D2

Asset Allocation

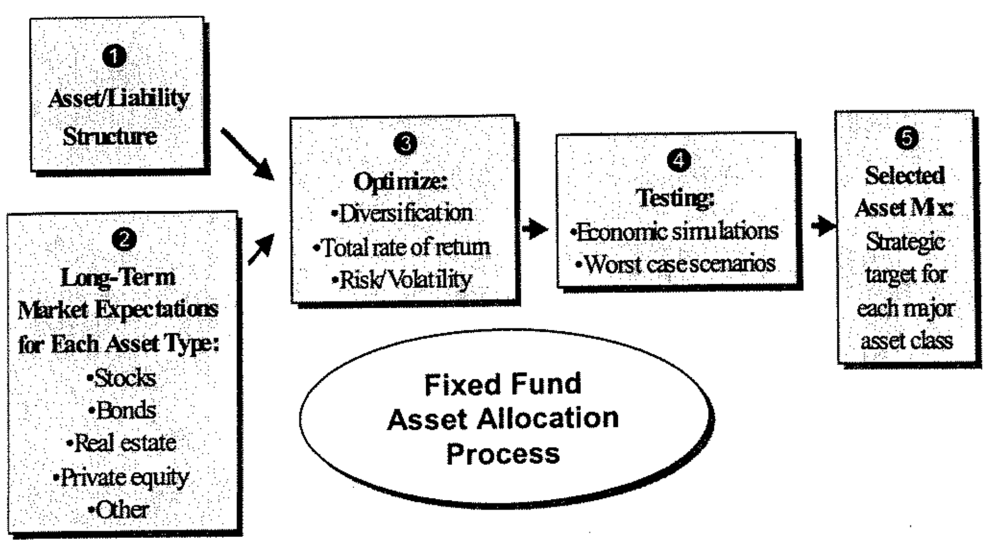
A number of tools are used to achieve the investment goals. The first, and arguably the most important, is to determine how the funds will be allocated to the broad asset classes. What percentage will be allocated to stocks, bonds, real estate and other assets and why? Much study and research are done to help the Board make these decisions.

In keeping with the extended time horizon of the Fixed Fund's obligations, the investment strategy for this Fund has a long-term focus. The WRS actuary uses a 30 plus year projection when estimating the expected obligations. Prior to the beginning of each calendar year, SWIB conducts an annual formal strategy and asset allocation exercise that results in policy and funding recommendations. Since 1999, Strategic Investment Solutions, a national consulting firm, has assisted SWIB in projecting returns for each asset class and selecting the mix of assets that should provide the best balance of risk and return over the long-term.

After the Board of Trustees approves the strategic asset allocation decisions, the Board's professional investment staff makes the daily decisions, within the limits of the established guidelines for the particular portfolio, about which individual investments to buy or sell.

Following the asset allocation decisions for 2001, the Board adopted revised investment guidelines and increased the oversight role of the Risk and Investment Committee, which is composed of senior staff. Based on the recommendations of outside consultants, auditors and counsel, the Board took these actions to: (1) follow more closely the best practices used by top-performing pension funds; and (2) define more clearly the managing and governing fiduciary roles between SWIB's staff and Board of Trustees.

When making asset allocation decisions, SWIB staff and the Board of Trustees follow a formal process and individual steps as described and pictured below:



❶ **Asset/Liability Structure.** Actuarial assumptions adopted by the Employee Trust Funds Board are factored into the asset allocation model. Cash flow projections show that benefit payments currently exceed contributions to the WRS.

Consequently, when making the decision about how assets will be allocated, SWIB must bear in mind that it will need to turn some investments into cash during the year to pay benefits.

❷ **Market Expectations**. SWIB's investment staff and asset allocation consultant develop long-term market return expectations for each asset class (stocks, bonds, real estate and others). When doing this, they consider past experience, forecasts by key investment strategists and the judgement of SWIB's professional staff to develop the expected returns.

❸ **Optimize.** Expected results for each asset class are modeled together to create "optimal portfolios". In addition to optimizing total rate of return, SWIB evaluates the volatility (risk) of the expected return and the impact on the funded status of the WRS benefit plan.

❹ **Testing**. Optimal portfolios are "stress-tested" under a variety of potential economic scenarios, including the possibility that all markets decrease sharply at the same time ("worst case scenario"). This helps to identify an asset mix that is the best long-term performer under different economic conditions.

❺ **Selected Asset Mix.** In addition to approving the asset classes in which the Fixed Fund invests, the Board of Trustees also approves policy ranges and strategic targets. The policy range defines the minimum and maximum Fund share that may be allocated to each asset class, and the strategic target is the specific allocation target within the policy range. For example, the policy range for a given asset may be 27-33% of the Fund's total assets, but the strategic or ideal target is 30%.

Targets are achieved, in part, through the allocation of net cash flow available after considering investment earnings and contributions to and withdrawals from the WRS. Due to increased benefit payments and reduced contribution rates as a result of strong investment returns, net cash flow into the system is declining fairly rapidly. Positive cash flow is projected to disappear in approximately five years. The reduced cash flow is not unexpected and, in fact, is on target with the WRS' actuarial long-term projections. To meet the cash flow needs, SWIB will monitor the month-by-month liquidity needs for both the Fixed and Variable Funds and will withdraw assets from whichever asset class is over-funded relative to its allocation targets.

To adhere to the strategic asset allocation targets established annually, the Board employs a re-balancing discipline. This means that when market activities cause any given asset class to move outside the targeted policy range, assets are sold and the cash is reinvested in another asset class to bring the fund back to its policy targets or used for liquidity, if needed. These decisions are made for both the Fixed and Variable Funds.

Adhering to asset allocation targets and re-balancing when necessary can affect the Fund's performance. For example, in the late 1990s SWIB sold domestic stocks when the asset class, due to the strong stock market, moved considerably outside the targeted range. Some other public pension plans did not re-balance and had a significant percent of their assets in domestic stocks. This, we believe, resulted in SWIB placing last for the five-year return on June 30, 2000, when the Legislative Audit Bureau compared the Fixed Fund to nine other public pension funds. Conversely, because of adhering to the asset allocation target, SWIB was not over-weighted in stocks when the markets fell. The agency's performance for 2001 bears this out as we ranked 1st when compared to the same nine funds. In another comparison, SWIB's one-year return ranked in the top quartile (11.5 percentile) for the year among 41 other public pension funds with assets in excess of $1 billion, up from the 55th percentile in 2000. [1]

In late 2001, we conducted our annual review of the Fixed Fund's asset allocation and investment strategies. With the help of outside consultants, we again examined and modeled a variety of asset mixes, including options that would either increase or decrease the allocation to domestic and international stocks, the largest Fixed Fund asset classes.

As a result of the significant changes it makes to the WRS, SWIB examined for 2001 and 2002 the effect that 1999 WI Act 11, the comprehensive pension bill, could have on the Fixed Fund. Because the Wisconsin Supreme Court upheld the law, Fixed Fund investment gains and losses are recognized more quickly. This included an immediate recognition of $4 billion in accumulated gains from the transaction amortization account (TAA). During the years 2000 through 2004, the TAA is being phased out and a market recognition account (MRA) implemented.

In addition, Act 11 reopened the Variable Fund. This may have an impact on Fixed Fund asset levels and strategy as more future contributions are directed to the Variable Fund. Even though the court decision primarily affected the Fixed Fund, SWIB retained its strategic asset allocation targets for the Fixed Fund for 2001 but revised its strategic asset allocation targets for the Variable Fund as a result of the asset allocation work. The principal change was to reduce Variable Fund assets allocated to international equities from 25% to 20%. The asset allocation review, completed in late 2001, showed that SWIB should continue the same targets and policy ranges for 2002 as established for 2001.

[1] Trust Universe Comparison Service (TUCS).

How Assets Are Allocated

For the broad asset classes within the Fixed and Variable Funds, the following tables illustrate the policy ranges and strategic targets for 2001 and 2002 and how the assets were actually allocated at the end of 2000 and 2001.

Fixed Trust Fund
Asset Allocation

Asset Class	Policy Range	2000 Actual 12/31/00	2001 Strategic Target	2001 Actual 12/31/01	2002 Strategic Target
Stocks	40-65%	54%	57%	59%	57%
Domestic		*36%*	*39%*	*42%*	*39%*
International		*17%*	*18%*	*17%*	*18%*
Fixed Income	30-50%	36%	34%	31%	34%
Domestic		*29%*		*26%*	
Global		*7%*		*5%*	
Real Estate	0-10%	4%	4%	4%	4%
Alternative	0-10%	5%	5%	4%	5%
Cash	0-20%	2%	0%	1%	0%
TOTAL		**100%**	**100%**	**100%**	**100%**

Variable Trust Fund
Asset Allocation

Asset Class	Policy Range	2000 Actual 12/31/00	2001 Strategic Target	2001 Actual 12/31/01	2002 Strategic Target
Stocks	90-100%	98%	100%	98%	100%
Domestic		*75%*	*80%*	*80%*	*80%*
International		*24%*	*20%*	*17%*	*20%*
Cash	0-10%	2%	0%	2%	0%
TOTAL		**100%**	**100%**	**100%**	**100%**

How Funds Are Managed

SWIB uses both internal and external portfolio managers who execute active, passive or enhanced passive strategies in managing the WRS' assets.

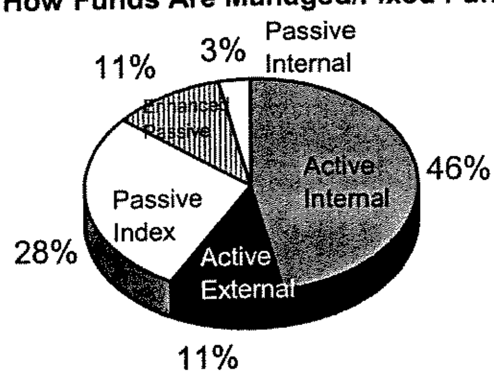
At the end of 2001 for the **Fixed Fund** assets:

- SWIB staff actively managed 46%
- SWIB staff passively managed 3%
- External funds actively managed 11%
- 11% was invested in enhanced/passive strategies
- 28% was invested in non-enhanced passive index funds

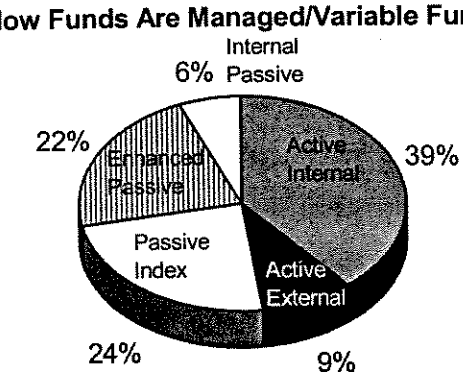
For the **Variable Fund** assets at year end:

- SWIB staff actively managed 39%
- SWIB staff passively managed 6%
- External managers actively managed 9%
- 22% was invested in enhanced/passive strategies
- 24% was invested in non-enhanced passive index funds

How Funds Are Managed/Fixed Fund



How Funds Are Managed/Variable Fund



The mix of active and passive management varies by asset class and depends upon market efficiency and the availability of passive options. **Active management** means the portfolio manager makes decisions, within the guidelines established by the Board of Trustees, about which investments to buy or sell. **Passive management** seeks to replicate the return of a particular market index as closely as possible by purchasing the same securities, in the same proportions, as those comprising the market index, such as the S&P 500. Although the objective of a passive index fund is to track the index returns as closely as possible, some variation in returns will occur. For example, some variation from the benchmark is expected in the more illiquid markets. The more transactions in and out of an index fund may result in variations from the benchmark.

