



The SWIB Report

Published by The State of Wisconsin Investment Board For WRS Participants

May 2003

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About SWIB

The State of Wisconsin Investment Board (SWIB) is the state agency responsible for investing the Wisconsin Retirement System assets. It is directed by an independent Board of Trustees. Daily operations are carried out by professional money managers and administrative, legal and operations support staff.

Board of Trustees

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Marc J. Marotta

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Another Difficult Year, But SWIB Has Some Bright Spots

Annualized Performance Ending 12/31/02

Retirement Funds	1-Year Return	5-Year Return	10-Year Return
Fixed Fund	-8.8%	3.2%	8.3%
<i>Benchmark</i>	-7.7	2.7	7.7
Variable Fund	-21.9%	0.0%	7.9%
<i>Equity Benchmark</i>	-19.9	-1.6	7.3
<i>S&P 500</i>	-22.1	-0.6	9.3

Even with a third straight year of declining markets, the investment performance of the Wisconsin Retirement System Trust Funds still had some bright spots in 2002.

"It was the worst December experienced by the Dow Jones Industrial Index in 70 years and the first time since 1939 through 1941 that we have seen three consecutive down markets," said Patricia Lipton, SWIB Executive Director.

Even so, cuts to Fixed Fund payments to annuitants were averted.

The Fixed Fund ended the year with a return of -8.8%. The Fixed Fund return beat the -10.7% return for the Lipper Index of Balanced Mutual Funds, but was behind SWIB's one-year benchmark of -7.7%. The Fixed Fund's five-year annual average return of 3.2% and ten-year annual average return of 8.3% are ahead of their performance benchmarks. The ten-year return is also ahead of the 8.0% average annual return needed to meet pension obligations to current and future retirees over the long term.

The Variable Fund, an all-stock fund, returned -21.9% for the year, behind its benchmark of -19.9% and ahead of the S&P 500 return of -22.1%. The Fund's five-year annual average return, which shows no gain or loss, remains ahead of its benchmark. The ten-year annual average return of 7.9% also surpassed its benchmark.

Portfolio Performance:

The developed international stock portfolios returned -12.1% versus a -15.8% for their benchmark. SWIB's domestic stock portfolios returned -23.2% compared to -21.5% for the benchmark. Domestic fixed income holdings saw a 7.2% aggregate return versus 10.5% for the benchmark.

Bright Spots:

SWIB's global and emerging market bond portfolios gave a strong performance and returned 19.4%, beating their combined benchmark of 18.8%. SWIB's Internal Global Fixed Income portfolio returned 20.3% compared to its benchmark of 19.4%.

The Real Estate portfolio returned 8.3%, ahead of the 5.6% return for its benchmark. Alternative Investments returned 2.8% compared to -7.3% for the benchmark.

WRS Trust Funds Strategy

2003 Fixed Fund Asset Target Changes

Assets	2002 Target	2003 Target
US Stocks	39%	Increased to 40%
International Stocks	18%	Increased to 19%
Fixed Income	34%	Decreased to 31%
Real Estate	4%	Remains at 4%
Alternatives	5%	Increased to 6%

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 Goals: The basic investment objective is to earn an average 8% annual return over the long term, which includes an annual rate of return of 3.5% above the expected average increase of wages. The 8% return is the minimum requirement set by the WRS actuary to accumulate funds to pay projected benefits to participants over time. It is based on how much is needed to ensure that a person who retires will receive a benefit that will keep pace with inflation. The ten-year annualized return as of December 31, 2002, was 8.3%, 0.3% above the 8% goal. A second goal is to exceed the “benchmark” established by the Board of Trustees. The benchmark measures SWIB’s performance to see if we are doing as well or better than the markets. The Fixed Fund benchmark is mainly a composite of several industry indices rolled up and weighted to the asset allocation target.

Investment Strategy: In keeping with the extended time horizon of the Fund’s obligations to provide pensions for all participants, this fully diversified, balanced fund seeks long-term growth. Asset allocation is reviewed annually.

