



THE SWIB REPORT

Published by The State of Wisconsin Investment Board For WRS Participants

May 2001

Funds Outperform Declining Market

In a year of declining markets, the Wisconsin Retirement System (WRS) Trust Funds were still able to outperform their performance benchmarks. The Fixed Fund returned -0.8% topping its performance benchmark by 0.6%. The -1.4% return for the benchmark represents the aggregate performance of the markets in which the Fixed Fund invests.

With assets of \$55 billion, the Fixed Fund (or balanced fund) is the larger of the two trust funds of the WRS and has diversified holdings in domestic and international stocks, bonds, loans, real estate and private equity.

The Variable Fund returned -7.2% for the year, outperforming its benchmark by 1.6% and the S&P 500 return of -9.1%. The benchmark, which returned -8.8%, reflects the Fund's investment in

various domestic and international stock markets. The Variable Fund had assets of \$7.3 billion at year end.

Both funds' five-year and ten-year annual average returns were also ahead of their investment benchmarks.

"After five consecutive years of unprecedented double-digit returns for both retirement funds, the equity markets reversed direction in

2000," said SWIB Executive Director Patricia Lipton. "The dramatic market volatility has continued into 2001. We will continue to focus on investment strategies that add value over the long-term."

Investment returns include changes in market value as well as interest and dividend income. Investment returns differ from rates credited to WRS member accounts and adjustments to monthly retiree annuities.

Annualized Performance Ending 12/31/00

Retirement Funds	1-Year Return	5-Year Return	10-Year Return
Fixed Fund	-0.8%	12.0%	12.6%
<i>Benchmark</i>	-1.4	11.4	12.0
Variable Fund	-7.2%	15.2%	15.5%
<i>Equity Benchmark</i>	-8.8	13.9	15.1
S&P 500	-9.1	18.3	17.4

FYI

In addition to the information typically included in our Annual SWIB Report, the State of Wisconsin Investment Board is featuring information about the Variable Fund and our new Internet site, which will hopefully serve as another key resource for many participants. On page 4, there are commonly asked questions about the Variable Fund. You will find details about our website and other information sources on page 7. This issue also highlights a historic look at SWIB over the past 50 years found on page 8.

SWIB Welcomes Three New Trustees

The Investment Board has three new members serving on the Board of Trustees.

Andrea Steen Crawford, Village Manager for Elm Grove since 1997, serves as the Local Government Investment Pool representative. She has 13 years experience in municipal management. She replaced Norma DeHaven.

A resident of La Crosse, **James A. Senty** is president of Midwest Gas Cos. in La Crosse and is chairman of the board of Park Bank in Madison. He replaced Albert Nicholas.

Wayne McCaffery of Stevens Point serves as Chairman of the Teacher Retirement Board and is a member of the Employee Trust Funds Board. He was recently named as



James Senty



Andrea Steen Crawford

the teacher representative to the SWIB board. He has taught high school economics in Stevens Point for over 20 years. He also has taught at the university level and is a Chartered Mutual Fund Counselor.



Wayne McCaffery

Hahner says farewell

George Hahner's second term on the Board came to a close in April. He was first appointed to the Board in



George Hahner

1989 and was reappointed in 1995. He has longer continuous service than any current member. His responsibilities included representing SWIB at the Council of Institutional Investors and acting as the first Chairman of the Audit Committee for the Board. George taught economics, history and government for 28 years in Colby and Racine before his retirement in 1987.

2000 SWIB Portfolio Highlights

- Small company stocks returned -0.2%, surpassing the -3.0% return for the Russell 2000, a leading indicator for the small company market.
- Large company stocks returned -4.2%, beating a -9.1% return for the S&P 500.
- Mid-size company stocks gained 15.8% compared to 17.7% for the S&P 400, a leading indicator of stocks of medium-sized companies.
- International stocks returned -11.4% compared to -13.4% for the Morgan Stanley Capital International (MSCI) World Index that represents stocks in 21 developed foreign markets.
- Domestic fixed income holdings earned 12.3%, surpassing an 11.9% aggregate return for bond market indices.
- Global bond portfolios returned an aggregate 1.8% as compared to 1.6% for the benchmark.
- Real estate earned 11.7% for the year, matching the return for the National Council of Real Estate Investment Fiduciaries Index, a widely recognized measure for institutional investors.
- Alternative investments in aggregate returned -5.7% compared to 9.7% for the benchmark. These portfolios include a number of early stage investments in private equity and non traditional markets typically expected to be below benchmark returns until a five-year period has passed.

