411,402)	(143,072)
Financial Futures Contracts	N/A	9/2011 - 9/2012	-	35,859,034
			$65,359,627,262	$74,416,384,371

N/A = Not Applicable

Summary of Investments - Variable Retirement Investment Trust Fund
June 30, 2011

Classification	Coupon Rate (%)	Maturity Dates	Cost	Fair Value
Stocks	N/A	N/A	$ 4,470,574,552	$ 5,469,523,452
Preferred Securities	N/A	N/A	11,967,556	14,499,441
Foreign Currency Contracts	N/A	7/2011 - 9/2011	-	1,114,366
Option Contracts	N/A	7/2011 - 10/2011	(45,976)	(18,886)
Financial Futures Contracts	N/A	9/2011	-	8,141,803
			$ 4,482,496,132	$ 5,493,260,176

N/A = Not Applicable

MRS accounts are adjusted to fair value and gains/losses are recorded directly in the accounts per ETF Administrative Code 10.12(2). No State statute, legal provision, or legally binding guarantee exists to support the value of MRS's portion of the Core Fund or the Variable Fund.

8. Unfunded Capital Commitments

The Core Fund has committed to fund various limited partnerships and side-by-side agreements related to its private equity and real estate holdings. Commitments that have not been funded total $5.5 billion as of June 30, 2011. Unfunded commitments are not included in the financial statements since the amount and timing of the funding is not certain.

9. 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 liability, as a putative transferee of SCC assets, would be limited to $28.3 million of SCC's tax deficiency, plus interest.

SWIB is aggressively contesting the IRS' assertions of SWIB's tax liability. Furthermore, SWIB believes that the loss, if any, resulting from the claim will not have a material impact on SWIB's net investment assets or net 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 Assets.

10. Subsequent Events

In August 2011, federal legislation was enacted which raised the statutory U.S. debt ceiling and resulted in the three major U.S. rating agencies (Moody's Investors Service "Moody's", Fitch Investors "Fitch", and Standard & Poor's "S&P") issuing divergent perspectives regarding current sovereign U.S. debt rating assignments.

Subsequent to the fiscal year-end, Standard & Poor's (S&P) lowered its long-term sovereign credit rating of the U.S. from AAA to AA+ while affirming its A-1+ short-term U.S. debt rating. S&P maintained a negative outlook on the long-term rating. This negative outlook by S&P means the U.S. long-term rating could be downgraded again within the next two years.

Additionally, S&P lowered its long-term rating from AAA to AA+ on the government-sponsored entities of Fannie Mae (FNMA), Freddie Mac (FHLMC), and Federal Home Loan Banks (FHLB). They also affirmed the short-term issue ratings for these entities at A-1+.

Moody's and Fitch affirmed the long-term and short-term U.S. Aaa/AAA rating. However, Moody's stated that the U.S. debt trajectory "may prove to be incompatible" with its top Aaa rating over the next few years. The Sovereign Ratings Group at Fitch is undertaking a scheduled review of the United States government debt.

SWIB investment guidelines place no limit on the amount of U.S. Government and Agency debt held. The S&P downgrade of U.S. debt did not impact SWIB's compliance with investment guidelines.

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Joe Chrisman
Interim State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE STATE INVESTMENT FUND

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

Members of the Board of Trustees and
Mr. Keith Bozarth, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying financial statements for the State Investment Fund as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements as of and for the year ended June 30, 2010, are being presented for informational purposes only. These financial statements were audited by us and we expressed an unqualified opinion on them in our report dated August 26, 2010, but we have not performed any auditing procedures since that date.

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*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to in the first paragraph present only the State Investment Fund and do not purport to, and do not, present fairly the financial position and results of operations of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the net assets of the State Investment Fund as of June 30, 2011, and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2011, on our consideration of the Investment Board's internal control over financial reporting for the State Investment Fund; 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, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the State Investment Fund. 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

LEGISLATIVE AUDIT BUREAU

August 29, 2011 by

Joe Chrisman
Interim State Auditor

State Investment Fund

Management Discussion and Analysis

Management Discussion and Analysis provides general information on the financial activities of the State Investment Fund (SIF). The SIF temporarily invests the operating funds of the State of Wisconsin and agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP). The table entitled **SIF Ownership** provides information about ownership at June 30.

Following this section are the financial statements and notes to the financial statements. The **Statement of Net Assets** provides information on the types of assets and the liabilities of the SIF. The **Statement of Operations and Changes in Net Assets** provides information on the net income of the SIF and its net assets at year end. The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the SIF financial statements. The table entitled **SIF Condensed Financial Information** contains a summary for the fiscal years ended June 30, 2011 and 2010 (for comparison).

Because the SIF is used to temporarily invest participants' operating cash flows, investments are in highly liquid, short-term fixed income securities. At June 30, 2011, SIF Net Assets had increased by $57 million from the prior year due to the combined increase in both the WRS (+$84 million) and the State of Wisconsin and agencies (+$116 million) balances exceeding the decrease in the LGIP (-$143 million) balance. The Average Daily Portfolio Balance decreased by $190 million in the current fiscal year compared to the prior year. The monthly average peaked at $8.205 billion in February 2011.

The Net Income decrease of 29.2% from the previous fiscal year was largely due to the Federal Open Markets Committee continuing to maintain the Federal Funds Rate during fiscal year 2011 at 0.25%. This also caused the Time Weighted Annual Yield to decrease from 0.253% to 0.193%.