Variable Fund

About 12% of the WRS assets are managed in the Variable Fund, which was closed by law to new participants in 1980 and reopened to active employees in 2001. Participants who choose the Variable Fund can place half of their future pension fund contributions in this Fund. Participants in the Variable Fund option also 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 portfolios. The Standard & Poor’s Index of 500 stocks, which features large company stocks, is also used as a performance measure. About 55% of the Fund is diversified into international markets and smaller growth stocks that are not represented in the S&P 500.

Investment Strategy: According to 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...”. Asset allocation remains 100% in stocks.

Stock Exposure

WRS participants who remain only in the Fixed Fund have about 59% of their current pension contributions invested in stocks. The stock exposure for those who participate in the Variable Fund will depend on the amount of the individual account and the length of time in the WRS and in the Variable Fund. It is estimated that participants generally will have between 59% to 77% stock exposure if they are in both funds.

Highlights 2003 Strategy Changes

- Creating new portfolio in stocks not currently covered by the Small and Mid Cap Portfolios.
- Expanding international investments to include emerging markets.
- Combining the Intermediate and Long-Term Corporate/Government Bond Portfolios.
- Modifying corporate governance priorities to protect SWIB’s position as a shareholder.

INVESTMENT RETURNS

Year	Fixed	Variable
2002	-8.8%	-21.9%
2001	-2.3%	-9.0%
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%	10.8%
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%
20-Year Average	10.5%	10.8%

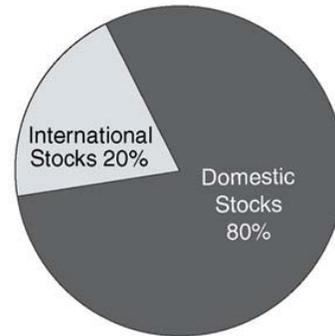
Asset Allocation

Fixed Trust Fund



Target Asset Allocation for 2003.

Variable Trust Fund



Asset Allocation Is Critical to Strategy

As manager of the assets of Wisconsin Retirement System trust funds, SWIB is responsible for making strategic decisions to ensure there are sufficient funds for both current and future retirees. Meeting this fiduciary responsibility requires a long-term focus and involves a continuous process.

The Board of Trustees and the SWIB staff work with outside experts to determine the best investment strategy. They must consider a wide range of information including, economic and demographic trends and the amount of money needed to provide pension benefits for people in the WRS over the long-term (50 years or more). In fulfilling its fiduciary duties to the trust funds, the Board establishes:

1. Asset allocation: how the funds in the WRS will be divided among broad asset classes, such as stocks, bonds, real estate and other types of investments.
2. Investment guidelines: parameters set for a portfolio manager to invest assets under his or her control.
3. Benchmarks: targets set for each portfolio to measure performance.

Asset allocation is considered the starting point and is a key element of successful investment returns. Each year the Board conducts a formal asset allocation review that results in policy and funding recommendations.

Several strategic changes were made to the targeted allocations for 2003. **See page 2 for more information.**

Portfolios in the WRS Trust Funds

Domestic Stocks primarily consist of common stock in US companies. Holdings are diversified among small, medium and large companies. Six portfolios are managed internally and the remaining externally. SWIB invests 39% of the equities in index funds.

International Stocks 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.

Fixed Income

Public Bonds include US government bonds and corporate bonds purchased in public markets, corporate securities and US Treasury, and agency securities.

Global Bonds include US or foreign bonds. Securities must meet minimum credit quality requirements. Outside advisors manage about 45% of the holdings.

Real Estate Mortgages consist of private commercial mortgages in

partnership with Northwestern Mutual Life.

Private Debt includes 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 includes commercial real estate with SWIB 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 are private equity investments, which includes leveraged buyouts and venture capital, and other opportunistic investments across asset classes in domestic and foreign markets. These investments carry greater risk, but offer the prospect of greater return.

Cash (temporary balances awaiting permanent investment) is invested in short-term and intermediate-term investments, including obligations of the US government and its agencies and high quality commercial bank and corporate debt obligations.