WRS Trust Funds Strategy Review

Fixed Fund

The Fixed (or balanced) Fund is the largest of the two trust funds that make up the Wisconsin Retirement System (WRS). All participants have at least 50% of their pension money in the Fixed Fund.

Investment Goal: The basic investment objective is to achieve an average 8% annual return over the long-term that includes an annual rate of return of 3.5% above wage-rate growth (expected average increase of wages). The 8% return is the minimum investment requirement set by the WRS actuary to accumulate the funds needed to pay projected benefits to participants over time. Basically, it is an estimate of how much is needed to ensure that a person who retires will receive a benefit that will stay constant in real terms. A second goal is to exceed an investment rate of return known as the "benchmark" established by the Board of Trustees, which reflects performance of general market indices.

Investment Strategy: In keeping with the extended time horizon of the Fund's obligations to provide pension funds for participants, this fully diversified, balanced fund seeks long-term growth. The strategy and asset allocations are reviewed annually.

Variable Fund

About 12% of the WRS assets are managed in the Variable Fund. Prior to 1980, new employees could choose to place half of their pension fund contributions in this Fund. Participants who choose the Variable Fund option accept a greater degree of risk, in part, because it is a stock fund, for the potential of greater long-term returns.

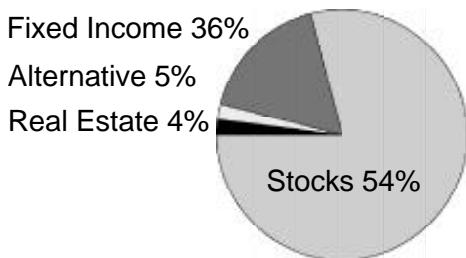
Investment Goal: The investment objective is to achieve returns that equal or exceed that of similar equity-oriented portfolios. The Standard & Poor's Index of 500 stocks, which features large company stocks, is also used as a performance measure.

Investment Strategy: According to the Wisconsin Statutes the "assets of the Variable Fund shall be invested primarily in equity securities, which shall include common stocks, real estate or other recognized forms of equities...". Assets are diversified into a number of markets not represented in the S&P 500, including international markets, venture capital and smaller growth stocks that represent about 55% of the Fund.

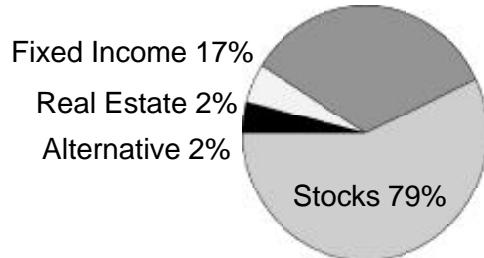
Stock Exposure

WRS participants who remain only in the Fixed Fund, currently have about 54% of their pension contributions invested in stocks. Those who choose to also participate in the Variable Fund have about 79% exposure to stocks. By law, Variable Fund participants have 50% of their pension contribution invested in that fund and 50% in the Fixed Fund.

100% Fixed



50% Fixed/50% Variable



WRS AT A GLANCE

- ◆ As of December 31, 2000, the WRS market value was \$62 billion.
- ◆ The WRS is the 10th largest US public pension fund.
- ◆ Fixed & Variable Funds holdings include over 2000 companies.

TOP TEN STOCKS

General Electric

Exxon Mobil

Pfizer

Merck

Citigroup

Cisco Systems

American Intl Group

Microsoft

Intel

Johnson & Johnson

2001 STRATEGY CHANGES

— Lower the asset target for international stocks for the Variable Fund from 25% to 20% and correspondingly increase domestic stocks from 75% to 80%.