SWIB also has assets that are managed in **quantitative or enhanced passive index portfolios**. This type of management differs from the fundamental analysis process employed in active management in two respects. First, these quantitative approaches use proprietary computer models to automate the process of evaluating particular stocks. Substantial amounts of data pertaining to individual companies, market segments and economic trends are typically gathered and analyzed. In this process, much of the same data is analyzed that a fundamental analyst would look at, including corporate balance sheet and income statement data.

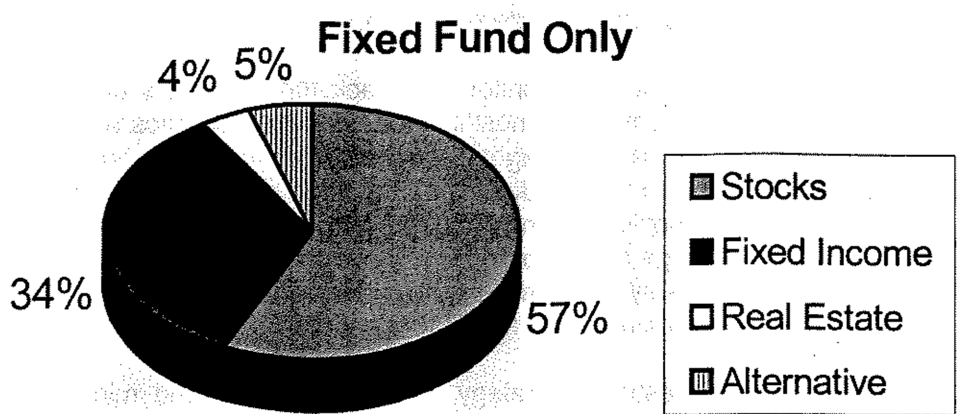
Second, these approaches closely monitor and track the portfolio's deviation from an index, providing added risk control. In most instances, these portfolios will look similar to the index with respect to sector weights, market capitalization and other portfolio characteristics. Deviations from the index represent intentional attempts to capitalize on perceived valuation opportunities arising from the modeling process. For example, an enhanced or quantitative large stock portfolio will have the same weight per sector, such as utilities, but might purposely have more shares of one utility stock than the S&P 500 Index has because of the data received from the computer modeling.

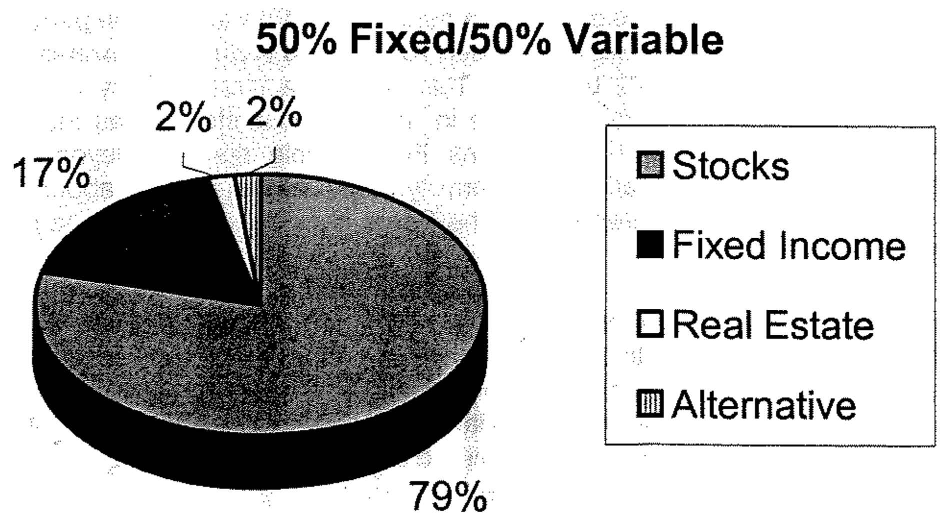
Prior to calendar 2000, investment strategy for the Variable Fund mirrored the asset allocation and equity strategy for the Fixed Fund. SWIB's equity portfolios were shared by each fund on a roughly 80/20 percent pro-rata basis. For each equity investment, approximately 80% was credited to the Fixed Fund and 20% to the Variable Fund. Management information systems adopted in 2000 enabled SWIB to de-couple the two funds within our accounting system and to develop a separate investment strategy for the Variable Fund.

Given the ability to develop a separate asset allocation and the expected re-opening of the Variable Fund, the Board decided for 2001 to reduce the non-domestic target from its 2000 level of 25% to 20%. This was done incrementally over the course of 2001. It was felt that a 25% exposure in non-domestic stocks was too high given the participants' risk profiles and expectations. For example, state employees who are in the state's deferred compensation program typically allocate only about 10% of their investments to international equities. The Board decided to continue the same exposure levels for 2002.

As illustrated below, those individuals who opt into the Variable Fund have significantly more of their contributions to the WRS invested in stocks than they would have if they had all their contributions directed to the Fixed Fund. **Participants who have opted to place 50% of their contributions in the Variable Fund will have approximately 79% of their total WRS contributions for 2002 invested in stocks.** This is a higher percentage than other public pension funds typically direct to stocks.

Comparison of Stock Investments in Fixed Fund Only vs. 50% Fixed & 50% Variable





Holdings By Portfolio

The following tables compare how the various categories of investments, by portfolio, for the Fixed Fund and the Variable Fund were managed within each asset class as of December 31, 2000 and December 31, 2001. "**Portfolio Highlights**" describes the asset categories.

Fixed Trust Fund
Holdings By Portfolio

	12/31/00		12/31/01	
	$ in Millions	% of Total	$ in Millions	% of Total
Equities				
Domestic				
Active Portfolios	$6,176	11%	$7,497	14%
Quantitative/Enhanced	6,761	12%	5,625	11%
Passive Index Funds	6,908	13%	8,820	17%
International				
Active Portfolios	6,824	12%	6,326	12%
Quantitative/Enhanced			207	0%
Passive Index Fund	2,151	4%	2,461	5%
Emerging Markets	554	1%	0	0%
Total Equities	$29,376	54%	$30,938	59%
Fixed Income				
Public Bonds				
Active Portfolios	6,434	12%	$4,517	9%
Passive Index Funds	5,486	10%	4,507	9%
Private Placements	3,620	7%	3,921	8%
Global Bonds				
Active Portfolios	3,256	6%	2,093	4%
Passive Index Fund	225	0%	528	1%
Real Estate Mortgages	547	1%	657	1%
Emerging Markets	163	0%	175	0%
Total Fixed Income	$19,731	36%	$16,397	32%
Real Estate	$2,023	4%	$2,096	4%
Alternative				
Opportunity E	$1,100	2%	$1,025	2%
Private Equity	1,403	3%	1,178	2%
Private Biotechnology	4	0%	13	0%
	$2,507	5%	$2,216	4%
Cash (Managed in SIF)	$1,152	2%	$528	1%
Total	**$54,790**	**100%**	**$52,175**	**100%**

Note: Rounding may cause numbers not to add correctly.

Variable Trust Fund Holdings By Portfolio				
	12/31/00		12/31/01	
	$ in Millions	% of Total	$ in Millions	% of Total
Equities				
Domestic				
Active Portfolios	$1,543	22%	$1,848	29%
Quantitative/Enhanced	1,691	23%	1,388	22%
Passive Index Funds	2,244	30%	1,868	29%
International				
Active Portfolios	1,535	21%	1,057	17%
Passive Index Fund	54	1%	42	0%
Emerging Markets	113	2%	0	0%
Total Equities	$7,179	98%	$6,203	17%
Cash	$155	2%	$138	2%
TOTAL	**$7,334**	**100%**	**$6,340**	**100%**

Fixed Fund Performance

Fixed Retirement Trust Fund Performance
Annualized Returns For Periods Ending December 31, 2001

	One Year	Five Years	Ten Years
Fixed Fund Return	**-2.3%**	**8.5%**	**10.3%**
Investment Benchmark	-4.5	7.8	9.2
Actuarial Benchmark	8.0	8.0	8.0

- The **Fixed Fund outperformed its investment benchmark for all three time periods** on a total return basis and **outperformed the actuarial benchmark for the five-year and ten-year periods.**

- **From the beginning of 1992 through the end of 2001, the returns for the Fixed Fund have exceeded the rolling five-year investment benchmark 90% of the time at the end of the fiscal and calendar year. The Fund has also exceeded its ten-year investment benchmark 95% of the time during the same time period.**

- **On a risk-adjusted basis, the Fixed Fund return exceeded the one-year, five-year and ten-year benchmarks** as illustrated on Appendix B. In this analysis, risk is measured by the amount of fluctuation in returns (volatility). Less volatility helps to stabilize employer contributions to the WRS and benefits paid to retirees.

- As a part of its biennial performance audit, the Legislative Audit Bureau compared the Fixed Fund's rate of return to the returns earned by nine other public pension funds for the period ending June 30, 2000. At that time, the Fixed Fund placed last for the five- and ten-year periods and third for the one-year period. The following table illustrates how the Fixed Fund compares to those same funds as of December 31, 2001. The recent performance trend is encouraging. However, as indicated to the Joint Legislative Audit Committee when discussing the LAB report, SWIB believes these comparisons provide only a limited picture of the Fund's relative performance, as it does not take into account risk, liabilities and other factors. SWIB is working to develop more comprehensive measures of relative performance.

Comparison of Fixed Fund Performance with Nine Public Pension Plans Selected by LAB

	12/31/01 Gross Return					
Fund	**1 Year**	***Rank***	**5 Year**	***Rank***	**10 Year**	***Rank***
SWIB	-2.30	*1*	8.50	*8*	10.30	*3*
New Jersey Division of Inv.	-7.80	*10*	9.26	*2*	10.11	*7*
Virginia*	-7.74	*9*	9.10	*4*	10.01	*8*
Florida Retirement System*	-5.80	*4*	9.20	*3*	10.40	*2*
New York State Teachers *	-5.96	*6*	8.80	*6*	10.68	*1*
Minnesota Combined *	-6.02	*8*	8.50	*8*	10.18	*6*
CalPERS	-5.97	*7*	8.65	*7*	9.89	*9*
Pennsylvania Public Schools	-5.94	*5*	8.04	*10*	n/a	*n/a*
Texas Teachers	-4.89	*2*	8.82	*5*	10.20	*5*
Washington State Inv Board	-5.23	*3*	9.47	*1*	10.30	*3*

*Returns for Virginia, Florida, NY Teachers, & MN reports net of fees. Gross returns not available.

- Appendix B compares the volatility of the Fixed Fund to nine other public pension funds that the Legislative Audit Bureau used for comparison purposes for the 1999-2000 performance audit and also at the end of calendar year 2001.