SIF Ownership

	2011	2010
State of Wisconsin & Agencies	32%	31%
Wisconsin Retirement System	30%	29%
Local Government Investment Pool	38%	40%

SIF Condensed Financial Information

Fiscal Year Ended June 30:	2011	2010	% Change
Total Assets	$ 6,682,710,801	$ 6,606,334,844	1.2
Total Liabilities	141,705,801	121,941,844	16.2
Net Assets	$ 6,541,005,000	$ 6,484,393,000	0.9
Investment Income	$ 15,451,819	$ 20,201,005	(23.5)
Investment Expenses	1,678,883	1,656,651	1.3
State Working Bank Charges	2,890,370	3,170,693	(8.8)
Net Income	$ 10,882,566	$ 15,373,661	(29.2)
Average Daily Cash Balance	$ 7,217,629,337	$ 7,406,327,382	(2.6)
Time Weighted Annual Yield	0.193%	0.253%	
Weighted Average Maturity (WAM)	73 days	78 days	

State Investment Fund
Statement of Net Assets
As of June 30, 2011 (with Comparative Amounts as of June 30, 2010)

	June 30, 2011	June 30, 2010
Assets		
Investments (at fair value):		
Bank Demand Deposits	$ 700,000,000	$ -
Bank NOW Account Deposits	-	755,623,512
Repurchase Agreements	1,342,000,000	1,249,000,000
Government & Agencies	4,553,456,416	4,598,987,609
Commercial Paper	-	-
Certificates of Deposit	40,030,000	290,000
Banker's Acceptances	46,915,176	-
Asset Backed Securities	-	-
Mortgage Backed Securities	-	21,222
Yankee/Euro Issues	-	-
Total Investments	$ 6,682,401,592	$ 6,603,922,343
Other Assets:		
Accrued Interest Receivable	309,209	2,412,501
Total Assets	$ 6,682,710,801	$ 6,606,334,844
Liabilities		
Check Float Invested	$ 141,120,258	$ 120,752,294
Earnings Distribution Payable	468,707	1,077,394
Accrued Expenses	116,836	112,156
Total Liabilities	$ 141,705,801	$ 121,941,844
NET ASSETS	$ 6,541,005,000	$ 6,484,393,000
Net Assets consist of:		
Participating Shares	$ 6,541,005,000	$ 6,484,393,000
Undistributed Unrealized Gains (Losses)	-	-
NET ASSETS	$ 6,541,005,000	$ 6,484,393,000

The accompanying notes are an integral part of this statement.

State Investment Fund
Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011 (with Comparative Amounts for June 30, 2010)

	2011	2010
Investment Income	$ 15,451,819	$ 20,201,005
Investment Expenses		
Management Operating Expenses	$ 1,319,157	$ 1,305,380
Custodial Bank Charges	140,033	149,800
Electronic Services	213,393	195,071
Legal and Consulting Fees	6,300	6,400
Total Expenses	$ 1,678,883	$ 1,656,651
Net Investment Income	$ 13,772,936	$ 18,544,354
State Working Bank Charges	2,890,370	3,170,693
Net Income	$ 10,882,566	$ 15,373,661
Distributions Paid and Payable	10,882,566	15,373,661
Change in Undistributed Unrealized Gains (Losses)	$ -	$ -
Beginning of Period Undistributed Unrealized Gains (Losses)	-	-
End of Period Undistributed Unrealized Gains (Losses)	$ -	$ -
Participant Transactions:		
Receipts by Transfer to Fund	$ 30,328,085,000	$ 29,705,226,000
Disbursements by Transfer from Fund	(30,271,473,000)	(29,649,132,000)
Net Change in Participating Shares	$ 56,612,000	$ 56,094,000
Beginning of Period Participating Shares	6,484,393,000	6,428,299,000
End of Period Participating Shares	$ 6,541,005,000	$ 6,484,393,000
NET ASSETS	$ 6,541,005,000	$ 6,484,393,000

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

1. Description of Funds

The State Investment Fund (SIF) pools the cash of the State of Wisconsin and its agencies, the Wisconsin Retirement System (WRS), and various local government units (Local Government Investment Pool – LGIP) into a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. Only State of Wisconsin agencies are required to invest their operating cash in the SIF. In the State's Comprehensive Annual Financial Report (CAFR), the SIF is not reported as a separate fund; rather, each State fund's share in the "pool" is reported on the balance sheet as "Cash and Cash Equivalents." Shares of the SIF belonging to other participating public institutions are presented in the Local Government Pooled Investment Fund, an investment trust fund. The staff of the State of Wisconsin Investment Board (SWIB) manages the SIF with oversight by the Board of Trustees as authorized in Wisconsin Statutes 25.14 and 25.17. The SWIB is not registered with the SEC as an investment company.

Wisconsin Statutes 25.17(3)(b), (ba), (bd), and (dg) enumerate the various types of securities in which the SIF can be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States including solvent financial institutions in Wisconsin and bankers acceptances. The Board of Trustees may specifically approve other prudent legal investments.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the SIF are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB).

B. Basis of Accounting

The accompanying 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. Interest income is accrued as earned.

C. Valuation of Securities

Generally, securities are valued at fair value for financial statement purposes and amortized cost for purposes of calculating income to participants (See Footnote 3). BNY Mellon, as custodial bank, compiles fair value information for applicable securities by utilizing third party pricing services. The fair value of investments is determined at the end of each month.

U.S. Government/Agency securities and Commercial Paper are priced using matrix pricing. This method estimates a security's fair value by using quoted market prices for securities with similar interest rates, maturities, and credit ratings. Further, short-term debt investments with remaining maturities of up to ninety days are valued using amortized cost to estimate fair value, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Bank Demand Deposits, Repurchase Agreements, Non-Negotiable Certificates of Deposit and Banker's Acceptances are valued at cost because they are nonparticipating contracts that do not capture interest rate changes in their value. The table entitled **Summary Information by Investment Classification** contains information on SIF holdings.

D. Management Operating Expenses
Management operating expenses are SWIB's investment and administrative costs that are allocated to the SIF participants.

