



# The SWIB Report

Published by The State of Wisconsin Investment Board For WRS Participants

December 2004

## HIGHLIGHTS:

**2005 meetings:** Monthly SWIB Board meetings are held on Wednesday in the board room in the SWIB office. The meeting schedule for 2005 includes:

January 12	April 13
February 9	May 11
March 9	June 8

**Annual Report:** The annual report for fiscal year 2004 and schedule of investments are available on the SWIB Website. Printed copies will be available the first week in January. (See contact information below.)

### Board of Trustees

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#### TEACHER RETIREMENT BOARD APPOINTEE:

Wayne McCaffery

#### SECRETARY, DEPT. OF ADMINISTRATION:

Marc Marotta (Laura Engan, Designee)

### Contact SWIB

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## Returns up as markets rebound

Fixed and Variable Fund returns are up as we move into the final weeks of 2004. The **preliminary calendar year-to-date return for the Fixed Fund was 9.3% as of November 30, 2004**, ahead of the 8.6% return for the benchmark. The **Variable Fund return was 8.4%** compared to 9.4% for its benchmark.

### Calendar Year-To-Date Preliminary Returns

as of 11/30/04

**Fixed Fund ----- 9.3%**  
**Variable Fund --- 8.4%**

On a one-, five- and ten-year basis, returns for the Fixed Fund were ahead of the performance benchmarks. The ten-year return for the Fixed Fund also remains ahead of SWIB's long-term goal of 7.8%, which is the assumed rate of return for WRS.

Throughout the year, markets have remained volatile with a series of short rallies followed by similar swings downward. The third quarter was especially difficult before the stock market began a steady upward trend in late October. The stock market continued to move higher through the end of November.

The impact of investment returns on Wisconsin Retirement System participants is determined by the Department of Employee Trust Funds and is based on the rate of return as of December 31. Preliminary 2004 returns should be posted on the SWIB website by mid-January.

## Audit notes strong performance, cites several recommendations

SWIB's overall performance has exceeded major goals and moved into the upper tier of our peers over the last five years, according to the biennial review performed by the Legislative Audit Bureau (LAB).

SWIB's returns at December 31, 2003, were ahead of market performance benchmarks and compared favorably to a LAB-selected peer group of ten public pension funds. SWIB ranked first in the five-year return for the Fixed Fund and third in the one-year return. The Fixed Fund also had the lowest level of volatility and the best return net of costs over the five-year period. As a result of its strong performance, SWIB added \$3.1 billion in excess value over market benchmarks during the past five years.

"This strong performance is directly related to strategic decisions made by the Board and the efforts of our staff," said Dave Mills, executive director.

*Audit continued on page 2*

# SWIB welcomes two new staff members

## Deputy executive director

Gail Hanson has joined SWIB as the deputy executive director. She was the former senior vice president, treasurer and chief financial officer at Cobalt Corporation in Milwaukee.



*Gail Hanson*

“After carefully considering the skills, knowledge and private sector business experience that Gail will bring to the position, I concluded she was the best choice to work with me in providing leadership for SWIB,” said Dave Mills, executive director.

Hanson has more than 27 years of financial experience including 20 years at Blue Cross Blue Shield

United of Wisconsin and subsequently at Cobalt Corporation, where her responsibilities included investments and coordinating capital financing activities; oversight of internal and external audit functions; budgeting and regulatory compliance.

She received a bachelor’s degree from the University of Michigan and a master’s degree in business administration from the University of Chicago. In addition, she has earned the designations of Certified Public Accountant; Chartered Financial Analyst and Fellow, Life Management Institute.

## Internal audit director

SWIB is pleased to announce that Brandon M. Duck has been named the new internal audit

director. He was previously the audit manager at the University of Texas System Administration in Austin, where he was responsible for all audits of the University of Texas Investment Management Company, which invests \$16 billion for the UT system.

He has also worked for the Texas Treasury Safekeeping Trust Company in Austin and the public accounting firm of KPMG LLP in Chicago. Duck received his bachelor’s of science degree in accounting and finance from Eastern Illinois University in Charleston, Ill.



*Brandon Duck*

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To address concerns, such as staff retention, low experience levels and succession planning, SWIB initiated an improved compensation plan in 1999 after working with the Legislature.

“We are thankful for the support provided by the Legislature because it allowed us to improve staff retention and the experience levels of new employees. That, in turn, contributed to the strong performance,” Mills noted.

The audit noted that operating costs increased over the past five years. But, higher costs reflect SWIB’s efforts to achieve better performance and more effective use of internal and external resources, Mills said.

SWIB is also conducting a comprehensive review to determine

the best mix of management styles, taking into consideration comments from the LAB. A report on the findings will be made in 2005 to the Board and to the members of the Joint Legislative Audit Committee.

Once the report is completed, SWIB with work with the Legislature to make any changes to statutory authority or to its resources to allow us to achieve the best mix of management styles and portfolios for the trust funds.

In addition, the audit included several recommendations regarding SWIB’s compensation plan. SWIB is working to address the recommendations.

“We believe this audit was balanced and the LAB recommendations are constructive and beneficial,” Mills said.



*From left to right, Jack Stoddard, Dave Mills, Barbara Erlenborn and Ed Kehl.*

## Special honor received

Dave Mills, SWIB executive director, received the Merit of Excellence Award from the Association of Career Employees (ACE). Making the presentation at the November Board meeting were Barbara Erlenborn, ACE president, and board members Ed Kehl and Jack Stoddard. The group recognized Mills for his “dedicated service to the State of Wisconsin and for meritorious service as a public employee.” ACE is an association open to active and retired state employees.

**LAB audit and SWIB response are available on the Internet at:  
<http://www.legis.state.wi.us/lab/reports/04-13full.pdf>**