Your Pension

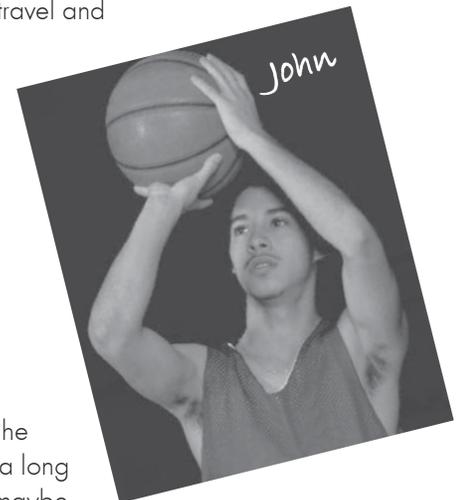
The Wisconsin Retirement System provides a solid foundation to support you after you leave the daily workplace. The WRS offers participants two options – leaving 100% of your pension funds in the Fixed Trust Fund or putting 50% in the Variable Trust Fund. It is important to understand both options when making a decision about your future. People often contact the Investment Board wanting to know what choice they should make regarding their own individual situation. While the Investment Board can not provide advice, we can offer investment and performance information that can help you make the best choice. Each of the following profiles are fictitious and are intended to help you choose the option that works best for you. When it comes to retirement planning, everyone is different. Your job, your time in the WRS, your other investments and your retirement goals are all unique to you. However, there are some things to consider during various stages of retirement planning. The fictitious profiles were created to help you identify what is important in your own situation and to provide basic information to help you make the decision that is best for your retirement years. [For more information about your benefits, please contact the Department of Employee Trust Funds at 1-877-533-5020.](#)

“I’m too young to worry about retirement!”

John Smith, 23, recently landed his first full-time position as a teacher and coach at a Milwaukee high school. After spending four years in college and a year abroad, he is ready to enjoy the benefits of a steady income. He has a lot of goals: get a new car, travel and maybe even buy a condo or small house in the future. He loves to travel and spends his evenings playing pickup basketball. Although he doesn’t have much in his savings account, about \$100 truth be told, he does have a plan. Put a little away each month towards his goals. He is ready to live! Thinking about retirement isn’t part of the game plan right now. It’s just too far away.

When John started his job, he did get some papers about his retirement benefits, but he didn’t really read the options. He had to name a beneficiary (his parents) and there was another matter, something about a Variable Fund option. What difference does it make, he thought? Why worry about it now. He asked a couple of the teachers that had been at the schools for a long while. Some urged him to get into the Variable Fund and to look at other investment opportunities. Others said the markets were really bad and since the Variable Fund was all stocks now wasn’t a good time.

His parents urged him to think about the future, including his pension fund. John admitted he really didn’t understand the system and that it wasn’t really important anyway because he has a long time until retirement. His parents advised him to take the time to plan for his retirement now, so maybe he could retire early and spend his time traveling. Before John makes a decision he needs to consider:



1. Can he put additional money away for retirement through other investment programs or with additional WRS contributions?
2. Does the Fixed (or balanced) Trust Fund offer sufficient stock exposure (59%) invested in domestic and international stocks?
3. Does he want to take the higher risk associated with the all-stock Variable Fund for possible better returns over the long term?
4. Should he discuss his retirement needs with a professional financial planner or can he research information provided by the Department of Employee Trust Funds and other general sources to determine the best plan?

“I’m just worried about my kids going to college!”

Bob Johns is a 38-year-old employee for the City of Appleton engineering department, where he has worked for the past six years after leaving a private firm. Recently he and his wife started looking seriously at their future financial needs, including college for their two teenaged children and retirement. His wife’s part-time job at a local department store has really helped pay for the extras, but Bob’s pension benefits will provide the bulk of their retirement funds. They spend much of their free time volunteering and watching their children’s sports activities and performances with their school theater programs. Once in a while they get out for a round of golf together.