E. State Working Bank Charges
State Working Bank Charges represent charges for various state banking services such as lockbox, ePay, and depository services. These expenses are allocated to SIF participants based on their proportionate usage of banking services and, accordingly, reduce the participant's share of the Net Investment Income.

3. Pool Earnings and Pool Shares
For purposes of calculating earnings to each participant, all investments are valued at amortized cost. Specifically, the SIF distributes income to pool participants monthly, based on their average daily share balance. Distributions include interest income based on stated rates (both paid and accrued), amortization of discounts and premiums on a straight-line basis, realized investment gains and losses calculated on an amortized cost basis, and investment expenses. This method differs from the fair value method used to value investments in these financial statements, because the amortized cost method is not designed to distribute to participants unrealized gains and losses generated by the pool's investments. The total difference between the fair values of the investments in the pool and the values distributed to the pool participants using the amortized cost method described above is reported in the equity section of the statement of net assets as "Undistributed Unrealized Gains (Losses)".

Summary of Information by Investment Classification
June 30, 2011

	Interest Rates	Maturity Dates	Book Value (Amort. Cost)	Fair Value
Bank Demand Deposits	0.26*	Demand	$ 700,000,000	$ 700,000,000
Repurchase Agreements	0.01 - 0.02	07/01/11	1,342,000,000	1,342,000,000
Government & Agencies	0.10 - 0.29	07/01/11 - 11/23/12	4,553,456,416	4,553,456,416
Commercial Paper	--	--	-	-
Certificates of Deposit	0.20 - 2.00	08/15/11 - 12/17/12	40,030,000	40,030,000
Banker's Acceptances	0.13 - 0.36	07/06/11 - 12/12/11	46,915,176	46,915,176
Asset Backed Securities	--	--	-	-
Mortgage Backed Securities	--	--	-	-
Yankee/Euro Issues	--	--	-	-
Total Investments			$ 6,682,401,592	$ 6,682,401,592
Ratio of Fair Value to Book Value				100%

* Represents earnings credits - see Note 4B

Pool shares are bought and redeemed at $1.00 based on the amortized cost of the investments in the SIF. The State of Wisconsin does not provide any legally binding guarantees to support the value of pool shares.

4. Deposit and Investment Risk

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. For the SIF, evaluations of levels of diversification, nominal risk exposures including sector, maturity, and interest rate exposures, and risk/return plots form the core of the monitoring process. In addition, the portfolio is reviewed daily for compliance with investment guidelines. At least quarterly, comprehensive reporting is presented to SWIB's Investment Committee and the Board of Trustees.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the SIF. The SIF's investment guidelines establish very specific maximum exposure limits by security type based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). As of June 30, 2011, these credit ratings and aggregate exposures by investment type are found in the table entitled **Credit Quality Distribution for Securities**.

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. SWIB does not have a deposit policy specifically for custodial credit risk. As of June 30, 2011, the SIF held Certificates of Deposit (CD) with an estimated fair value of $40,030,000 invested pursuant to the Wisconsin Certificate of Deposit Program (administered by Bankers' Bank) established in July 1987. Investment guidelines provide that banks accepted into this program must accept deposits in Wisconsin and meet credit-screening criteria designed to assure the safety of the deposits. The Federal Deposit Insurance Corporation (FDIC) insures the pro rata share of Certificates of Deposit held by the LGIP up to $250,000, and the State of Wisconsin appropriation for losses on public deposits protects a depositing municipality up to $400,000 if the local governing body has designated the LGIP as a public depository. Approximately $40,030,000 is insured through FDIC insurance and the State of Wisconsin appropriation for losses on public deposits. The actual coverage of these deposits can fluctuate daily based on the allocable share of participants' accounts.

The SIF also had $700 million in a noninterest-bearing Demand Deposit transaction account at U.S. Bank. The FDIC Board of Directors has issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions (IDIs). All funds held in noninterest-bearing transaction accounts will be fully insured, without limit, from December 31, 2010, through December 31, 2012. The SIF U.S. Bank account received 0.26% earnings credits which are included in SIF Investment Income and used to pay State Working Bank Charges.

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. The SIF's investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or issue exposure limits based on credit rating. These guidelines do

Credit Quality Distribution for Securities
June 30, 2011

	Rating	Fair Value	%
Bank Demand Deposits	NR	$ 700,000,000	10.5
Repurchase Agreements (Collateral):			
U.S. Government Debt	AAA	1,069,000,000	16.0
Govt Sponsored Entity US Agency	AAA	273,000,000	4.1
U.S. Treasury	AAA	25,106,075	0.4
FHLB (Federal Home Loan Bank)	A-1+/AAA	1,497,879,312	22.4
FHLMC (Federal Home Loan Mortgage Corp)	A-1+	1,503,463,497	22.5
FNMA (Federal National Mortgage Association)	A-1+/AAA	1,527,007,532	22.8
Certificates of Deposit:			
Non-Negotiable (Wisc Bank)	NR	40,030,000	0.6
Banker's Acceptances	A-1+	46,915,176	0.7
Total Investments		$ 6,682,401,592	100.0

not place a limit on maximum exposure for any U.S. Treasury or Agency securities. As of June 30, 2011 the SIF has more than five percent of its investments in a U.S. Bank Demand Deposit (10.5%), FHLB (22.4%), FHLMC (22.5%), FNMA (22.8%), and Repurchase Agreement collateral consisting of various securities issued by these same three U.S. Agencies (4.1%). Since the Repurchase Agreements mature each day, new collateral, consisting of a different blend of U.S. Treasury and Agency securities, is assigned each night.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The SIF uses the Weighted Average Maturity (WAM) method to analyze interest rate risk and investment guidelines mandate that the WAM for the entire portfolio will not exceed one year. SIF summary WAM analysis by investment type is found in the table entitled **Weighted Average Maturities (WAM) for Securities**.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SIF guidelines allow the investment in U.S. dollar denominated issues only.