- Because SWIB had maintained the asset allocation targets in the late 1990s and had not allowed domestic stocks to exceed the targeted ranges, it did not experience the percentage losses some other public funds incurred when the stock markets began to correct for over-evaluation in 2000.

- SWIB's total cost of 17 basis points to manage the Fixed Fund in 2000 (17 cents per $100 managed) was less than what is typical for funds managing a similar mix of assets (19 cents per $100 managed). This is the latest comparison available.[2]

[2] Cost Effectiveness Measurement, Inc. data

Variable Fund Performance

Like the Fixed Fund, the investment strategy for the Variable Fund and an evaluation of the strategy also have a long-term focus. The following table compares the performance of the Variable Fund to its benchmarks as of December 31, 2001.

Variable Retirement Trust Fund Performance
Annualized Returns For Periods Ending December 31, 2001

	One Year	Five Years	Ten Years
Variable Fund Return	**-8.3%**	**9.2%**	**11.8%**
Investment Benchmark	-12.9	7.1	10.5
S&P 500	-11.9	10.7	12.9

- The **Variable Fund trailed the Fixed Fund on a one-year basis but outperformed it for the five-year and ten-year periods.**

- On a total return basis, the **Variable Fund exceeded the broad equity benchmark on a one-year, five-year and ten-year basis. The Variable Fund exceeded the S&P 500 on a one-year basis but trailed it for five- and ten-year returns.** When adjusted for volatility, the Fund has exceeded its benchmark over the five- and ten-year periods. The benchmark includes indices for each of the equity markets represented in the Fixed and Variable Funds.

- **Assets of the Variable Fund are diversified in a number of markets that are not represented in the S&P 500, including international, mid cap and smaller growth stocks.** These categories now represent over 43% of the assets of the Fund. Investments have been made in these other markets to achieve the benefits of diversification and to gain potential returns that exceed the more narrowly defined domestic large company market.

Managing the Risk

A central focus of analyzing fund performance is reviewing the level of risk incurred in earning returns. Industry standards and practices continue to evolve, and SWIB's risk assessment activities strive to be in the forefront for public pension funds. Our measurement of investment risk for the Fixed Fund currently focuses on the following areas:

1. <u>Funding Retirement System Liabilities</u>. The most basic measure of risk for the Fixed Fund concerns the likelihood that the Fund will be able to meet future obligations to WRS beneficiaries. As previously discussed, SWIB annually reviews and models the allocation of Fixed Fund assets under different economic

assumptions. **In 1998, the WRS actuary updated a 50-year projection previously done in 1993 and 1994.** This work considered the effect of long-term demographic changes on WRS payments and cash flow. **That projection, which was made before enactment of Act 11, again showed that the WRS was well positioned to meet its current and future obligations.** This conclusion was reaffirmed in the recent work done by our asset allocation consultant. The consultant concluded that the conservative method used to measure Fixed Fund assets versus liabilities contributes to the well-funded status of the WRS. However, the Board plans to have another 50-year projection done in 2002.

2. **Volatility**. Minimizing year-to-year fluctuation in Fixed Fund returns helps to stabilize required contributions into the WRS. For the period ending December 31, 2001, the Fixed Trust Fund, when adjusted for volatility, exceeded its benchmark over the one -, five- and ten- year periods. (Appendix B illustrates the five-year adjusted returns.) Equity (stock) markets outperformed other major asset classes - - including government and corporate bonds, real estate and commodities -- over the last five-year, 20-year and 50-year periods. However, as evidenced by the 2001 returns, investors should be prepared for significant year-to-year fluctuations in returns and the possibility that unfavorable stock market performance will result in equity losses.

3. **Risk Elements**. On a quarterly basis, we review the Funds' level of exposure, particularly to the following types of risk:

- ***Interest Rates:*** An estimated 76% of the retirement funds assets have moderate to low interest rate sensitivity. Most of the sensitivity to interest rates comes from longer duration bonds and exposure to utility and financial stocks. Our domestic equities portfolios for the Fixed Fund are under-weighted in these sectors. This tends to dampen the overall interest rate sensitivity for the total Fixed Fund. The Variable Fund has less sensitivity to interest rate changes than the Fixed Fund because the Variable Fund has no fixed income exposure.

- ***Currency***: Foreign currency exposure in the Fixed Fund occurs primarily in the international holdings and, to a lesser extent, from alternative assets and domestic stocks. International and global portfolio managers make all currency hedging decisions. International currency risk is further managed through diversification across international regions, economies, sectors and individual investments. Approximately 25% of the Fixed and Variable Funds is exposed to foreign currency risk resulting from these holdings. This compares to 23% at the end of 2000. The relative amount of foreign currency exposure is less in the Variable Fund than in the Fixed Fund. The Variable Fund's exposure decreased in 2001 with fewer assets targeted for international equities. At the same time, it increased somewhat for the Fixed Fund.

- ***Emerging Markets***: Investments in developing countries represented approximately 2% of Fixed Fund assets and less than 1% of Variable Fund assets at the end of 2001. As a part of its asset allocation review for 2001, the Board of Trustees phased out the dedicated equities emerging markets portfolios and moved those funds to the developed international equities portfolios. Equity investments in emerging markets are now made only on an opportunistic basis by any of the developed international equity portfolio managers.

- ***Liquidity:*** An estimated 70% of Fixed Fund assets and 85% of Variable Fund assets could be liquidated in an orderly fashion within one month. This substantial level of liquidity should enable the WRS to meet its funding needs for the foreseeable future.

- ***Derivatives:*** Derivatives are financial instruments whose value depend on, or are derived from, the value of another asset, index or rate. Neither the Fixed Fund nor the Variable Fund showed a net unrealized gain or loss on derivative investments as of December 31, 2001. At the end of 2001, net realized losses on equity futures contracts were approximately -$1 million for the Fixed Fund and approximately -$326,000 for the Variable Fund. Appendix D describes the derivatives' exposure in both funds and compares the exposure at the end of 2001 with 2000.

- ***Tracking Error:*** "Tracking error" measures volatility of excess return to that of the benchmark, and it is an indication of how different the fund or portfolio might be as compared to the benchmarks. This also helps to measure the extent to which the performance of any one portfolio within the Fixed Fund or the Variable Fund could affect the performance of the entire Fund. The 1.8% five-year tracking error as of December 31, 2001 was very close to the 1.6% level as of December 31, 2000 for the Fixed Fund. The 2.9% five-year tracking error for the Variable Fund as of December 31, 2001 was somewhat greater than for the Fixed Fund and slightly higher than the 2.2% level as of December 31, 2000.

- ***Soft Risk Parameters:*** In 2001, investment guidelines were expanded to include "soft risk parameters". These are supplementary guidelines within which a portfolio is expected to operate over time, and the Risk and Investment Committee monitors them.

Alternative Investments & the Opportunity E Portfolio

Alternative investments offer the prospect of greater returns but also involve increased risk. Included in this class are the: Private Equity Portfolio, Biotech Venture Capital Portfolio, and Opportunity E Portfolio. When conducting the 2001 biennial performance audit, the Legislative Audit Bureau focused on the Opportunity E portfolio and recommended that SWIB provide an update in this report on the portfolio's strategies and performance.

The Board created the Opportunity E Portfolio in 1995 to take advantage of investment opportunities that offer the potential of greater than average returns but that also involve greater risk. The portfolio has had an equity focus – originally on publicly traded equities. Beginning in 2000 that focus changed to private equity investments with a primary emphasis in emerging markets. To reflect the changed focus, the benchmark also changed to a net 15% return.

From late 1999 until the end of 2001, strategy for the portfolio changed from many small investments to fewer and larger investments. In addition, the portfolio manager focused on investment themes or industries that included financial services, energy and cement with a primary emphasis on emerging markets in Asia and Eastern Europe. The manner in which investments were made also changed as the portfolio manager developed strategic partnering relationships. This allowed the portfolio to participate more directly in private equity investments by acquiring majority or large minority equity stakes in companies with a partner that acts as the manager. Previously, the Opportunity E Portfolio had made more investments either through limited partnerships or private equity funds managed by investment firms.

As pointed out in the LAB's audit report, the Opportunity E Portfolio invested $110 million in a holding company that it formed with a strategic partner. The purpose of the holding company was to acquire financial services companies in Korea. The Korean economy did not rebound as expected. That, together with other unforeseen events, had resulted in the investment being valued at $15.9 million on June 30, 2001. By year-end, the investment's value had improved to $25.1 million, which reflected somewhat improved Korean and Asian markets.

Further, the LAB questioned the Board of Trustees' role in approving investment proposals for the Opportunity E Portfolio. Originally, a committee composed of some members of the Board of Trustees had to approve all proposed investments. To address fiduciary concerns, the Board as a whole began to approve all proposals in the spring of 2001.

Before the LAB audit, SWIB was concerned about some of the Korean investments and had retained an international auditing firm to conduct an audit of the Korean holding company and the underlying investments. SWIB also retained a law firm to represent SWIB's interests in the event fraud or misconduct had occurred.

In addition, SWIB retained McKinsey and Company, a nationally known consulting firm for pension plans, to conduct a thorough review of all alternative investments and real estate. McKinsey presented its findings and recommendations to the Board of Trustees at the December 2001 meeting. This study concluded that SWIB should maintain its allocation to Private Equity and Real Estate because the two asset classes provide important diversification and potential for enhanced returns. Following McKinsey and Company's review and recommendations, the Board adopted and is implementing the following steps to strengthen the oversight and performance of Alternative Investments:

1. Combined the Private Equity and Opportunity E Portfolios and their staff into a single Private Equity Portfolio for future investments. The Managing Director for Private Equity will provide oversight of the portfolio.

2. Directed that staff for the newly configured Private Equity Portfolio:

   a. Refocus the investment strategy for private equity to making investments in funds in developed markets.

   b. Focus buyout strategy on developed markets through funds and direct investments.

   c. Focus venture capital investments on funds in developed markets.

   d. Make direct investments only in developed markets.

3. Changed the structure and authority of the Risk Committee to a Risk and Investment Committee (RIC) composed of senior management and expanded its approval authority over investments made from any of the alternative portfolios.

4. Enhanced the due diligence process.

Finally, McKinsey helped SWIB formulate a more specific list of criteria that should be used in making alternative investments. Under the direction of the Internal Auditor, SWIB will also conduct a systematic review of each investment area (not just private equity) to ensure that due diligence for all investments is properly documented based on professional standards.

SWIB will be better able to utilize its limited staff in the Private Equity Portfolio by focusing future investments through limited partnerships, private equity funds and strategic partnering relationships in developed markets. The combined portfolio must invest at least 80% of its assets in U.S. or developed markets. The portfolio may invest up to 20% of the assets in emerging markets but only through funds or strategic partners who are also making a substantial investment. Concentrating on developed markets should result in reduced risk compared to investments made in emerging markets.

Ethics Standards

Trustees of the Investment Board are subject to the requirements of the State Ethics Code under Chapter 19 of the Statutes. As such, Trustees may not participate in or take any official action in a matter in which they have a personal financial interest. Trustees are required to file quarterly and annual ethics statements with the Ethics Board that include information on investment holdings. These statements are open to inspection by the Legislative Audit Bureau. SWIB's guidelines further provide that Trustees take steps to avoid even the appearance of a conflict of interest.