— Phase out dedicated emerging markets equities portfolios and invest opportunistically in emerging markets through international portfolios.

— Move \$3 billion from an externally managed index fund to internal management.

Q & A

Q. What investments are included in the Variable Fund?

A. The Variable Fund is a stock fund. Investments are divided between domestic stocks (traded on US markets) and International stocks (traded on foreign markets). Domestic stock portfolios make up 75% of the Variable Fund. The remaining 23% are international stock portfolios. As part of its annual asset allocation review, the Board has decided in 2001 to increase the allocation in domestic stocks to 80% and to reduce the allocation to international stocks to 20%. Analysis indicated that this would reduce risk levels for the fund, while having little effect on long-term returns. A small percentage, generally about 2%, is typically in cash as liquidity for daily transactions.

Q. How are the stocks selected for the Variable Fund?

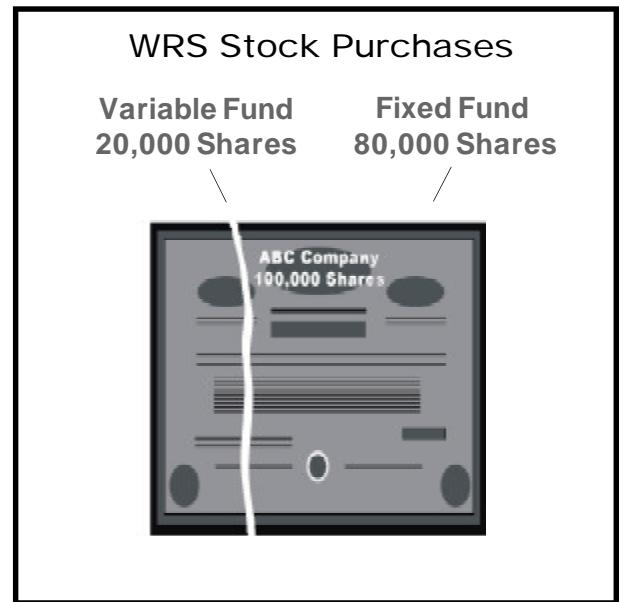
A. The stocks included in the Variable Fund are the same companies that appear in the stock portfolios of the Fixed Fund. When a portfolio manager purchases shares of a particular stock, the total is divided by approximately an 80-20 split between the Fixed Fund and the Variable Funds. For example, if the Large Company Portfolio manager purchases 100,000 shares of ABC Company, 80% would automatically go into the Fixed Fund and 20% would automatically go into the Variable Fund. Likewise, if the stock was sold, 80% of the shares sold would be deducted from the Fixed and 20% from the Variable.

Q. Is the Variable Fund a good choice for me?

A. Remaining in the Variable Fund is an individual decision. As with any investment, it is best to consider several important factors, including personal risk tolerance, years until retirement, and the other types of investments that will provide retirement funding. Over the long-term, stocks have outperformed most other types of investments and Variable Fund returns have exceeded Fixed Fund returns. The Variable Fund's investments are diversified among different types of stocks to help reduce risk. However, the Variable Fund's returns are more volatile and, unlike the Fixed Fund, returns are not smoothed over a period of time. Unfavorable markets resulted in losses in three of the last 15 years, including 2000 when the return was -7.2%, the lowest since 1990.

The process for determining the effect of investment returns on employee accounts (the "effective rate") and change in benefits for retirees differs between the Variable and Fixed Funds. The Department of Employee Trust Funds (ETF) computes those amounts. A transfer from the Variable to the Fixed Fund can be made by contacting ETF.

The Variable Fund was closed to new participants by law in 1980, however, 1999 Wisconsin Act 11 reopened it as of January 1, 2001. As of press time, a Supreme Court injunction against implementing Act 11 was still in effect. If the Variable Fund reopens, we encourage anyone considering this option to be fully informed about the potential risks and rewards before making a decision. More information is available from ETF about provisions of Act 11 that could be important in your choice.



Weathering Volatile Markets Requires Steadfast Strategy

By Patricia Lipton, SWIB Executive Director

How are the Wisconsin Retirement System Funds affected by turbulent markets? That question is on the minds of many WRS participants, particularly when there are sharp declines in the US stock markets such as we have been experiencing recently.