5. Related Party Transactions

Wisconsin Statutes Chapter 20.002 (11) provides for the short-term temporary reallocation of surplus moneys between statutory funds, provided that the borrowing fund anticipates receiving future revenues to pay back the temporary loan. For Fiscal Year 2011, Chapter 20.002 (11) (b) 2 provides that General Fund borrowings may not exceed 7% of defined revenues (estimated borrowing cap of $986 million). Chapter 20.002 (11) (b) 3 permits an additional temporary allocation not to exceed 3% of defined revenues for a period of up to 30 days (estimated total borrowing cap of $1.408 billion). Further, Chapter 20.002 (11) (b) 1 limits the total amount of any temporary reallocations to a fund

Weighted Average Maturities (WAM) for Securities
June 30, 2011

	Fair Value	WAM (Days)
Bank Demand Deposits	$ 700,000,000	0
Repurchase Agreements	1,342,000,000	1
Government & Agencies	4,553,456,416	105
Commercial Paper	-	--
Certificates of Deposit	40,030,000	151
Banker's Acceptances	46,915,176	65
Asset Backed Securities	-	--
Mortgage Backed Securities	-	--
Yankee/Euro Issues	-	--
Total Investments	$ 6,682,401,592	
Portfolio Weighted Average Maturity		73

Inter-Fund Loans
June 30, 2011

Fund	Loan Amount
Medical Assistance Trust	$ 248,697,000
Police & Fire Protection	4,032,000
Democracy Trust	896,000
Environmental	13,491,000
Total Loans	$ 267,116,000

other than the General Fund to $400 million. The borrowing fund is charged interest on the inter-fund loan at the SIF monthly interest rate. As of June 30, 2011 the amount of inter-fund borrowings between statutory funds invested in the SIF is listed in the table entitled **Inter-Fund Loans**.

6. Subsequent Events

On August 2, 2011, federal legislation was enacted which raised the statutory U.S. debt ceiling. This action caused the three major NRSRO's (Moody's Investors Service, Fitch Ratings, and Standard & Poor's) to issue divergent perspectives regarding U.S. debt rating assignments.

On August 2, 2011, Moody's and Fitch affirmed their highest long- and short-term U.S. debt ratings. On August 5, 2011, Standard & Poor's (S&P) lowered its long-term U.S. debt rating from AAA to AA+ while affirming its highest A-1+ short-term U.S. debt rating.

On August 8, 2011, S&P also lowered its long-term debt rating from AAA to AA+ on the government-sponsored entities (GSEs - Agencies) of Fannie Mae (FNMA), Freddie Mac (FHLMC), and Federal Home Loan Banks (FHLB) while affirming its highest A-1+ short-term GSE debt rating on these Agencies.

SIF investment guidelines place no holdings limit on the amount of short-term U.S. or Agency debt. Guidelines limit long-term U.S. Government debt to $500 million per issue and Agency debt to $250 million per issue. Further, there is no limit on the amount of short or long-term U.S./Agency debt collateral which secures repurchase agreements.

Through the issuance date of these financial statements, the S&P downgrade of U.S. debt did not cause a SIF investment guideline violation nor do we expect these events to have a material effect on how we manage its U.S. debt exposure.

STATE OF WISCONSIN
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Joe Chrisman
State Auditor

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE VARIOUS FUNDS

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

Members of the Board of Trustees and
Mr. Keith Bozarth, Executive Director
State of Wisconsin Investment Board

We have audited the accompanying financial statements for the Various Funds (Local Government Property Insurance Fund, State Life Insurance Fund, Injured Patients and Families Compensation Fund, EdVest Tuition Trust Fund, and Historical Society Trust Fund) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the State of Wisconsin Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements as of and for the year ended June 30, 2010, are being presented for informational purposes only. These financial statements were audited by us and we expressed an unqualified opinion on them in our report dated November 29, 2010, but we have not performed any auditing procedures since that date.

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*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to in the first paragraph present only the investment activity of the Various Funds attributable to the transactions of the State of Wisconsin Investment Board. The financial statements do not purport to, and do not, present fairly the financial activity of the Various Funds attributable to other state agencies. Further, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the Investment Board or of the State of Wisconsin in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective net investment assets of each of the Various Funds as of June 30, 2011, and the respective changes in net investment assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2011, on our consideration of the Investment Board's internal control over financial reporting for the Various 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, which is included in a management letter to the Investment Board, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Various 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The introduction section of the annual report has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

LEGISLATIVE AUDIT BUREAU

December 5, 2011 by

Joe Chrisman
State Auditor

Various Funds

Management Discussion and Analysis

Management Discussion and Analysis provides an overview of the investment financial activities of the Local Government Property Insurance Fund (LGPIF), State Life Insurance Fund (Life Fund), Injured Patients and Families Compensation Fund (IPFCF), EdVest Tuition Trust Fund (EdVest), and Historical Society Trust Fund (HSTF) (collectively known as the "Various Funds"). The State of Wisconsin Investment Board (SWIB) has exclusive control of the investment and collection of principal, interest, and dividends of all monies invested of the Various Funds.

Following this section are the financial statements and notes which reflect only the investment activity of the Various Funds. The **Statement of Net Investment Assets** provides information on the types of investment assets and the liabilities of the Various Funds. The **Statement of Changes in Net Investment Assets** provides information on the investment income of the Various Funds and their net investment assets at year-end. The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. Condensed Various Funds financial information for the fiscal year ended June 30, 2011 (with comparable amounts for 2010) is in the table entitled **Various Funds Condensed Investment Financial Information**.