In the 1999-2000 performance audit, the Legislative Audit Bureau (LAB) raised concerns about a potential conflict of interest or the appearance of a conflict of interest. In two investment transactions, two Trustees had not recused themselves from voting in favor of an investment (Korea On Line or KOL) in which they had a related financial interest and because one Trustee had referred a potential investment to SWIB. In the latter case that involved Heartland Advisors, the Trustee was a member of a related Heartland Board but recused himself from voting on the investment. These investments were all made from the Opportunity E portfolio.

SWIB has taken the following steps to enhance ethics oversight:

- Asked the State Ethics Board to investigate the issue of the Trustees who voted on the investment in which they had a related interest. The Ethics Board is currently investigating the matter, including a review of the investments that SWIB made and the private investments reported by Trustees and staff.

- Modified the fiduciary roles of the Board of Trustees and the staff to clarify the Trustees governing fiduciary responsibilities and the staff's managing fiduciary responsibilities. The Risk and Investment Committee, composed of senior management staff, now vote on all potential investments up to $100 million from the Alternative Investment and Real Estate portfolios. Only proposals that exceed $100 million go directly to the Board for approval. The Trustees, however, are advised of all actions that the Risk and Investment Committee makes. This action removes Trustees from direct involvement in most private investments.

- Requested the LAB to review more frequently the quarterly reports that Trustees and staff file with the State Ethics Board. The LAB will increase the frequency of its review from once a year to twice yearly.

- Amended investment guidelines to require each portfolio manager to report to the Board any referrals or contacts by Trustees with staff on privately negotiated investments, other than status requests.

- In October 1999, the Board had adopted a new Trustee travel policy that requires advance notice and consent for any Trustee to travel on SWIB business.

Portfolio Highlights

The following provides the performance and certain highlights for the individual portfolios within the Fixed and Variable Funds. The Variable Fund is only invested in equities and cash.

Equities

Domestic equities consist of stock investments in large, mid and small US capitalization companies. For the second year in a row, major equity indices were in a downturn. The effects of the September 11 tragedy had a profound effect on the markets, particularly the stock market. The WRS had paper losses of nearly $1.5 billion in domestic equities when the markets reopened the following Monday. The combined domestic equities' portfolios returned an aggregate –5.6% in 2001. This performance exceeded the -11.5% return for the Russell 3000, a broad indicator for the US stock market. The Small Cap portfolio led the performance with a positive 32.1% return.

International equities are investments made in non-US securities in "free" or "partially free" countries, as rated by Freedom House Index. The combined international stock portfolios returned -18.6% compared to the -21.4% for the Morgan Stanley Capital International (MSCI) World Index that represents stocks in 22 developed foreign markets. These portfolios may or may not be currency hedged through the use of derivative instruments.

Emerging market equities are stock investments made in developing countries. Rather than having two funds (Capital Guardian and Genesis) dedicated to emerging markets, the SWIB Board of Trustees decided to phase out these funds. Beginning in 2001, all equity investments in emerging markets are made on an opportunistic basis from existing international equity portfolios. At the same time, the Board amended the investment guidelines to increase from 10% to 15% the assets that the international equity funds may invest in emerging markets.

Each active equities portfolio manager has the flexibility to adopt a particular style within the capitalization sector and the flexibility to weight various industry sectors as dictated by his/her market outlook. Up to 10% of each domestic portfolio may be invested in US equity securities of foreign companies or Canadian equities. As noted, there is some overlap in the targeted market capitalization for the portfolios.

Large Cap Portfolio

Created	March 31, 1997
Description	This Large Cap Equities portfolio focuses on large cap companies with market capitalization generally over $5 billion, such as those found in the S&P 500. In particular, the manager seeks companies with solid business fundamentals and above average long-term growth prospects.
Managed	Active internal management
Market Value	$2.5 billion
Benchmark	S&P 500 Index

	One Year	Inception-12/31/01
Performance -- Fund	-12.8%	11.1%
" -- Benchmark	-11.9	10.1

Mid Cap Portfolio

Created July 31, 1990; modified July 1996

Description The Mid Cap Equities portfolio focuses on domestic mid-cap companies with a market capitalization from approximately $1 billion to $10 billion. The portfolio is broadly diversified without a particular value or growth orientation.

Managed Active internal management

Market Value $2.5 billion

Benchmark S&P 400 Index

	One Year	Five Year	Ten Year
Performance -- Fund	-3.9%	14.1%	15.0%
" -- Benchmark	-0.6	14.2	14.5

Small Cap Portfolio

Created December 31, 1982, modified July 1996

Description The Small Cap Equities portfolio invests in a broadly diversified set of small company stocks, convertibles and cash. It focuses on small cap domestic companies with a market capitalization of approximately $1.5 billion and less. The manager has authority to purchase companies that meet three of five risk tests. This portfolio outperformed the large company sector for the third consecutive year.

Managed Active internal management

Market Value $3.7 billion

Benchmark Russell 2000 Index

	One Year	Five Year	Ten Year
Performance -- Fund	32.1%	16.0%	15.4%
" -- Benchmark	2.5	7.6	10.7

GMO Quantitative Large Cap Portfolio

Created June 30, 1998

Description This portfolio is managed by Grantham, Mayo and Van Otterloo and Company (GMO). It uses risk-controlled strategies that attempt to earn excess return over the index using primarily quantitative strategies. The quantitative core strategy employed by GMO uses some subjective inputs and does not have a predefined expected tracking error relative to the benchmark.

Managed External Quantitative/Enhanced

Market Value $418 million

Benchmark S&P 500 Index

	One Year	Inception – 12/31/01
Performance -- Fund	-7.7%	5.6%
" -- Benchmark	-11.9	1.7

Baker Quantitative Large Cap

Created June 30, 2000

Description This portfolio is managed by Baker Investment Group. It uses risk-controlled strategies similar to GMO that attempt to earn excess return over the index using primarily quantitative strategies. The quantitative core strategy employed by Baker makes use of some, though limited, subjective inputs and does not have a predefined expected tracking error relative to the benchmark.

Managed Quantitative/Enhanced

Market Value $286 million

Benchmark S&P 500 Index

	One Year	Inception-12/31/01
Performance -- Fund	-9.8%	-10.3%
" -- Benchmark	-11.9	-13.5

BGI Alpha Tilts Large Cap

Created July 31, 2000

Description Constructed by Barclays Global Investors (BGI), this portfolio uses a risk-controlled strategy that attempts to track fairly closely the S&P 500 Index, while earning excess returns by controlled variations from the index. The enhanced strategies that BGI utilizes for its Alpha Tilts portfolios are more tightly constrained to their benchmarks with an expected tracking error of 2% or less.

Managed Quantitative/Enhanced

Market Value $6.6 billion

Benchmark S&P 500

	One Year	Inception-12/31/01
Performance -- Fund	-9.0%	-11.3%
" -- Benchmark	-11.9	-13.3

BGI Alpha Tilts Small Cap

Created April 30, 2001

Description Constructed by Barclays Global Investors, this Small Cap portfolio uses a risk-controlled strategy that attempts to track fairly closely the Russell 2000 Index, while earning excess returns by controlled variations from the index. The enhanced strategies that BGI utilizes for its Alpha Tilts portfolios are more tightly constrained to their benchmarks with an expected tracking error of 2% or less.

Managed Quantitative/Enhanced

Market Value $453 Million
Benchmark Russell 2000

	Inception-12/31/01
Performance – Fund	6.3%
" -- Benchmark	1.7

Internal S&P 500 Index Fund

Created December 31, 2000
Description This fund tracks the S&P 500 market return. SWIB established this internally managed index fund, which represents the Standard & Poor's Index of 500 large company stocks. The investment objectives are to add diversity to equity portfolios, facilitate asset allocation and complement SWIB's active investment style.
Managed Internal Passive Index Fund
Market Value $1.8 Billion
Bench Mark S&P 500

	One Year	Inception
Performance – Fund	-11.8%	-11.8%
" --Benchmark	-11.9	-11.9

BGI S&P 500 Index Fund

Created October 31, 1991
Description This fund tracks the S& P 500 market return. In 1991, SWIB began investing in this index fund, which represents the Standard & Poor's Index of 500 large company stocks. The investment objectives are to add diversity to equity portfolios, facilitate asset allocation and complement SWIB's active investment style.
Managed Passive Index Fund
Market Value $7.5 billion
Benchmark S&P 500 Index

	One Year	Five Year	Ten Year
Performance -- Fund	-11.9%	10.6%	12.9%
" -- Benchmark	-11.9	10.7	12.9

BGI Mid Cap Index Fund

Created September 30, 1997
Description This fund tracks the mid cap market return. Constructed by Barclays Global Investors, this index is composed of US companies with market capitalization in the middle region of the domestic stock universe. The investment objectives are to add diversity to equity portfolios, facilitate asset allocation and complement SWIB's active investment style.
Managed Passive Index Fund
Market Value $1.7 billion

Benchmark BGI Intermediate Cap Index

	One Year	Inception-12/31/01
Performance -- Fund	-18.5%	3.0%
" -- Benchmark	-18.8	2.6

BGI Small Cap Index Fund

Created January 31, 1999

Description This fund tracks the small cap market return and replicates the Russell 2000 Index of small company US stocks. Constructed by Barclays Global Investors, this index is composed of US companies with market capitalization in the small region of the domestic stock universe. The investment objectives are to add diversity to equity portfolios, facilitate asset allocation and complement SWIB's active investment style.

Managed Passive Index Fund

Market Value $264 million

Benchmark Russell 2000 Index

	One Year	Inception-12/31/01
Performance -- Fund	2.6%	6.0%
" -- Benchmark	2.5	6.1

International Equities

Internal Portfolio

Created September 30, 1989

Description Begun in 1989, SWIB's internal international equities investment program takes advantage of expanding opportunities outside the US, which currently comprise a significant portion of all available investments.

Managed Active

Market Value $3.1 billion

Benchmark Morgan Stanley Capital International (MSCI) World Index ex U.S. (Net Tax)

	One Year	Five Year	Ten Year
Performance – Fund	-23.4%	1.6%	9.3%
" -- Benchmark	-21.4	2.5	7.0

Baillie Gifford Portfolio

Created June 30, 1993

Description This portfolio is managed by Baillie Gifford Overseas Limited and invests in non-US securities in "free" or "partly-free" countries, as rated by Freedom House Index.