Stocks represent the largest type of investment held by the WRS. From 1995 to 1999, annual returns were extraordinary with the Variable Fund reaching 28% and the Fixed Fund topping out at 23.1% during that time period. At the end of 1999 the annual return of the S&P 500 had averaged 28.6% over the last five years, more than double the 13.3% annual return since 1945.

History shows that periods of market losses are part of investing in stocks. Since 1926, there have been 8 years in which the market fell by more than 10% and four years in which the drop was more than 20%. However, over time, stocks have outperformed most other forms of investment. Stocks have been a major factor in the gains that WRS participants have experienced in their retirement accounts. SWIB's goal is to help ensure that obligations to current and future retirees will be met even as market conditions change. Therefore, our investment strategy continues to be long-term, diversified and disciplined. The success of this strategy is time proven.

Long-term Focus

SWIB's investment strategy reflects the long-term needs of the WRS. Like most large public pension funds, SWIB does not attempt to "time the market." There is strong evidence that being out of the market for even a short time can significantly reduce long-term gains. In fact, long-term investors such as SWIB, often find opportunities when the market is in a down cycle.

Diversified Portfolios

WRS investments are mixed across a wide variety of markets and diverse holdings within each market. The Fixed Fund has more than 2000 different investments, including stocks, bonds, real estate and other holdings. This diversification helps to stabilize the effects of market changes. The Variable Fund invests only in stocks, but is diversified by country, industry and company size.

Disciplined Strategy

SWIB sets allocation targets for each asset class. Asset allocation divides an investment fund among stocks, bonds and other types of investments. Because different types of investments do not always react in the same way to shifts in the economy or financial climate, this offers the potential for meeting long-term return objectives and reducing overall risks.



Patricia Lipton

A Historic Look at Investment Returns

Over the last 20 years, the average annual investment return for the Variable Fund was 13.9% and 12.8% for the Fixed Fund. There has been greater annual fluctuation in Variable Fund returns, reflecting the volatility of the stock market. In addition, the composition of the Fixed Fund has changed, moving from an average 32% in stocks in the early 1980s to over 54% as of 2000. The extraordinary market returns of the last two decades have generally exceeded the experience of even longer periods of time. The impact of investment returns on individual accounts is determined by the Department of Employee Trust Funds and depends upon a number of factors established by law.

Investment Returns		
Year	Fixed Fund	Variable Fund
2000	-0.8%	-7.2%
1999	15.7%	27.8%
1998	14.6%	17.5%
1997	17.2%	21.6%
1996	14.4%	19.8%
1995	23.1%	25.6%
1994	-0.6%	0.8%
1993	15.0%	16.5%
1992	9.7%	10.7%
1991	20.4%	27.1%
1990	-1.5%	-11.3%
1989	19.2%	22.6%
1988	14.4%	21.7%
1987	2.2%	-1.1%
1986	14.5%	11.5%
1985	27.5%	32.7%
1984	12.8%	5.8%
1983	12.5%	24.7%
1982	27.3%	22.2%
1981	4.7%	3.0%
Average Annual Return	12.8%	13.9%

Investment Categories for the WRS Assets

DOMESTIC STOCKS:

Investments primarily consist of common stock in US companies. Holdings are diversified among small, medium and large companies. Four portfolios are managed internally and four externally. SWIB also invests in three funds that contain the same companies as the market indices.

INTERNATIONAL STOCKS:

Investments are divided among an internally managed portfolio, externally managed portfolios and an index fund. SWIB limits investments to countries rated "free" or "partly free" by the Freedom House Index.

PUBLIC BONDS:

These investments include US government bonds and corporate bonds purchased in public markets, corporate securities and US Treasury and agency securities. Two of the portfolios are actively managed by SWIB staff and one in an index fund.

INTERNATIONAL/GLOBAL BONDS:

These portfolios may invest in US or foreign bonds. Securities must meet minimum credit quality requirements. Outside advisors manage approximately 70% of these holdings.