Percentage changes in the Net Investment Assets of the Various Funds were due to Net Investment Income, as discussed below, and to program activities within the fund that were not investment related.

During the fiscal year ended June 30, 2011, bonds prices closed the fiscal year slightly lower from the beginning of the fiscal year. During the prior fiscal year 2010, bond prices closed the fiscal year significantly higher from the beginning of the fiscal year. Equity markets in both fiscal years closed significantly higher from the beginning of each fiscal year. The Federal Open Markets Committee (FOMC) maintained the federal funds target rate at 0.25% during both fiscal years.

Various Funds Condensed Investment Financial Information

Fiscal Year Ended -	2011	2010	% Change	2011 Annual Return %	
				Fund	Benchmark
Net Investment Assets:					
Local Govt Property Ins Fund	$ 37,539,723	$ 47,403,885	(20.8)		
State Life Insurance Fund	100,017,648	98,531,216	1.5		
Inj Patients & Families Comp Fd	700,036,172	652,061,055	7.4		
EdVest Tuition Trust Fund	7,869,025	8,325,332	(5.5)		
Historical Society Trust Fund	11,272,528	9,394,970	20.0		
Net Investment Income:					
Local Govt Property Ins Fund	$ 190,899	$ 662,416	(71.2)	0.5	0.3
State Life Insurance Fund	3,886,900	13,486,590	(71.2)	4.0	3.2
Inj Patients & Families Comp Fd	54,349,032	68,037,376	(20.1)	8.6	7.5
EdVest Tuition Trust Fund	274,749	610,847	(55.0)	3.5	2.3
Historical Society Trust Fund	2,296,519	1,236,815	85.7	24.8	24.7

The 71.2% decrease in the Net Investment Income of the Local Government Property Insurance Fund was due to a combination of smaller size of the fund (decreased 20.8%), slightly lower bond prices, and lower short-term interest rates on investment in the State Investment Fund (SIF) as compared to the prior fiscal year.

The Life Fund, IPFCF, and EdVest are primarily "buy and hold" portfolios. Highly rated bonds (at time of purchase) are acquired for each portfolio and held to maturity. Net Investment Income is subject to swings caused by the effect of interest rate changes on bond prices.

The 71.2% decrease in Net Investment Income of the Life Fund was due to slightly lower bond prices during the current fiscal year, compared to significantly higher prices during the prior fiscal year.

The Injured Patients and Families Compensation Fund experienced a smaller 20.1% decrease in Net Investment Income because lower bond prices were offset by four indexed stock funds, representing 16.7% of investments, which experienced a $32.4 million increase in fair value during the current year as compared to a $12.9 million increase in fair value during the prior year.

The 55.0% decrease in Net Investment Income for EdVest was due to depreciation in the prices of government sponsored entity bonds it held as compared to appreciation in the prior year.

The increase in Net Investment Income for the Historical Society Trust Fund was largely due to an indexed stock fund, representing 75.8% of Net Investment Assets, which experienced a $2.2 million increase in fair value during the current year as compared to a $0.9 million increase in fair value during the prior year.

Various Funds - Statement of Net Investment Assets
As of June 30, 2011

	Local Gov't Property Ins. Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	EdVest Tuition Trust Fund	Historical Society Trust Fund
Investment Assets					
Cash and Cash Equivalents:					
Unrestricted	$ 21,161,534	$ 1,338,613	$ 9,440,333	$ 1,342,012	$ 227,692
Restricted			37,190,375		
Receivables:					
Investment Income	72,402	1,378,823	7,323,898	13,332	12,458
Investment Sales	-	-	-	-	7,177
Investments:					
Fixed Income	16,305,787	97,300,212	529,005,277	6,513,681	2,481,374
Equity	-	-	117,084,388	-	8,544,298
Total Investment Assets	$ 37,539,723	$ 100,017,648	$ 700,044,271	$ 7,869,025	$ 11,272,999
Liabilities					
Investment Purchases Payable	-	-	4,604	-	156
Accounts Payable	-	-	3,495	-	315
Total Liabilities	$ -	$ -	$ 8,099	$ -	$ 471
Net Investment Assets	$ 37,539,723	$ 100,017,648	$ 700,036,172	$ 7,869,025	$ 11,272,528

Various Funds - Statement of Changes in Net Investment Assets
For the Fiscal Year Ended June 30, 2011

	Local Gov't Property Ins. Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	EdVest Tuition Trust Fund	Historical Society Trust Fund
From Investment Activities:					
Investment Income					
Net Increase (Decrease) in Fair Value of Investments	$ (115,783)	$ (1,128,468)	$ 29,773,300	$ (31,053)	$ 2,309,739
Interest	310,235	5,021,308	24,622,201	305,802	333
Investment Expenses	(3,553)	(5,940)	(46,469)	-	(13,553)
Net Investment Income	$ 190,899	$ 3,886,900	$ 54,349,032	$ 274,749	$ 2,296,519
From Participant Transactions:					
Net Receipts (Disbursements) - Non-Investment Activity	(10,055,061)	(2,400,468)	(6,373,915)	(731,056)	(418,961)
Net Increase (Decrease) in Net Investment Assets	$ (9,864,162)	$ 1,486,432	$ 47,975,117	$ (456,307)	$ 1,877,558
Net Investment Assets					
Beginning of Year	47,403,885	98,531,216	652,061,055	8,325,332	9,394,970
End of Year	$ 37,539,723	$ 100,017,648	$ 700,036,172	$ 7,869,025	$ 11,272,528

Various Funds - Statement of Net Investment Assets
Comparative Amounts as of June 30, 2010