Managed Active

Market Value $1.1 billion

Benchmark MSCI World Index ex US (Net Tax)

	One Year	Five Year	Inception-12/31/01
Performance -- Fund	-18.9%	5.3%	9.0%
" -- Benchmark	-21.4	2.5	7.1

Morgan Stanley Portfolio

Created	June 30, 1993
Description	Managed by Morgan Stanley Dean Witter Investment Management, this portfolio invests in non-US securities in "free or "partly-free" countries, as rated by Freedom House Index.
Managed	Active external management
Market Value	$2.1 Billion
Benchmark	MSCI World Index ex US (Net Tax)

	One Year	Five Year	Ten Year
Performance -- Fund	-8.9%	10.6%	14.0%
" -- Benchmark	-21.4	2.5	7.0

Capital Guardian Portfolio

Created	June 30, 1993
Description	This international portfolio is managed by the Capital Group, Inc., and invests in non-US securities in "free" or "partly free" countries, as rated by Freedom House Index.
Managed	Active external management
Market Value	$1.3 Billion
Benchmark	MSCI World Index ex US (Net Tax)

	One Year	Five Year	Ten Year
Performance -- Fund	-15.3%	8.4%	10.6%
" -- Benchmark	-21.4	2.5	7.0

BGI International Alpha Tilts Fund

Created	October 5, 2001
Description	The BGI International Alpha Tilts portfolio invests in non-U.S. equity instruments. Constructed by Barclays Global Investors, this index is composed of non-US companies. The investment objectives are to add diversity to equity portfolios, facilitate asset allocation and complement SWIB's active investment style.
Managed	Quantitative/Enhanced
Market Value	$207 Million
Benchmark	MSCI World x US Index (Net Tax)

	Inception-12/31/01
Performance -- Fund	3.4%
" -- Benchmark	4.1

BGI International Index Fund

Created	November 30, 1996			
Description	This fund is managed by Barclays Global Investors and tracks the MSCI World Index of markets in 22 countries, excluding the US.			
Managed	Passive Index Fund			
Market Value	$2.5 million			
Benchmark	MSCI World ex US (Net Tax)			
		One Year	**Five Year**	**Inception-12/31/01**
Performance	-- Fund	-21.4%	2.2%	2.1%
"	-- Benchmark	-21.4	2.2	2.1

Fixed Income

Fixed income investments include government and corporate bonds and long-term loans. In aggregate, these investments returned 7.2% in 2001 compared to the benchmark's return of 7.0%. A recession, eleven interest rate cuts by the Federal Reserve, and a falling stock market together pushed bond returns ahead of stocks. For one of the few times on record, bonds beat stocks two years in a row. The 9.2% aggregate return for SWIB's domestic fixed income holdings surpassed an 8.7% return for the benchmark. SWIB's global and emerging bond portfolios returned 0.3% as compared to –1.0% for the benchmark.

Long Term Government/Corporate Bond Portfolio

Created	1977; revised 2000			
Description	This internally managed portfolio, formerly the Core Public Bonds Portfolio, invests in a broadly diversified dollar denominated set of marketable government, agency, Yankee and corporate bonds. In 2000, the portfolio was reduced from $3.7 billion to $2.8 billion as part of a restructuring in the Fixed Income area.			
Managed	Active internal management			
Market Value	$1.6 billion			
Benchmark	Lehman Long Term Government/Corporate Index			
		One Year	**Five Year**	**Ten Year**
Performance	-- Fund	6.5%	7.9%	8.4%
"	-- Benchmark	7.3	7.9	8.0

Intermediate Government/Corporate (IGC) Bond Portfolio

Created	12/31/88, revised in 2000
Description	This internally managed portfolio, formerly the Market Evaluation Portfolio, consists of dollar denominated, primarily investment grade bonds purchased in public markets. IGC is broadly diversified across sectors including marketable government, agency, corporate and Yankee.
Managed	Active internal management

Market Value $3.0 billion
Benchmark Lehman Intermediate Government/Corporate Index

	One Year	Five Year	Ten Year
Performance -- Fund	8.0%	7.1%	7.6%
" -- Benchmark	9.0	7.5	7.8

BGI Lehman Index Fund

Created September 30, 1996
Description This fund tracks the bond market return for the Lehman Government/Credit Index of the broad US public and corporate bond markets.
Managed Passive Index Fund
Market Value $3.7 billion
Benchmark Lehman Index

	One Year	Five Year	Inception-12/31/01
Performance -- Fund	9.5%	7.6%	7.9%
" -- Benchmark	9.2	7.5	7.8

BGI US High Yield Index Fund

Created January 31, 2001
Description This fund tracks the bond market returns for the MSCI US High Yield Corporate Bond Index for the high yield corporate bond markets.
Managed Passive Index Fund
Market Value $241 Million
Benchmark MSCI US High Yield

	Inception-12/31/01
Performance – Fund	-3.0%
Performance – Benchmark	-2.1

Internal Global Bond Portfolio

Created December 1996
Description This portfolio invests in US government securities or global fixed income securities that meet minimum credit quality requirements. Non-US fixed income investors are limited to "free" and "partly free" countries as determined by the Freedom House Index. SWIB increased this portfolio by nearly 50% in 2001 as it brought in-house more of the assets previously managed by external global managers. Authority to hire an assistant internal portfolio manager authorized in the 1999-2001 biennial budget made this possible.
Managed Active internal management
Market Value $1.4 Billion
Benchmark Salomon World Government Bond Index (WGBI) Unhedged (Net Tax)

	One Year	Inception – 12/31/01
Performance -- Fund	-0.3%	3.8%
" -- Benchmark	-1.0	4.1

Brinson Global Fixed Income Portfolio

Created	September 30, 1989
Description	Managed by Brinson Partners, this portfolio has authority to invest in global fixed income non-US securities that are limited to "free" and "partly free" countries as determined by the Freedom House Index.
Managed	Active external management
Market Value	$342 million
Benchmark	Salomon WGBI Unhedged (Net Tax)

	One Year	Five Year	Ten Years
Performance -- Fund	0.4%	5.1%	7.2%
" -- Benchmark	-1.0	5.3	7.1

Deutsche Morgan Grenfell Global Fixed Income Portfolio

Created	September 30, 1989
Description	Managed by Deutsche Morgan Grenfell, this portfolio has authority to invest in global fixed income non-US securities that are limited to "free" and "partly free" countries as determined by the Freedom House Index.
Managed	Active external management
Market Value	$339 million
Benchmark	Salomon WGBI Unhedged (Net Tax)

	One Year	Five Year	Ten Years
Performance -- Fund	-1.1%	5.0%	7.4%
" -- Benchmark	-1.0	5.3	7.1

BGI Global Bond Index (WGBI) Fund

Created	November 30, 1999
Description	This fund tracks the Salomon World Government Bond Index (WGBI).
Managed	Passive
Market Value	$528 Million
Benchmark	WGBI Unhedged (Net Tax)

	One Year	Inception-12-31-01
Performance -- Fund	-1.1%	-0.1%
-- Benchmark	-1.0	0.2

Deutsche Morgan Grenfell Emerging Markets Fixed Fund

Created	December 31, 1994
Description	The Deustche Asset Management (formerly Morgan Grenfell Capital Management) manages this fund, which may invest in public or private

fixed income investments in developing countries as defined by the World Bank.

Managed Active external management

Market Value $93 Million

Benchmark JP Morgan Emerging Market Bond Index Fund

	One Year	Five Year	Inception – 12/31/01
Performance -- Fund	6.1%	9.4%	17.5%
" -- Benchmark	-0.8	6.9	13.6

Salomon Brothers Merging Markets Fund

Created December 31, 1994

Description The Salomon Brothers Asset Managers manage this fund, which may invest in public or private fixed income investments in developing countries as defined by the World Bank.

Managed Active external management

Market Value $91 million

Benchmark JP Morgan Emerging Market Bond Index Fund

	One Year	Five Year	Inception - 12/31/01
Performance -- Fund	13.3%	10.1%	17.2%
" -- Benchmark	-0.8	6.9	13.6

Private Placements Portfolio

Created June 30, 1977

Description SWIB makes direct, long-term loans to companies located in Wisconsin and throughout the United States. In many cases, SWIB is a co-lender with other public or private investors. Occasionally, these investments include a component of company ownership. Loans are made at fixed rates of interest. Typically, a company must have a demonstrated record of good management, sales growth, profitability and cash flow along with reasonable levels of existing debt and equity. The private placement market presented strong opportunities for investment during calendar 2000 and remained strong for 2001. The private placement initiative represents an important component of SWIB's overall fixed income strategy. The Board of Trustees approved up to an additional $300 million for this portfolio to be drawn upon as needed during 2001.

Managed Active

Market Value $4.1 billion

Benchmark Sector-Weighted Corporate Bond Index

	One Year	Five Year	Ten Year
Performance -- Fund	10.3%	8.1%	8.3%
" -- Benchmark	9.5	7.1	7.6

Real Estate Mortgage Portfolio

Created	June 30, 1999
Description	This portfolio consists of private commercial mortgages invested in conjunction with Northwestern Mutual Life (NML) Insurance Company. Under this program, NML originates loans of $50 million or greater and offers SWIB the opportunity to participate. This provides a cost-effective way to extend our resources. SWIB's real estate and private placements staff collaborate regarding SWIB's participation in each investment.
Managed	Active external management
Market Value	$663 million
Benchmark	Duration-Adjusted BAA Corporate Bond Index

	One Year	**Inception-12/31/01**
Performance -- Fund	14.8%	9.8%
" -- Benchmark	9.9	7.3

Real Estate

Real Estate Portfolio

Created	June 30, 1977
Description	The Real Estate Portfolio is dedicated to commercial real estate investments either with SWIB as a sole direct owner or in joint ventures and partnerships. The investment objective is to add diversity, provide long-term stability and act as a hedge against inflation. The portfolio is diversified by regions and property type. Core investments emphasize steady income relative to the benchmarks. The Board of Trustees approved up to an additional $100 million to this portfolio for 2001 to keep it close to the 4% target of Fixed Fund assets.
Managed	Active internal management
Market Value	$2.1 Billion
Benchmark	National Council of Real Estate Investment Fiduciaries' Index

	One Year	**Five Year**	**Ten Year**
Performance -- Fund	8.7%	10.9%	8.1%
" -- Benchmark	10.1	12.3	6.6

Alternative Investments

SWIB has targeted 5% of the assets of the Fixed Fund to Alternative Investments that carry a higher degree of risk but offer the potential for greater returns. These investments include public and private markets globally. **Alternative Investments are expected to earn below benchmark returns until a longer, typically five-year, period has passed.** (Please refer to pages 22 and 23 for a summary of actions affecting Alternative Investments that the Board recently took.)