COMMERCIAL MORTGAGES:

Investments consist of private commercial mortgages in partnership with Northwestern Mutual Life.

PRIVATE PLACEMENTS:

SWIB makes direct, long-term loans to companies located throughout the United States. In many cases, SWIB is a co-lender with other public or private investors. Loans are made at fixed rates of interest.

REAL ESTATE EQUITY:

SWIB invests in commercial real estate as a sole direct owner, or in joint ventures and partnerships. The portfolio is diversified by region of the United States and by property type.

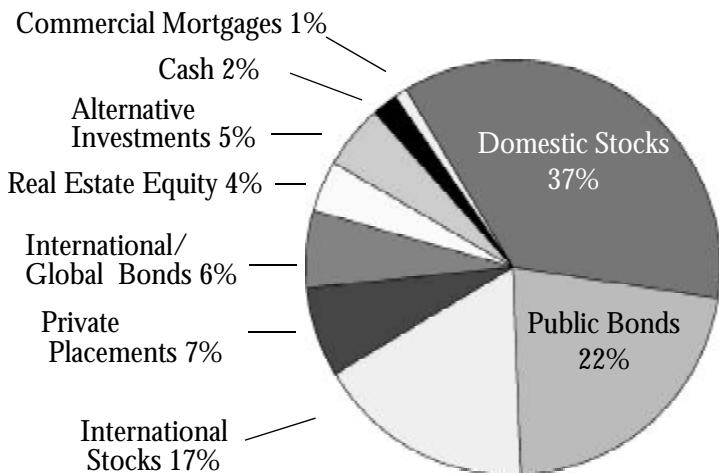
ALTERNATIVE INVESTMENTS:

Included are leveraged buyouts, venture capital, biotech initiative, and Opportunity Portfolio, structured to invest opportunistically across asset classes in domestic and foreign markets. These investments carry greater risk, but offer the prospect of greater return.

CASH:

Temporary cash balances awaiting permanent investment are invested in short-term and intermediate-term investments. They include obligations of the US government and its agencies as well as high quality commercial bank and corporate debt obligations.

Fixed Trust Fund



Variable Trust Fund



(Totals may not add to 100% due to rounding)

Information at the click of a button

Web Users Want Information Faster and Easier

When it comes to the Investment Board, most people have two questions on their mind. The first is "What is the investment performance of the Fixed and Variable Funds?" The second is, "Where are the Wisconsin Retirement Funds invested?"

The screenshot shows the homepage of the SWIB website. At the top, there's a navigation bar with links for "SWIB Staff", "Corporate Governance", "Invest in Wisconsin", and "Board of Trustees". On the left, a sidebar lists various links: "About SWIB", "WI Retirement System", "WRS Investments", "State Investment Fund", "Other Trust Funds", "Frequent Questions", "Hot Topics", "Contact SWIB", "Related Sites", and "Employment". The main content area features a large "WELCOME TO THE STATE OF WISCONSIN INVESTMENT BOARD" heading. Below it is a detailed text block about the agency's investments. At the bottom of the main content area is a table titled "12-Month Returns" showing performance data for different funds.

Fund	1-Year Return Ending 12/31/00	5-Year Return Ending 12/31/00	10-Year Return Ending 12/31/00
Fixed Fund Benchmark	-0.6%	12.0%	12.6%
Variable Fund Benchmark	-7.2%	15.2%	16.6%
S&P 500	-9.1%	18.3%	17.4%

Those were the primary responses to an electronic survey conducted by SWIB via e-mail and on the website at the end of 2000.

The answers are a key part of the information available on SWIB's newly redesigned website. And for those who may not have computer access, the same information is also available by mail, it just takes a little longer.

SWIB's website now features calendar year-to-date returns for the Fixed and Variable Trust Funds. This information is available starting with first quarter

(March 31) performance, which is available about two weeks after the end of the quarter. So, in mid-April, SWIB will post how the investments for the Fixed and Variable Funds have done from January 2001 through March 2001. This information will be updated monthly.

In addition, SWIB posts annualized performance figures on a one-, five- and ten-year basis. These numbers are updated quarterly.