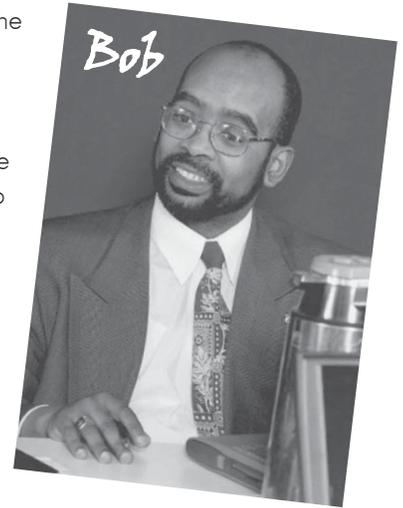
At his previous job, Bob had a good pension plan that will provide some benefit during retirement. He is depending on Social

...Your Choice.

...worried about my kids (continued from page 4.)

Security and his Wisconsin Retirement System benefits to provide another large part. Right now, he and his wife are putting away a little extra money, but not much because they have a son in college and in two years their daughter is planning to go to school. A few years back, he was given the option of putting half of his future contributions into the Variable Fund, which has been hard hit by stock market declines, but chose not to make the change. Now, he is wondering if the markets will start to turn around and if he should be making the move into the Variable Fund. Bob needs to consider the following:

1. Which is he likely to receive when he retires, the money purchase (based on the amount of money in his retirement account) or formula benefit (based on the average of his three highest years' salaries). How would being in the Variable Fund affect that situation?
2. What is the possible impact of the market over the next 10 to 20 years?
3. How much of his pension income will come from other investments or pension funds and what amount will he need to have a comfortable retirement?
4. How long does he plan to remain in the WRS before retiring?



“I’m counting the months until retirement!”

Shannon Lee is a wildlife biologist for the Wisconsin Department of Natural Resources. Her husband, Brad, also works for the DNR as a forester. Both Shannon and Brad grew up in Northern Wisconsin, have loved the “north woods” all their lives, and left the area just long enough to get their education.

Shannon and Brad both work out of the Eagle River Ranger Station, and live just outside Eagle River on Otter Lake. They have not always been able to work together, but an opening at the Ranger Station five years ago made it possible for Shannon to transfer from the Woodruff Service Center. Shannon has been a state employee for almost 30 years and has put 50% of her retirement contributions in the Variable Fund since she started. She is about four years away from age 57, when she plans to retire with full benefits. She also is planning her retirement, beginning with a thorough evaluation of her financial situation to ensure that they will have sufficient resources.

Shannon and Brad are looking at the potential benefits they will have, through the Wisconsin Retirement System, Social Security and other options. Shannon has requested updated statements and an analysis of benefits from each organization. They worked up a budget for anticipated expenses to make sure their retirement benefits will be sufficient or if one of them would want to work longer or get a part-time job.

They realize that they need to understand what health coverage they will have through Social Security/Medicare and what additional coverage they will need. As employees of the State of Wisconsin, they will be able to take advantage of the benefit which allows them to use their accumulated unused sick leave to pay for their health insurance after retirement. That will help for a while. Shannon has made additional investments through the Wisconsin Deferred Compensation Program over the past 10 years and has about \$40,000 in that program. They also are free of a home mortgage. Shannon needs to consider the following:



1. How have declining markets impacted her Variable Fund account and how will that affect her retirement benefits?
2. Does she want to have the risk of leaving her pension in the Variable Fund during her retirement for the potential higher returns and what would be the impact if the funds were moved over to the Fixed Fund?
3. Based on other retirement income, would having a more stabilized pension payment provided by the Fixed Fund be a better option?
4. How will future investment performance impact Fixed and Variable Fund annuity payments?

Changes to Board Are Announced

Several changes have taken place recently in the makeup of SWIB's Board of Trustees.

Allen Samson of Milwaukee has been named by Governor Doyle to serve on the Board. Samson is vice-chairman of State Financial Bank. He previously served in a number of banking, legal and business positions. A graduate of University of Wisconsin - Madison and the UW Law School, he is active in Milwaukee civic affairs and fills the position previously held by **Jon Hammes**.



Allen Samson

Hammes, president of Hammes Company in Brookfield, WI, was first appointed to the Board in September of 1996. He has provided excellent leadership to the Board, serving as chairman for the past three years and working on key committees.