Opportunity E Portfolio

Created	June 30, 1995

Description	Authority to invest across asset classes in domestic or international markets but is gradually turning to international private equity markets, with a substantial emphasis in specific types of businesses in emerging markets and less emphasis in the US and developed international markets. Capital market projections continue to show a long-term premium for investment in these assets. The objectives are to take advantage of market inefficiencies created by complexity of securities and improve overall performance of the Fixed Fund through enhanced returns. In 2001, the portfolio manager began transitioning out of publicly traded securities, liquidating several smaller investments and concentrating on fewer, but larger, private investments. Like all alternative investments, it typically takes five years for the returns to approach the benchmark.
Managed	Active internal management
Market Value	$1.2 Billion
Benchmark	15% Net of Fees Absolute Return (Effective July 1, 2000)

	One Year	Five Year	Inception-12/31/01
Performance -- Fund	2.9%	3.5%	7.9%
" -- Benchmark	15.0	16.4	16.2

Opportunity E Portfolio
Fixed Trust Fund

Category	December 31, 2000 Market Value (in millions)	December 31, 2000 Percent Of Total	December 31, 2001 Market Value (in millions)	December 31, 2001 Percent of Total
US Stocks	$202.0	16%	$ 92.0	7%
Emerging Markets	588.0	48%	765.0	61%
Foreign Stocks	301.0	25%	155.0	13%
Fixed Income	9.0	1%	9.0	1%
Cash	120.0	10%	227.0	18%
TOTAL	$1,220.0	100%	$1,248.0	100%

Private Equity

Created	July 31, 1985
Description	This portfolio makes investments in selected leveraged buy-outs (LBO), venture capital partnerships and direct LBO ownership positions. Investments are diversified across different partnerships with different stages of developmental focus. These investments are subject to higher risks of failure, but offer the prospect of higher returns. As with the other alternative investment portfolios, it typically takes five or more years for private equity investments to achieve the long term benchmark.
Managed	Active internal management
Market Value	$1.5 Billion
Benchmark	15% net of fees absolute return

	One Year	Five Year	Ten Year
Performance -- Fund	-9.3%	7.4%	10.8%
-Benchmark	15.0	15.0	15.0

Private Biotech Equity

Created June 30, 2000

Description This portfolio is dedicated to investments in venture capital partnerships in biotechnology and high technology, which are sited primarily in Wisconsin and the Midwest. The Board has allocated up to $65 million toward this objective. At year-end, SWIB had committed $45 million to two Wisconsin firms – Venture Investors and Mason Wells -- and approximately $14 million of the committed funds had actually been invested. These investments are subject to higher risks but offer the prospect of higher returns. The Board continues to be open to looking at new venture capital investment opportunities in Wisconsin, however, each partnership commitment must meet the same due diligence as other SWIB investments. As with other venture capital investments, it is typical for these investments to earn below benchmark returns for at least the first five years.

Managed Active internal management

Market Value $14 million

Benchmark 15% net of fees absolute return

	One Year	Inception-12/31/01
Performance – Fund	-7.9%	-8.7%
" -- Benchmark	15.0	15.0

CASH

The Fixed and Variable Funds will typically have 1%-2% in cash at any given time. While temporary cash balances are awaiting permanent investment, the State Investment Fund invests the cash in short-term and intermediate-term investments. These investments include obligations of the US government and its agencies as well as high quality commercial bank and corporate debt obligations. At the end of 2001, 1.1% of WRS assets was in cash, which earned 4.2% for the year compared to the 3.5% benchmark.

State Investment Fund

The State Investment Fund (SIF) invests the cash balances of state agencies, local governments and the Wisconsin Retirement System (WRS) on a commingled basis. Safety of principal and liquidity are emphasized in managing investments for SIF and reflect its shorter-term, cash management objectives.

State agencies deposit tax revenues, fees, federal aid payments and other revenues from over 40 state funds in the SIF until needed for state operating expenditures. Cash assets of the WRS are invested in the SIF until longer-term investment opportunities with more favorable rates of return become available. Over 1,200 local units of government deposit funds until needed for local operating expenditures. These commingled local funds are referred to as the Local Government Investment Pool (LGIP).

Earnings

Earnings for SIF are calculated and distributed monthly, based on the participant's average daily balance as a percent of the Fund. Participants may deposit and withdraw their funds on a daily basis. Assets of the SIF were valued at $5.7 billion on December 31, 2001, which included $265 million of WRS trust funds. The following table, however, shows the average month-end SIF balance and participation in 2001

State Investment Fund
Average Month-End Balances for Calendar Year 2001

Source	Amount (in millions)	Percent Of Total
Local Government Investment Pool (LGIP)	$3,768	59%
State Funds	2,135	33
WRS Trust Funds	498	8
TOTAL	$6,401	100%

Investment Goals

The investment goals for SIF are: first and foremost, safety of principal; second, liquidity; and finally, rate of return. The benchmark for measuring investment performance consists of:

1. The 90-day US Treasury Bill rate (70%).

2. The 30-day Federal Reserve Certificate of Deposit Composite Index rate (30%).

Investment Strategy/Asset Allocation

Safety of principal and liquidity in SIF are achieved by adherence to rigorous quality standards, careful attention to maturity schedules and an emphasis on high marketability of securities in the portfolio. Enhanced return is sought through intensive portfolio management, which considers probable changes in the general structure of interest rates. SIF invests in direct obligations of the US government and its agencies, commercial paper of financial and industrial corporations, bank certificates of deposit, bankers' acceptances, asset-backed securities, mortgage-backed securities and repurchase agreements backed by securities of the US government or its agencies, and other instruments authorized by the Board of Trustees that are within the restrictions of state law. Investment guidelines for SIF include the following asset allocation limits. There have been no changes in SIF investment guidelines or strategy since our last report.

State Investment Fund Asset Allocation Limits

Asset Type	Limit as a Percent of Portfolio Par Value
US Treasuries and Agencies	50-100%
Commercial Paper and Corporate Notes	0-30
Certificates of Deposit and Bank Acceptances	0-30
Asset-Backed Securities	0-30
Mortgage-Backed Securities	0-30
Canadian (fully hedged)	0-20
Yankee/Euro Dollar Issues (fully hedged)	0-10

The following table compares the actual allocation of SIF assets as of December 31, 2001 to holdings a year earlier. Appendix C provides a description of each category.

State Investment Fund Holdings				
Asset Type	12/31/00		12/31/01	
	Amount* (In Millions)	Percent of Total	Amount* (In Millions)	Percent of Total
Cash	$0	0%	$0	0%
US Government:				
Treasury Bills	0	0	0	0
Notes and Bonds	142	3	142	2
Agencies	3,039	60	4,599	73
Open Repurchase Agreements	774	15	1,149	18
Asset-Backed Securities	16	0	5	0
Mortgage-Backed Securities	3	0	2	0
Yankee/Euro Dollar Issues	0	0	0	0
Certificates of Deposit and Bankers Acceptances	400	8	400	6
Commercial Paper and Corporate Notes	696	14	0	0
TOTAL	$5,070	100%	$6,297	100%

*Total value exceeds participant holdings due to check float and timing of postings

Performance

- The **State Investment Fund outperformed its benchmark for the one-, five- and ten- year periods.**

- For the year ending December 31, 2001, **SIF's 4.21% return ranked 1st out of 234 government funds in the iMoneyNet Government Fund Index and 25th out of 1,148 money market funds in the iMoneyNet All Taxable Money Market Index (top 3%).** Without the 1995 derivatives loss, SIF's return of 4.28% would have ranked 1st out of the 234 Government Funds and 8th out of the 1,148 Money Market Funds (top 1%).

- The Federal Reserve's 11 rate reductions began January 3, 2001 and by year-end, 4¾ points had been trimmed, leaving the overnight Federal funds rate at 1.75 percent, a 40-year low. By extending the SIF's average maturity prior to the first rate reduction, the Fund's performance was enhanced early in the year. Throughout the rest of the year, the Fund took advantage of the ever-changing short-term yield curve. Despite the Fed's aggressive rate reductions, the short-term yield curve was constantly changing in response to the market's outlook concerning Fed policy, economic growth, inflation and seasonal/technical factors. The curve didn't simply shift downward with each rate cut, but changed in shape. At times it was normal, inverted, flat and U-shaped. Throughout these yield curve changes, and the Fund's seasonal cash flow changes, we strategically altered the average maturity, trying to take advantage of "yield curve positioning."

- In March 1995, SWIB neutralized 12 derivative investments in State Investment Fund whose return was determined by the spread between U.S. and foreign currency and interest rates. The Board concluded that these investments were inappropriate and outside policy guidelines. This action resulted in a $95 million loss that is being paid with interest over a ten-year period. This was expected to result in an annual average reduction of 0.25% in earnings over the ten years. The loss in any one month or year was expected to vary significantly based on the schedule of amortization payments and fluctuations in the balance of the Fund. The expected loss was projected to be highest in the first five years, averaging 0.329%, and to drop significantly in the next five years to an average 0.091%.

- Payments made to amortize the derivatives loss resulted in a reduction of 0.28% in the first five years ending March 2000 versus the projected 0.329%. Currently the charge is approximately 0.07% compared to the projection of 0.091%. As of December 31, 2001, the remaining non-amortized balance on the $95 million was approximately $14.1 million. There were no other derivatives in the State Investment Fund during 2001.

State Investment Fund Performance

Annualized For Period Ending December 31, 2001

	One Year	Five Years	Ten Years
State Investment Fund Return	**4.21%**	**5.22%**	**5.03%**
Investment Benchmark	3.51	4.94	4.65

Risk Management

Risk management for the State Investment Fund places particular emphasis on three factors: (1) safety of principal; (2) the need for adequate liquidity to meet withdrawals; and (3) sensitivity of the portfolio to changes in interest rates. These risks are measured in the following ways:

1. **Safety of Principal.** Approximately 93% of the Fund was invested in US government securities as of December 31, 2001. The Fund does contain certain investments that are subject to market risks, including default by the issuer. Although the Fund has never experienced a credit default, in certain economic cycles the Fund could potentially incur losses in certain investments. The Fund has insurance coverage for credit losses incurred by LGIP participants.

2. **Liquidity.** The combination of funds from the state, local governments and the WRS provides a high degree of flexibility and liquidity. The average maturity for portfolio investments as of December 31, 2001 was 60 days. The ability to withdraw any amount of funds on a daily basis creates the risk that a significant number of local government participants could make simultaneous withdrawals from SIF. As of December 31, 2001, over 69% of the fund was invested in securities maturing within 90 days to meet this contingency.

3. **Interest Rate Sensitivity**. Interest rates for 75% of portfolio assets reset within three months or less, while 26.1% of the portfolio changes rate overnight. This strategy is designed to ensure that the rate of return is sensitive to changes in the general level of interest rates.

Investments in Wisconsin

SWIB makes investments in Wisconsin within the context of its fiduciary responsibility to participants in the funds we manage. Some of our investments in Wisconsin occur as part of our everyday investment activity in the national and global markets, since Wisconsin businesses are participants in these markets. In other instances, SWIB staff make special efforts to explore investment opportunities that exist within the State.

Under Section 25.17 (70), Stats., SWIB provides a biennial report to the Governor and Legislature on the investments it has made in Wisconsin during the past biennium and its plans for future investment. The last report was submitted on June 30, 1999. In addition to the biennial report, SWIB had presented its five-year plan for investing in the State in 1999. At that time, for the five-year period including fiscal years ending June 30, 1999 through June 30, 2004, SWIB indicated that it planned to make new investments in the state between $2.2 and $3.9 billion.

New investments made in Wisconsin companies for the year ending June 30, 2001 totaled $988 million. (See Appendix E) Investments included:

- $153 million of new investments in stocks of 17 publicly held Wisconsin companies,
- $373 million of new investments in high quality commercial paper issued by public utilities and Wisconsin companies,
- $382 million in certificates of deposit from Wisconsin banks and thrifts, and
- $80 million in private equity and loans to Wisconsin companies.

The companies included are either headquartered in Wisconsin or easily identified as having a significant portion of their business activities in Wisconsin. As shown in the table on the following page, new and existing investments in companies headquartered in Wisconsin totaled nearly $1.8 billion. An additional $6.5 billion was invested in companies with 20 or more Wisconsin employees, bringing the total investments in companies with economic ties to Wisconsin to nearly $8.3 billion at the end of fiscal year 2001.