	Local Gov't Property Ins. Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	EdVest Tuition Trust Fund	Historical Society Trust Fund
Investment Assets					
Cash and Cash Equivalents	$ 26,305,089	$ 1,280,305	$ 53,327,345	$ 1,523,771	$ 200,634
Receivables:					
Investment Income	135,115	1,364,427	7,154,971	13,495	9,924
Investment Sales	-	-	-	-	7,465
Investments:					
Fixed Income	20,963,681	95,886,484	489,929,000	6,788,066	2,279,192
Equity	-	-	101,659,440	-	6,898,406
Total Investment Assets	$ 47,403,885	$ 98,531,216	$ 652,070,756	$ 8,325,332	$ 9,395,621
Liabilities					
Investment Purchases Payable	-	-	6,280	-	101
Accounts Payable	-	-	3,421	-	550
Due to State Investment Fund	-	-	-	-	-
Total Liabilities	$ -	$ -	$ 9,701	$ -	$ 651
Net Investment Assets	$ 47,403,885	$ 98,531,216	$ 652,061,055	$ 8,325,332	$ 9,394,970

Various Funds - Statement of Changes in Net Investment Assets
Comparative Amounts for the Fiscal Year Ended June 30, 2010

	Local Gov't Property Ins. Fund	State Life Insurance Fund	Injured Patients & Families Compensation Fund	EdVest Tuition Trust Fund	Historical Society Trust Fund
From Investment Activities:					
Investment Income					
Net Increase (Decrease) in Fair Value of Investments	$ 287,133	$ 8,591,829	$ 41,050,141	$ 267,612	$ 1,247,863
Interest	377,808	4,900,547	27,032,930	343,235	503
Investment Expenses	(2,525)	(5,786)	(45,695)	-	(11,551)
Net Investment Income	$ 662,416	$ 13,486,590	$ 68,037,376	$ 610,847	$ 1,236,815
From Participant Transactions:					
Net Receipts (Disbursements) - Non-Investment Activity	(5,975,764)	(2,838,842)	16,169,062	(1,180,211)	(632,027)
Net Increase (Decrease) in Net Investment Assets	$ (5,313,348)	$ 10,647,748	$ 84,206,438	$ (569,364)	$ 604,788
Net Investment Assets					
Beginning of Year	52,717,233	87,883,468	567,854,617	8,894,696	8,790,182
End of Year	$ 47,403,885	$ 98,531,216	$ 652,061,055	$ 8,325,332	$ 9,394,970

Notes to the Financial Statements

1. Description of Funds

The State of Wisconsin Investment Board (SWIB or the Investment Board) has control of the investment and collection of principal, interest, and dividends of all monies invested of the Local Government Property Insurance Fund, State Life Insurance Fund, Injured Patients and Families Compensation Fund, EdVest Tuition Trust Fund, and Historical Society Trust Fund (collectively known as the "Various Funds").

The statements presented herein reflect only the investment activity of the Various Funds. Excluded from the presentation in the statements are, for example, claim reserves, reserves for life policies and contracts, contribution revenue, premiums earned, benefit expense, and expenditures from endowment income. Also excluded from the statements are SWIB's administrative receipts and disbursements related to the investment function.

The State of Wisconsin's Comprehensive Annual Financail Report contains all of the activity of the Various Funds.

The State Investment Fund (SIF) is used to temporarily invest the operating cash flows of the Various Funds. SWIB manages the SIF with oversight by a Board of Trustees, as authorized in Wisconsin Statutes 25.14 and 25.17. SWIB is not registered with the Securities and Exchange Commission (SEC) as an investment company.

A. Local Government Property Insurance Fund

The Local Government Property Insurance Fund (LGPIF) provides property insurance protection to local government units on an optional basis. The Office of the Commissioner of Insurance (OCI) is responsible for administering the operations of the LGPIF, while SWIB performs the investment activities for the fund. SWIB's investment objective is to ensure safety of principal and maximization of return within liquidity needs established by the OCI. Wisconsin Statute 25.17(3)(b) allows investments in direct obligations of the United States and Canada, securities guaranteed by the United States, unsecured notes of financial and industrial issuers, Yankee/Euro dollar issues, certificates of deposit issued by banks in the United States, and solvent financial institutions in Wisconsin.

B. State Life Insurance Fund

The State Life Insurance Fund (Life Fund) offers low cost life insurance protection to Wisconsin residents in amounts up to $10,000 per person. The Office of the Commissioner of Insurance is responsible for administering the operations of the Life Fund. SWIB's investment objective is to maintain a diversified portfolio of high quality publicly issued fixed income obligations that will preserve principal, maximize income while minimizing costs to policyholders, and approximate the expected life of the fund's insurance contracts. Wisconsin Statute 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by s. 620.22, Wis. Stats. Permitted classes of investments include bonds of government units or of corporations, loans secured by mortgages, preferred or common stocks, real property and other investments not specifically prohibited by statute.

C. Injured Patients and Families Compensation Fund

The Injured Patients and Families Compensation Fund (IPFCF) provides medical malpractice insurance protection to health care providers permanently practicing or operating in Wisconsin. Management of the IPFCF is vested with a Board of Governors and administration of the operations of the fund is the responsibility of the Office of the Commissioner of Insurance. Since September 1990, SWIB has been responsible for investing the securities held by this fund. SWIB's investment objective is to maintain a diversified portfolio of investments to provide a balance between capital appreciation, preservation of capital, and current income consistent with the needs of the IPFCF. Wisconsin Statute 25.17(3)(a) allows investments in loans, securities and any other investments as authorized by s. 620.22, Wis. Stats. Permitted classes of investments include bonds of governmental units or of corporations, loans secured by mortgages, preferred or common stock, real property and other investments not specifically prohibited by statute.