Secretary of Administration

Governor Doyle appointed **Marc Marotta** Secretary of the Department of Administration and he replaces former Secretary George Lightbourn on the board. Marotta was a partner in the Milwaukee law firm Foley & Lardner and serves on the State Technical College System Board of Directors.

He graduated from Harvard Law School and Marquette University.



Marc Marotta

New Board Chair Named

James Senty of La Crosse has been named Board Chair. Senty has served as a Trustee since January 2001 when he was appointed to fill a vacant position on the Board and was reappointed in to a six year term in May, 2001.



James Senty

He is president of Midwest Gas Cos. in La Crosse and serves as chairman of the board of Park Bank in Madison.

Steen Crawford Steps Down

SWIB recently said farewell to **Andrea Steen Crawford**, who served on the Board of Trustees since May 2000. By virtue of her position as Village Manager of the Village of Elm Grove, she represented investors in the Local Government Investment Pool. She was recognized for her diligence in carrying out her responsibilities as a trustee and was a member of the Audit and Compensation Committees. Her position on the Board is vacant until a new appointment is made by the Governor.

Pool Heads Alternatives Group

Franz Pool has joined the SWIB staff as Managing Director of the Alternative Investments Group, which includes private equity; direct, long-term loans; leveraged buyouts; venture capital; and other opportunistic investments. Franz has more than 19 years of investment and portfolio management experience in alternative assets and fixed income investments.



Franz Pool

Most recently, he served as vice president and principal of Whitney and Co., a venture/growth capital investment firm in Connecticut.

Pool holds a bachelor's degree in economics and business administration from Rockford (Illinois) College, graduating cum laude; a master's degree in business administration with honors from Washington University in St. Louis and a doctor of laws degree from Washington University School of Law. He is a Chartered Financial Analyst, a registered commodity trader advisor, and member of the State Bar of Connecticut.

Did You Know?

As of December 31, 2002, the WRS market value was \$50.9 billion.

The WRS is the 10th largest US public pension fund.

The WRS is the 19th largest pension fund in the world.

Fixed & Variable Funds holdings include over 2,000 investments.



SWIB Updates Posted on Web

Sign-up for Electronic Messaging

Want timely SWIB information delivered to you electronically? Send your email address to SWIB at info@swib.state.wi.us to be included on our email update list. You will receive occasional updates about the WRS Trust Fund investments and other related news.

2002 Annual Reports Available

The Financial Report and Schedule of Investments for the fiscal year ending June 30, 2002, are now available. To receive a printed copy of either document, contact SWIB at our email address, info@swib.state.wi.us, or call toll-free, (800) 424-7942, or 267-0957 in Madison. The Annual Report and Schedule of Investments can also be downloaded from the SWIB website at www.swib.state.wi.us.

SWIB Part of \$18 Million Settlement

Former top officials of Anicom, Inc., a now-bankrupt wire distribution company in Chicago, have agreed to pay \$18 million in settlement to SWIB and other members of a class action suit.

Alan Anixter, former Anicom board chairman, is personally paying \$12.4 million of the latest \$18 million settlement. The remainder comes from the Anicom officer and director insurance policy. This is one of the highest individual payments made recently in connection with allegations of securities and accounting fraud, said Keith Johnson, SWIB general counsel. "We wanted to get as much money as possible from the people involved, rather than just settling for insurance money," he said.

The total settlement for shareholders, the Anicom bankruptcy estate, and lenders was \$40 million. PriceWaterhouseCoopers, Anicom's outside auditor, paid \$21.5 million to settle the same litigation.

About \$34.5 million of the almost \$40 million settlement came from sources other than the usual directors and officers insurance policy. Over 80% of the settlement was from people and companies, not corporate insurance for the now-bankrupt company. None of the defendants in the litigation admit any liability.

SWIB publishes a wide range of information on the Internet at



www.swib.state.wi.us. Monthly investments returns and timely announcements are generally found on the SWIB Home Page. Other current and archived information is available through the "Hot Topics" page by clicking the button located at the left hand of the home page.