In addition to these direct investments, SWIB has historically sought to direct 5% of commissions generated from trading activity to Wisconsin-based brokerage firms to comply with the directives of 1985 Wisconsin Act 53. That Act reflected the desire that assets managed by SWIB be invested to aid in Wisconsin's economic growth without diverting the agency from its primary purpose of managing funds to meet its fiduciary responsibilities to fund participants.

The Legislature changed the voluntary 5% goal to a mandate and narrowed the definition of a Wisconsin broker-dealer in 1999 WI Act 9. Section 25.186, Stats., now directs SWIB to pay at least 5% of brokerage commissions to broker-dealers with headquarters in Wisconsin and whose principal business operations are located in the state. Currently, only one company meets that definition. On the advice of the Attorney General, SWIB has attempted to comply with the statute to the extent that it is able to do so while still complying with its fiduciary duties to the fund participants. In fiscal year 2001, SWIB directed $510,191 or 4.2% of the $12,146,717 total listed commissions to the one eligible

Wisconsin broker.

Summary of SWIB Investments in Wisconsin
June 30, 2001

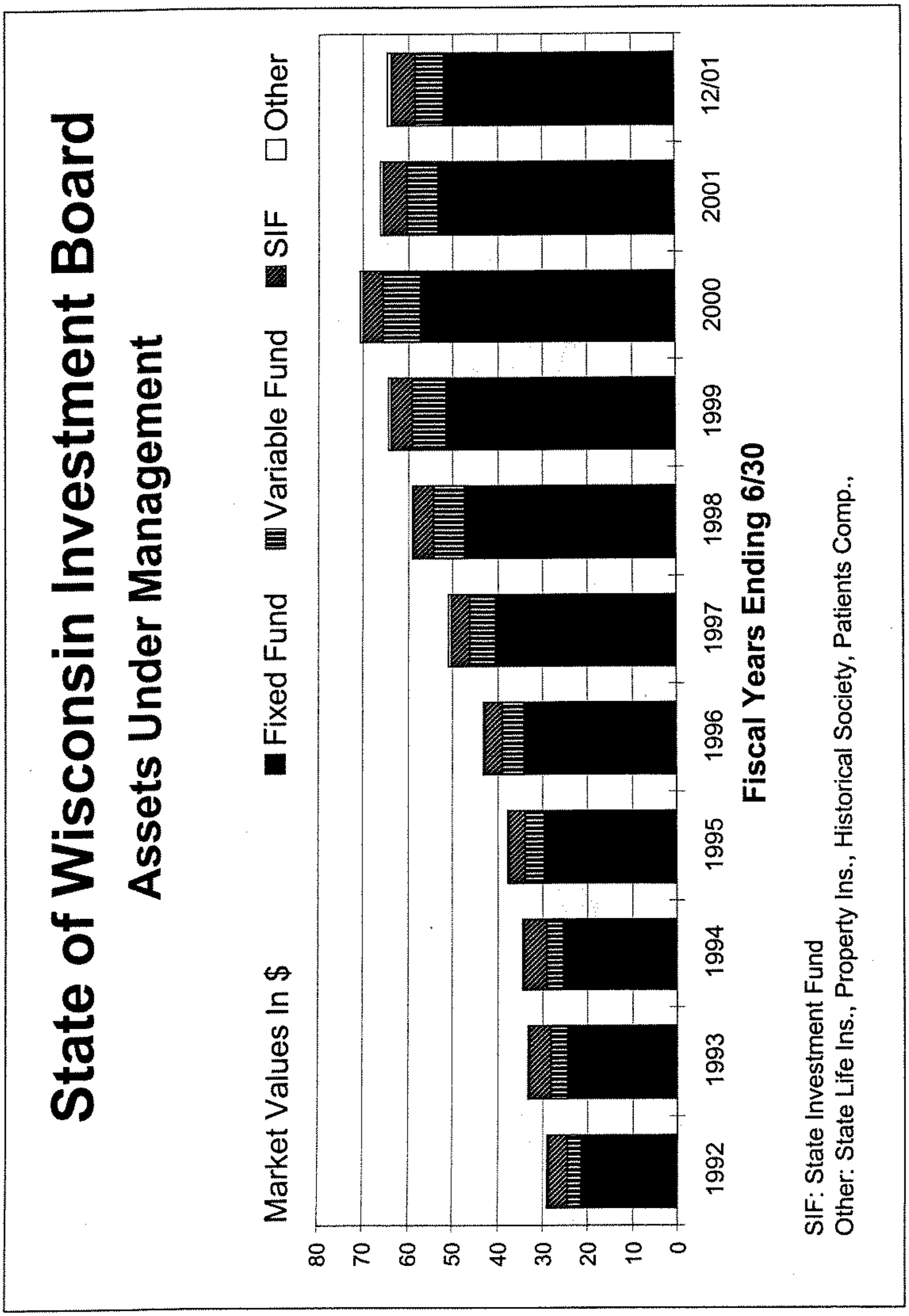
	Headquartered in Wisconsin	Not Headquartered in Wisconsin But w/20+ WI Employees	Total Investment in Wisconsin
Public Bonds (1)	$67,785,990	$1,145,400,998	$1,524,186,989
Liquid Assets (2)	757,780,857	779,390,000	1,537,170,857
Public Equities (1)	346,722,013	3,332,563,860	3,679,285,873
Real Estate (1)	8,341,191	0	8,341,191
Private Placements (1)(3)	577,049,332	937,904,332	1,514,953,664
Total	$1,757,679,383	$6,506,269,190	$8,263,938,573

(1) Valued at market value.

(2) Commercial paper, certificates of deposit and bankers acceptance agreements valued at par. Reflects maximum outstanding value per issue during the fiscal year.

(3) Includes private equity and private loans.

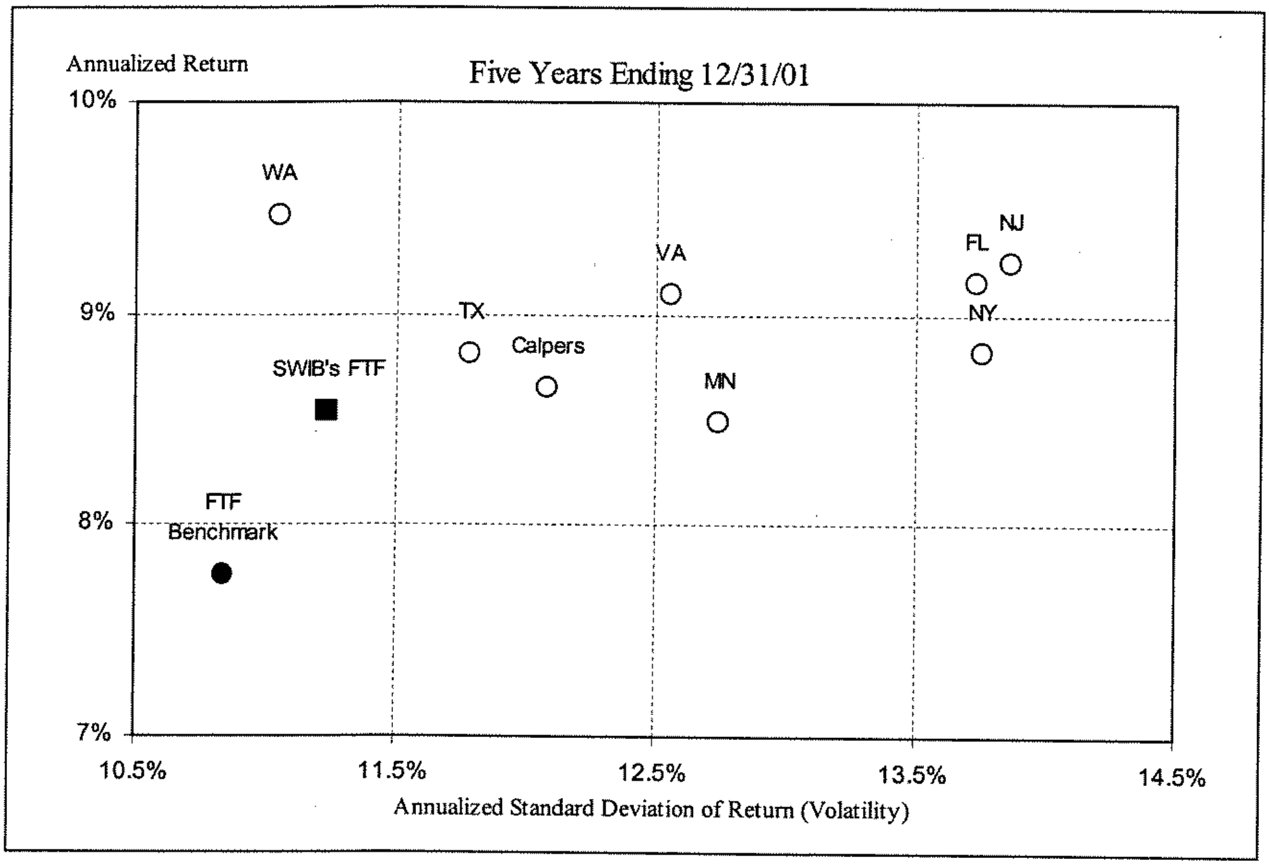
Appendix A



SIF: State Investment Fund
Other: State Life Ins., Property Ins., Historical Society, Patients Comp.,

Appendix B

Return/Volatility
Fixed Trust Fund and LAB Peers*



The above chart captures both return and risk, or volatility, and provides a more complete picture of results than looking at return alone. The return/risk ratio shown in the charts is simply the return divided by volatility and represents the level of reward achieved for the level of risk taken. The higher the return/risk ratio, the better the result is. The most preferred positions in the upper left portion of the charts, indicating higher but less volatile returns.

This chart compares the five-year return/risk ratio for the Fixed Trust Fund (FTF) with eight of the nine public pension funds that the Legislative Audit Bureau used for comparison purposes. The chart shows that the Fixed Trust Fund earned higher returns than its benchmark with slightly higher volatility. Compared to the other public funds illustrated, SWIB is a lower-return, lower-risk fund for this period. On a risk-adjusted basis, SWIB's return/risk ratio ranks second among eight of the nine funds chosen by the LAB. Risk data was not available for the Pennsylvania School Teachers Fund.

Appendix C

State Investment Fund Investment Categories

US Treasury Bills. US Treasury short-term discount securities guaranteed by the full faith and credit of the US Government.

US Treasury Notes and Bonds. US Treasury coupon issues with original maturities of up to ten years guaranteed by the full faith and credit of the US Government.

US Agencies. An agency chartered by the US Government to serve the public purposes specified by the Congress. Payment of the principal and interest may or may not be guaranteed by the full faith and credit of the US Government itself.

Repurchase Agreements. The purchase of securities (collateral) from a bank or dealer with the simultaneous consent by the bank or dealer to repurchase the securities at the same price at a specified date and interest rate. Repurchase agreements must be US Treasury or Agency securities that meet other investment guidelines.

Asset-Backed Securities. Publicly traded notes backed by loans, leases or installment contracts on personal property. Cash flows generated from underlying assets are used to pay principal and interest to the shareholders.