D. Historical Society Trust Fund

The State Historical Society of Wisconsin collects and preserves historical and cultural resources relating to the history of Wisconsin and the western United States, conducts historical research, facilitates and encourages education in Wisconsin history, and serves as the Trustee of the State for the preservation and care of government records. In addition to state and federal funds, the Historical Society receives gifts, grants, and bequests to assist it in carrying out its mission. The gifts, grants and bequests are deposited into the Historical Society Trust Fund (HSTF). SWIB is responsible for managing and supervising the fund's investments with an investment objective of maintaining a diversified portfolio of high quality publicly issued equities and fixed income obligations providing long-term growth in capital and income generation. Any income earned, except where reinvestment is required by the terms of the gift or bequest, may be expended by the Historical Society in accordance with provisions of the gift, grant or bequest.

E. EdVest Tuition Trust Fund

The EdVest Wisconsin program offers families a way to prepare for future higher education costs. When the program was established in 1997, it offered a bond-based tuition unit investment option. These units, plus investment earnings, are expected to equal one percent of the projected average annual cost of tuition at University of Wisconsin campuses in the year of their use. The Office of State Treasurer is responsible for the administration of the EdVest Wisconsin program. Wisconsin Statute 14.63(10)(b) directs SWIB to invest moneys held in the Tuition Trust Fund in investments with maturities and liquidity that are appropriate for the needs of the fund as reported by the State Treasurer in his or her quarterly reports. All income derived from such investments shall be credited to the fund. The sale of tuition units was discontinued in 2002. Other investment options are available under the EdVest program, but these are not managed by the Investment Board.

2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements of the investment activity of the Various Funds are prepared in conformity with accounting principles generally accepted in the United States of America for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The Local Government Property Insurance Fund, the State Life Insurance Fund, and the Injured Patients and Families Compensation Fund operate similar to insurance enterprises and are reported by the State as proprietary funds. The Historical Society Trust Fund is reported by the State as a governmental fund and the EdVest Tuition Trust Fund is reported by the State as a fiduciary fund.

B. Basis of Accounting

The accompanying statements are prepared based upon the flow of economic resources measurement focus and the 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. Interest income is accrued as earned and dividend income, if any, is recorded on the ex-dividend date.

C. Valuation of Securities

As required by Governmental Accounting Standards Board Statement No. 31, the investments of the Various Funds are valued at fair value, with unrealized and realized gains and losses reflected in the **Statement of Changes in Net Investment Assets** as "Net Increase (Decrease) in Fair Value of Investments".Generally, fair value is based on quoted market prices.

D. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles (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. Cash and Cash Equivalents

"Cash and Cash Equivalents" reported on the **Statement of Net Investment Assets** include bank deposits and the individual funds' shares in the State Investment Fund.

In January 2011, the Injured Patients and Families Compensation Fund segregated as restricted certain cash balances which represent amounts awarded by court judgments to pay for the future medical expenses of injured plaintiffs.

3. Deposits and Investments

SWIB recognizes that risk issues permeate the entire investment process from asset allocation to performance evaluation. SWIB monitors risk through multiple forms of analysis and reporting. Inspection of levels of diversification, nominal risk exposures, risk/return plots, and matching liabilities with assets form the core of the monitoring process. In addition, portfolios and asset classes are reviewed monthly for compliance with investment guidelines and exceptions, if any, are remedied in a prudent manner. On a quarterly basis, guideline exceptions, if identified, are reviewed by SWIB's Enterprise Risk and Compliance Committee.

A. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Various Funds. The Various Funds' (except for EdVest) investment guidelines generally require that issues be rated "A-" or better at the time of purchase based on the minimum credit ratings as issued by Nationally Recognized Statistical Rating Organizations (NRSROs). IPFCF guidelines provide that, at the time of purchase, at least 80% of the bond portfolio must be rated "A3/A-" or better, using the lower of split ratings. EdVest guidelines do not specifically list a minimum credit quality. As of June 30, 2011, these credit ratings and aggregate exposures by investment type can be found in the table entitled **Credit Quality Distribution for Fixed Income Securities**. While the Historical Society bond fund is unrated by S&P, the underlying holdings have an average S&P rating of AA+.

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, the Various Funds will not be able to recover deposits that are in possession of an outside party. The Various Funds do not have a deposit policy specifically for custodial credit risk. As of June 30, 2011, the Various Funds had $3,561 deposited in a bank account covered by FDIC insurance.

Investments — Custodial credit risk related to investments is the risk that, in the event of the failure of the counterparty to a transaction, the Various Funds will not be able to recover the value of

Credit Quality Distribution for Fixed Income Securities
June 30, 2011

Rating	LGPIF		State Life		IPFCF		EdVest		Historical Society	
	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%	Fair Value	%
AAA	$ 16,305,787	43.5	$ 39,423,788	40.0	$ 211,436,535	36.7	$ 5,766,305	73.4	$ -	0.0
AA	-	0.0	5,079,703	5.1	21,181,114	3.7	110,841	1.4	-	0.0
A	-	0.0	32,745,833	33.2	197,275,344	34.3	409,655	5.2	-	0.0
BBB	-	0.0	18,007,809	18.2	79,625,334	13.8	-	0.0	-	0.0
BB	-	0.0	1,143,079	1.2	14,993,200	2.6	226,880	2.9	-	0.0
B	-	0.0	900,000	0.9	4,487,500	0.8	-	0.0	-	0.0
CCC	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0
D	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0
Not Rated	-	0.0	-	0.0	6,250	0.0	-	0.0	-	0.0
Bond Fund	-	0.0	-	0.0	-	0.0	-	0.0	2,481,374	91.7
Subtotals	$ 16,305,787	43.5	$ 97,300,212	98.6	$ 529,005,277	91.9	$ 6,513,681	82.9	$ 2,481,374	91.7
SIF (unrated)	21,161,000	56.5	1,338,000	1.4	46,630,000	8.1	1,342,000	17.1	226,000	8.3
Totals	$ 37,466,787	100.0	$ 98,638,212	100.0	$ 575,635,277	100.0	$ 7,855,681	100.0	$ 2,707,374	100.0

Note: SIF shares are reported on the Statement of Net Investment Assets as Cash and Cash Equivalents.

investments that are in the possession of an outside party. The Various Funds do not have an investment policy specifically for custodial credit risk. As of June 30, 2011, the Various Funds did not have any direct investment securities exposed to custodial credit risk.