"Hot Topics" includes links to announcements, related websites, and SWIB materials published on a variety of topics. Information is easily printed and includes the following:

- 1997-2003 press releases
- 2000-2002 annual reports
- 2000-2002 lists of investments
- Updates on current topics
- Quarterly newsletters

Performance Updates

SWIB also updates calendar year-to-date performance numbers monthly for the Fixed and Variable Trust Funds on the website. This gives participants an indication of the performance trend as the year progresses. Performance figures are updated as soon as final calculations are available for all investments.

Performance numbers for privately traded investments—such as business loans, real estate and private equity—are typically not available until two or three weeks after the end of the month. We report final performance on the SWIB website.

2002 Top Ten Domestic Stock Holdings

The ten largest domestic stocks held by SWIB as of December 31, 2002, listed in order by size, are as follows:

- | | |
|------------------------|---------------------------------|
| 1. MICROSOFT CORP | 6. CITIGROUP INC |
| 2. GENERAL ELECTRIC CO | 7. JOHNSON & JOHNSON |
| 3. EXXON MOBIL CORP | 8. INTL BUSINESS MACHINES CORP |
| 4. WAL-MART STORES | 9. AMERICAN INTERNATIONAL GROUP |
| 5. PFIZER INC | 10. MERCK & CO |

Q & A

Q. Why Does SWIB Stay Invested in Stocks When Markets Are Doing Poorly?

The Variable Fund remains invested in stocks because under state law it is an equities fund. Participants choose the Variable Fund option with the understanding that it is a stock fund and is, therefore, subject to fluctuations of the market. Stock holdings are widely diversified to manage risk.

A significant portion of the Fixed (or balanced) Fund assets is invested in stocks in order for the Fund to achieve an 8% rate of return over the long term. The WRS actuary has determined that an 8% return is needed to meet benefit obligations to current and future retirees. Over the last five years, the amount of stock exposure in the Fixed Fund has been less than other large state pension funds.

Annually, the Board reviews the asset allocation for both Funds and considers changes based upon expected returns under a variety of possible economic conditions. Given the large size of the WRS trust funds, it is not possible to effectively “time the markets” based on possible geopolitical events or short-term economic developments. Our most recent review included input from a number of different market experts. This review concluded that stocks and other equities are likely to outperform most other forms of investments over the next several market cycles.

Our portfolio managers can take a more defensive position in the types of stocks they own based on their evaluation of current economic and political events. In addition, SWIB is currently considering allocating a small portion of assets to a portfolio that would incorporate some market timing features.

SWIB Compares Well To Other Funds

Public pension funds across the country are all struggling with steep downturns in domestic and global stock markets. One way of reviewing SWIB’s performance is to compare our investment returns to other large pension funds.

As of December 31, 2002, the Fixed Fund ranked second for the one- and five-year returns and fifth for the ten-year

returns compared to nine other large public pension funds surveyed by the Legislative Audit Bureau for performance evaluation in 2000. The Fixed Fund’s five-year return ranked

December 31, 2002 Gross Return Comparison

Fund	One-Year	Rank	Five-Year	Rank	Ten-Year	Rank
SWIB	-8.8%	2	3.2%	2	8.3%	5
New Jersey Investments	-10.8	8	2.8	5	8.1	7
Virginia*	-10.2	6	2.8	5	n/a	n/a
Florida Retirement System	-11.1	9	2.6	8	8.4	4
New York State Teachers	-10.3	7	2.2	9	8.6	1
Minnesota Combined *	-11.6	10	1.8	10	7.9	9
CalPERS	-9.4	4	2.9	4	8.2	6
Pennsylvania Schools	-8.8	2	3.0	3	8.0	8
Texas Teachers	-9.5	5	2.7	7	8.4	3
Washington State Invest. Bd*	-7.7	1	3.7	1	8.5	2

*Returns are net of fees. Gross returns not available.

The chart above shows SWIB’s investment performance compared to nine other large pension funds surveyed by the Legislative Audit Bureau in 2000 and used in the LAB report to the Legislature.

second on a risk-adjusted basis. Another survey by the Trust Universe Comparison Service ranks the Fixed Fund above the median for the one-, three-, five- and ten-year period

when compared to about 40 other public pension funds with assets over \$1 billion. These returns are not on a risk-adjusted basis.