The question regarding where the WRS funds are invested is usually divided into two parts. The first involves the various assets or portfolio types for the Fixed and Variable Fund. The assets are included under the Fixed and Variable portion of the WRS Investments on the website. These are also listed on page 6 of the newsletter.

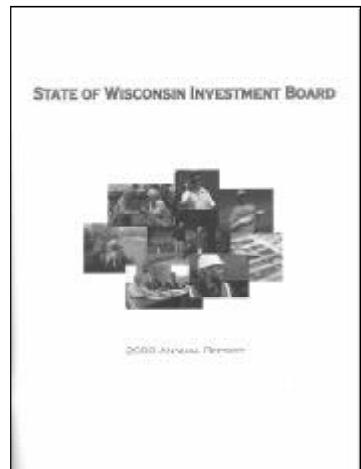
The second part is a list of individual investments the Funds hold. Information on how to obtain a list of these investments is detailed below.

Annual Report and List of Investments Available On-line or By Mail

The 2000 Investment Board Annual Report for fiscal year ending June 30, 2000, is available on the Internet for the first time. The full report is located in the "Hot Topics" section of the SWIB website at www.swib.state.wi.us. The Investment Board overview and the financial statements can also be downloaded separately.

If you are interested in receiving a published copy of the Annual Report contact the SWIB hotline at (800) 424-7942 or 267-0957 in Madison or write the Investment Board, P.O. Box 7842, Madison, WI 53707.

The 2000 Schedule of Investments, a list of SWIB's investment holdings as of June 30, 2000, is also available through the Website by clicking on the WRS Investments button and following the link to the Securities and Exchange Commission (SEC) Website. A complete list of SWIB's investment holdings are filed quarterly with the SEC and posted on its website. A published copy of the Schedule of Investments, as of June 30, 2000, can also be obtained by contacting SWIB.



50 Years of Innovation Benefits WRS

SWIB, as we know it today, was created in 1951 by the Legislature with support from fund participants who wanted a progressive investment program. That premise, along with a great amount of support from both government leaders and system participants, has allowed SWIB to meet the challenges posed by a vastly changing investment industry. Historical highlights include the following:

- 1921** The Legislature creates a teacher pension system and Annuity Board to invest the funds.
- 1929** The Annuity Board is reorganized and renamed the Annuity and Investment Board.
- 1951** The Legislature creates the Investment Board as it is known today. It takes a progressive approach to investing public pension funds, becoming one of the first to invest in common stock. Total assets under management are \$349 million.
- 1965** A Private Placements (business loans) program, one of the first of its kind, begins.
- 1967** SWIB assets under management reach \$1 billion mark.
- 1975** Legislation initiates the process to combine the Wisconsin Retirement Fund, State Teachers Retirement System and Milwaukee Teachers Retirement Fund into the present-day Wisconsin Retirement System (WRS).
- 1976** Local Government Investment Pool is established to provide a convenient cash management option for Wisconsin's 2,400 local units of government.
- 1984** SWIB investment portfolio hits the \$10 billion mark.
- 1985** SWIB begins venture capital and leveraged buy-out programs.
- 1986** SWIB creates the Investor Responsibility Program to protect its long-term investment earnings by actively exercising its rights as a shareholder.
- 1989** International investments, which opens opportunities in foreign markets, begins.
- 1991** SWIB investment portfolio reaches \$25 billion.
- 1995** SWIB begins to significantly upgrade its risk management program, including a major initiative to integrate and improve information systems.
- 1996** US Small Business Administration recognizes SWIB's 30-year-old Private Placements program as a model for public pension funds.
- 1997** SWIB investment portfolios top \$50 billion mark.
- 1999** A new venture capital initiative earmarks up to \$65 million for high-tech and biotech firms based in Wisconsin and the Midwest.
- 2000** As part of its new corporate governance focus on independent directors, SWIB initiates an educational program for corporate board members to promote an understanding of sound corporate government policies.
- 2001** SWIB celebrates its 50th Anniversary with total assets under management at \$67 billion and WRS funds at \$63 billion.