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. With the exception of EdVest, the Various Funds investment guidelines limit concentrations of credit risk by establishing maximum issuer and/or sector exposure limits. Generally, the guidelines require that no single issuer may exceed 5% of the fund investments, with the exception of the U.S. Government and its Agencies, whose exposure is unlimited. The LGPIF further limits AAA-rated mortgage-backed, AAA-rated asset-backed, and individual corporate issuers to 3% of the market value of the fund investments.

Excluding investments issued or explicitly guaranteed by the U.S. government and pooled investments, as of June 30, 2011, none of the Various Funds had more than 5% of their total investments (including the SIF) in a single issuer.

D. Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Various Funds use the duration method to identity and manage interest rate risk. Three of the Various Funds have investment guidelines relating to interest rate risk. The LGPIF guidelines require that a bond's maturity must not exceed ten years. The Life Fund guidelines require the Weighted Average Maturity (WAM) of the portfolio, including cash, to be a minimum of ten years. The IPFCF guidelines require the average duration of the aggregate bond portfolio to be less than ten years. Summary duration analysis is found in the table entitled **Duration or WAM for Fixed Income Securities.**

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Various Fund investment guidelines do not specifically address foreign currency risk with the exception that the Life Fund only allows investments in U.S. dollar denominated instruments. As of June 30, 2011, the Various Funds did not directly own any issues denominated in a foreign currency.

4. Derivative Financial Instruments

Interest Only Strips — Interest only strips are securities that derive cash flow from the payment of interest on underlying debt securities. EdVest held several interest only strips for yield enhancement purposes. Because the underlying securities are United States Treasury obligations, the credit risk is low. On the other hand, interest only strips may be more sensitive to interest rate fluctuations, which results in greater price volatility, and thus the market risk is higher than for traditional United States Treasury obligations.

As of June 30, 2011, the EdVest Tuition Trust Fund held interest only strips valued at $5.77 million, representing approximately 73.4% of portfolio investments.

5. Subsequent Events

A. S&P Rating Downgrade

On August 2, 2011, federal legislation was enacted which raised the statutory U.S. debt ceiling. This action caused the three major NRSRO's (Moody's Investors Service, Fitch Ratings, and Standard & Poor's) to issue divergent perspectives regarding U.S. debt rating assignments.

On August 2, 2011, Moody's and Fitch affirmed their highest long- and short-term U.S. debt ratings. On August 5, 2011, Standard & Poor's (S&P) lowered its long-term U.S. debt rating from AAA to AA+ while affirming its highest A-1+ short-term U.S. debt rating.

On August 8, 2011, S&P also lowered its long-term debt rating from AAA to AA+ on the government-sponsored entities (GSEs - Agencies) of Fannie Mae (FNMA), Freddie Mac (FHLMC), and Federal Home Loan Banks (FHLB) while affirming its highest A-1+

Duration or WAM (in years) for Fixed Income Securities

June 30, 2011

	LGPIF		State Life		IPFCF		EdVest		Historical Society	
	Fair Value	Duration	Fair Value	WAM	Fair Value	Duration	Fair Value	Duration	Fair Value	Duration
Govt/Agcy	$ 5,682,724	1.42	$ 38,419,589	15.12	$ 198,018,956	5.39	$ 5,766,305	3.85	$ -	0.00
Corporate	10,623,063	0.61	58,880,623	17.15	330,986,321	5.61	747,376	4.31	-	0.00
Bond Fund	-		-		-		-		2,481,374	5.24
Subtotal / Wtd Ave	$ 16,305,787	0.89	$ 97,300,212	16.35	$ 529,005,277	5.52	$ 6,513,681	3.90	$ 2,481,374	5.24
SIF (WAM)	21,161,000	0.20	1,338,000	0.20	46,630,000	0.20	1,342,000	0.20	226,000	0.20
Total / Wtd Ave	$ 37,466,787	0.50	$ 98,638,212	16.13	$ 575,635,277	5.09	$ 7,855,681	3.27	$ 2,707,374	4.82

short-term GSE debt rating on these Agencies.

Various Fund investment guidelines place no holdings limit on the amount of U.S. Government or Agency debt. Through the issuance date of these financial statements, the S&P downgrade of U.S. debt did not cause an investment guideline violation nor do we expect these events to have a material effect on how we manage the fund's U.S. debt exposure.

B. Due from Other Fund

As provided by 2007 Wisconsin Act 20, in October 2007 and July 2008 the State transferred $71.5 million and $128.5 million respectively from Injured Patients and Families Compensation Fund to the State's Medical Assistance Trust Fund. The Wisconsin Medical Society challenged the transfer by filing suit against the State Secretary of Administration in Dane County Circuit Court. The court ruled in favor of the State and dismissed the case. The Medical Society appealed and the case was certified for Wisconsin Supreme Court review.

On July 20, 2010, the Supreme Court ruled in favor of the Medical Society indicating that the transfer was an unconstitutional taking of property without just compensation. The case was remanded back to Circuit Court to determine repayment and timing. In July 2011, the Circuit Court judge issued a final order directing the State to transfer $233,747,081.35, which included lost earnings, by October 1, 2011. The State made the directed transfer on August 2, 2011.

This subsequent event is not recognized in these financial statements because it is not an investment related activity. It is recognized in the financial statements of the IPFCF found in the state's 2011 Comprehensive Annual Financial Report.