Mortgage-Backed Securities. Ordinary bonds backed by an undivided interest in a pool of mortgages or trust deeds. Income from the underlying mortgages is used to pay off the securities.

Yankee/Euro Dollar Issues. Obligations of foreign issuers payable in US dollars and registered with the Securities and Exchange Commission.

Certificates of Deposit. Interest bearing, negotiable, time deposits of fixed maturity at commercial banks.

Commercial Paper and Corporate Notes. Unsecured promissory notes that meet maturity and credit quality standards specified in the investment guidelines.

Appendix D

Use of Derivative Financial Instruments

A derivative is a financial instrument whose value depends on, or is derived from, the value of another asset, index or rate. The Board's investment guidelines regarding the use of derivative investments were modified in May 1995. Under these guidelines:

- The Risk and Investment Committee comprised of senior SWIB staff must review all derivatives' transactions. The committee also reviews all derivative investment strategies to ensure that they are in compliance with investment guidelines.

- The Risk and Investment Committee monitors each derivative position. The performance of each derivative is reviewed against the original purpose of the investment.

A detailed accounting of derivative investments held in the Fixed and Variable Funds and the State Investment Fund is provided with the audited financial statements in our annual financial report. The following types of derivatives are being utilized by each Fund:

Fixed Retirement Trust Fund

1. ***Foreign Currency Forwards and Options.*** The primary types of derivatives used in the Fixed Fund are forward contracts and currency hedges. Generally, these derivatives are used to protect against the risk of currency exchange rate fluctuation in our international investments. As of July 1, 1999, the Board of Trustees changed the investment policies governing the amount of and conditions under which foreign currency forward contracts may be included within each international portfolio. These guidelines allow investment managers to: (1) take a long position on any currency in their benchmark even in the absence of underlying positions and (2) take a short position on any currency limited to the amount of the underlying position of securities in that currency. This allows managers to, in effect, "hedge" against any currency in their assigned benchmark, even though they may not have underlying positions in that currency.

   The Fixed Fund held one yield-enhancing, foreign currency call option, which expired in February 2000, realizing a $25.7 million gain. There was no market risk associated with owning this instrument beyond the initial cost of its purchase. SWIB held no foreign currency call options at either the end of calendar year 2000 or 2001.

2. ***Other Options.*** SWIB may hold equity and "basket" option contracts that give the purchaser the right to buy (call) or sell (put) the equity security or index underlying the contract at an agreed upon price at a specified time. In that instance, SWIB would purchase options to take market positions that might be difficult, inefficient or inaccessible in direct form. The Fixed Fund held a yield enhancing out-performance call that cost $11.5 million and realized a $5.8 million gain at expiration in April 2000. In addition, SWIB held a number of put and call options in the Fixed Fund at the end of calendar year 2001. Each of these options was

entered into as an exit strategy in conjunction with the purchase of the underlying security.

3. ***Futures Contracts.*** SWIB hired the firm of Grantham, Mayo, Van Otterloo & Company (GMO) in 1998 to manage a core US equity portfolio for both the Fixed and Variable Funds. GMO trades S&P 500 futures and Russell 2000 index futures contracts to manage its exposure to the stock market. Futures contracts are an obligation to purchase or sell the underlying security at a specified date.

   Upon entering into a futures contract, the fund is required to deposit with its custodian, an amount of cash or US government obligations in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily and an appropriate payable or receivable for the change in value is recorded by the fund (variation margin). The payable or receivable is subsequently settled and the gain or loss is realized. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin. Losses may arise from changes in the value of the underlying instrument if there is an illiquid market for the contracts or if counter-parties do not perform under the contract terms. Futures contracts are valued at the settlement price established each day by the exchange on which they are traded.

   As of December 31, 2001, SWIB held S&P 500 index futures with a notional value of $7.7 million. These are set to expire on March 14, 2002.

The following table compares the market value of derivative positions in the Fixed Fund on December 31, 2000 to the values as of December 31, 2001.

Derivative Investment Activities
Fixed Retirement Trust Fund

		12/31/00 Market Value (In Millions)	12/31/01 Market Value (In Millions)
Unrealized Gains and Losses			
Hedging Investments			
Foreign Currency Forwards			
Foreign Currency Contracts Net Fair Value		$ 36.4	$ 2.9
Market Gains/Losses on Underlying Securities		(36.4)	(2.9)
		$ 0.0	**$ 0.0**
Realized Gains and Losses			
Yield Enhancing Activities			
Foreign Currency Call Option			
Cost	$ 11.9		
Proceeds at Expiration	37.6		
Realized Gain/Loss		$ 25.7	$ 0.0
Out-performance Call Option			
Cost	$ 11.5		
Proceeds at Expiration	17.3		
Realized Gain/Loss		$ 5.8	$ 0.0
Equity Futures Contracts			
Net Accumulated Cash Flow		$ 0.4	$ 1.0
Net Realized Gains/(Losses)		**$ 31.9**	**$ 1.0**

All numbers are rounded to the nearest whole number.

*All Foreign Currency Forward Contracts are now combined under Hedging Investments.

Variable Retirement Trust Fund

The following table compares the market value of derivative positions in the Variable Fund on December 31, 2000 to the values on December 31, 2001.

1. ***Foreign Currency Forwards and Options.*** The primary types of derivatives used in the Variable Fund are forward contracts and currency hedges. Generally, these derivatives are used to protect against the risk of currency exchange rate fluctuation in our international investments. As of July 1, 1999, the Board of Trustees changed the investment policies governing the amount of and conditions under which foreign currency forward contracts may be included within each international portfolio. These guidelines allow investment managers to: (1) take a long position on any currency in their benchmark even in the absence of underlying positions and (2) take a short position on any currency limited to the amount of the underlying position of securities in that currency. This allows managers to, in effect, "hedge" against any currency in their assigned benchmark, even though they may not have underlying positions in that currency.

2. ***Other Options.*** SWIB may hold equity and "basket" option contracts that give the purchaser the right to buy (call) or sell (put) the equity security or index underlying the contract at an agreed upon price at a specified time. In that instance, SWIB would purchase options to take market positions that might be difficult, inefficient or inaccessible in direct form. The Variable Fund, however, held no equity options as of December 31, 2000 or December 31, 2001.

3. ***Futures Contracts.*** SWIB hired the firm of Grantham, Mayo, Van Otterloo & Company (GMO) in 1998 to manage a core US equity portfolio for both the Fixed and Variable Funds. GMO trades S&P 500 futures and Russell 2000 index futures contracts to manage its exposure to the stock market. Futures contracts are an obligation to purchase or sell the underlying security at a specified date.

   Upon entering into a futures contract, the fund is required to deposit, with its custodian, an amount of cash or US government obligations in accordance with the initial margin requirements of the broker or exchange. Futures contracts are marked to market daily, and an appropriate payable or receivable for the change in value is recorded by the fund (variation margin). The payable or receivable is subsequently settled, and the gain or loss is realized. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin. Losses may arise from changes in the value of the underlying instrument if there is an illiquid market for the contracts or if counter-parties do not perform under the contract terms. Futures contracts are valued at the settlement price established each day by the exchange on which they are traded.

   As of December 31, 2001, SWIB held S&P 500 index futures with a notional value of $1.4 million in the Variable Fund. These are set to expire on March 14, 2002.

   The following table compares the market value of derivative positions in the Variable Fund on December 31, 2000 to the values on December 31, 2001.

Derivative Investment Activities
Variable Retirement Trust Fund

	12/31/00 Market Value (In Millions)	12/31/01 Market Value (In Millions)
Unrealized Gains and Losses		
Hedging Investments		
• Foreign Currency Forwards		
Foreign Currency Contracts Net Fair Value	$ 6.0	$ 1.8
Market Gains/Losses on Underlying Securities	(6.0)	(1.8)
Unrealized Gains and Losses	**$ -0-**	**$ -0-**
Equity Futures Contracts		
Net Accumulated Cash Flow	$ 0.1	$ 0.3
Net Realized Gains and (Losses)	**$ 0.1**	**$ (0.3)**

Appendix E
New Investments in Wisconsin Companies - Fiscal Year 2001

Liquid Asset Investments		
Alliant Energy (Interstate Power, WP&L)	$ 25,000,000	Madison
Harley Davidson	25,000,000	Milwaukee
Kimberly Clark Corp.	44,400,000	Significant Wisconsin Presence
Madison Gas & Electric	21,500,000	Madison
MGIC Investment Corp.	19,300,000	Milwaukee
M&I	25,000,000	Milwaukee
Snap-On	25,000,000	Pleasant Prairie
Wisconsin Certificate of Deposit Program	381,995,000	Various
Wisconsin Corporate Central Credit Union	50,000,000	Hales Corners
Wisconsin Electric Power Co.	25,000,000	Milwaukee
Wisconsin Energy Corp.	25,000,000	Milwaukee
Wisconsin Gas Co.	2,772,000	Milwaukee
Wisconsin Public Service	5,000,000	Green Bay
Total	$ 754,967,000	
Loans and Private Equity		
Advanced Separation & Process	1,060,000	Windsor/Deforest
Aqua Financial 2000	20,143,833	Wausau
Baird Capital Partners II*	164,267	Milwaukee
Convenience Store	9,154,326	LaCrosse
Facilitator Capital Fund*	625,000	Madison
Horizon Capital Partners*	714,508	Milwaukee
International Truck & Engine	19,000,000	Waukesha
Mason Wells Bio-Medical Fund	4,206,319	Milwaukee
Mason Wells Fund I, LP*	3,964,286	Milwaukee
NimbleGen Systems Inc.	1,000,000	Madison
Quad/Graphics	14,500,000	Pewaukee
TeraMedica, Inc.	500,000	Milwaukee
Venture Investors Early Stage Fund*	4,956,250	Madison
Total	$ 79,988,789	
Public Equities		
Alliant Corporation	233,200	Madison
American Superconductor Corporation	25,051,800	Significant Wisconsin Presence
Bank Mutual Corp.	6,532,798	Milwaukee
Bone Care International, Inc.	13,435,500	Madison
Johnson Controls, Inc.	15,363,640	Milwaukee
Lands' End, Inc.	5,910,080	Dodgeville
Manitowoc Co.	21,977,500	Manitowoc
Marshall & Ilsley Corp.	6,209,280	Milwaukee
Midwest Express Holdings, Inc.	28,256,210	Oak Creek
Philip Morris Cos.	5,075,000	Significant Wisconsin Presence
Rayovac Corp.	3,332,884	Madison
Regal-Beloit Corp.	2,718,560	Beloit
Sensient Technologies Corp.	2,052,000	Milwaukee
ShopKo Stores, Inc.	2,873,416	Green Bay
Walgreens Company	1,392,184	Significant Wisconsin Presence
Wausau-Mosinee Paper Corporation	3,222,500	Mosinee
Wisconsin Energy Corporation	9,793,240	Milwaukee
Total	$ 153,429,792	
GRAND TOTAL	$ 988,385,581	

This report contains new investments with companies that are headquartered in Wisconsin or have a significant presence in Wisconsin.

* This represents the amount called in 2001. Initial commitments were made to these funds in prior fiscal years.