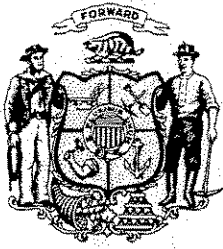


A



State of Wisconsin Investment Board

MAILING ADDRESS
PO BOX 7842
MADISON, WI 53707-7842

121 EAST WILSON ST
MADISON, WI 53702
(608) 266-2381
FAX: (608) 266-2436

January 26, 2001

Honorable Brian Burke
Co-chair
Joint Committee on Finance
316 South, State Capitol
Madison WI 53702

Honorable John Gard
Co-chair
Joint Committee on Finance
315 North, State Capitol
Madison WI 53702

Subject: Recruitment and retention of staff

Dear Senator Burke and Representative Gard:

In your letter dated April 18, 2000, you asked that we provide a report to you this month with updated information on staff recruitment and retention.

As you will recall, our agency's budgetary authority was changed as a part of 1999 WI Act 9 and allowed the Board of Trustees to implement a more competitive compensation structure for investment staff. During the two and one-half years before receiving the authority, we lost 25% of our investment staff to other financial investment positions with compensation levels that were, in a number of cases, several multiples of what they had earned at SWIB. When we were able to fill a position, it was usually with a person with much less experience in the investment world than the person who left.

With the assistance of a leading consultant to the investment industry, the Board developed a new compensation structure that includes improvements in base salary and performance bonuses. In April 2000, the Board implemented base salary increases for staff. Performance bonuses for fiscal 1999-2000 were paid in November 2000 under the new structure. The salary increases and bonuses together raised the average compensation for investment staff to 79% of the 1998 median total cash compensation of their peers at banks, insurance companies and corporate pension funds. This is a conservative peer group that excludes the more highly compensated mutual funds, specialty investment firms and investment managers in the east and west coast

financial centers. (We previously provided the Committee with copies of the salary and bonus plans that the Board adopted.)

The Board, staff and I are appreciative of your support in helping us to secure the compensation flexibility. While the entire compensation plan has been in effect for only a few months, it has had a positive impact. No investment staff person has left because of compensation issues since the Board approved the base salary plan in April of last year. We have also had some improvement in recruiting personnel for vacant positions, although we still have difficulty attracting individuals with the breadth of experience we would like. Because the bonus issue was a concern to applicants, we postponed completing recruitment and hiring for six vacant investment positions until the Board approved the bonus portion of the compensation plan in November. Since then, however, we have either filled or have accepted offers for five of the six positions. We now have only one vacant investment position.

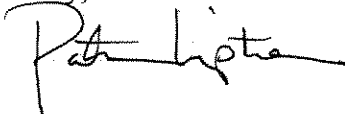
When we discussed compensation issues with the Legislature in 1999, we noted that seven of the last nine analysts hired for our domestic stock portfolios had less than two years of experience. Four of the five people most recently hired to fill investment analyst positions have an average of 4 years of investment experience. The fifth person, hired as an assistant portfolio manager, has over 15 years of experience.

It is still the Board's goal to reach the median total compensation (base salary + bonus) for the peer group. Although the budgetary flexibility allowed us to make the compensation package more competitive, we still lag the peer group median. We need to strengthen the experience level within some portfolios as part of our succession planning. This is critical as 12 of 21 experienced investment staff in key positions have either indicated their retirement plans or are within five years of being eligible to retire.

More than 464,000 members of the Wisconsin Retirement System depend on us to manage their funds. To meet that responsibility, it is critical that we continue to have the necessary budget authority to provide competitive compensation to experienced professional investment staff.

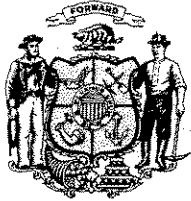
I hope this provides you with the information you wanted. Please contact me if you have questions or need anything further.

Sincerely,



Patricia Lipton
Executive Director

cc: Members, Joint Committee on Finance
Robert Lang, Legislative Fiscal Bureau



State of Wisconsin Investment Board

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January 31, 2001

Senator Brian Burke, Co-Chair
Joint Committee on Finance
P.O. Box 7882
Madison, WI 53707-7882

Representative John Gard, Co-Chair
Joint Committee on Finance
P.O. Box 8952
Madison, WI 53708-8952

Dear Senator Burke and Representative Gard:

In accordance with s. 25.17(17) of the Statutes, I am submitting to the Joint Committee on Finance, the State of Wisconsin Investment Board's (SWIB) annual report on credits, or "soft dollars," generated with security brokerage firms and the use of those credits to acquire investment research services. This report covers soft dollar credits and expenditures for calendar year 2000. Additional reports regarding SWIB's commission activities with other brokerage firms are available upon request.

Background

When shares of stocks are bought or sold, a commission is paid to the brokerage firm handling the transaction. A portion of the commission represents compensation for the trading function, such as trade execution, clearing, settling and custody. Another portion of the commission serves to compensate the firm for investment research products and services it provides.

Occasionally, a brokerage firm will not have its own research staff. In such instances, the firm may offer to pay independent research vendors for services they provide to the investment manager. Credits made available to clients in this manner are termed "third-party" or "non-exclusive" soft dollar research credits.

Similarly, a broker, which does not have an in-house research staff, may enter into a contractual (exclusive) relationship with a research provider such that investors are only granted access to the research if a specified level of trading activity is executed with the broker. These types of soft dollar arrangements are termed "exclusive."

Soft dollar research services and practices evolved prior to 1975 when commission rates were fixed by rule. Since many stock trading functions are fairly generic, brokers had to compete for trading business with the research services and credits they offered. In this manner, research grew to be a major service provided by brokers. At the same time, since commission rates were fixed, investment managers relying on soft dollar research did not encounter any fiduciary conflicts with the practice.

A roughly comparable soft dollar research practice exists in trading public bonds. Large institutional investors receive research services directly from brokers or may, in certain situations involving new bond issues, be able to direct a portion of the "selling concession" to brokerage firms that can provide desired third-party research services. A key difference between stock soft dollar credits and bond soft dollar credits involves the type of transaction which generates the credit. Whereas an investment

manager cannot receive a soft dollar research credit from the purchase of new issues of stock, a soft dollar research credit for a bond transaction can, in some limited instances, be received on the new issue of a bond.

A significant difference also exists in the way that the research credit is generated. A "commission" is an amount paid on top of the selling price of a share of stock and represents a payment by the investor for both the transaction and research services. The "selling concession" received by a bond broker is taken from the proceeds of the bond issue. The seller rather than the bond purchaser therefore, pay it. The price paid by the bond buyer (SWIB) is the same, regardless of the soft dollar research arrangements offered by the broker.

Legal Basis for "Soft Dollar" Transactions. The Securities Acts Amendments of 1975 to the Securities Exchange Act replaced fixed commission rates with negotiated rates, effective May 1, 1975. The Amendments also created the Section 28(e) safe harbor provisions regarding the use of "soft dollars" by investment managers. In effect, Section 28(e) defines allowable uses of soft dollars. If a person with "investment discretion" is in compliance with these provisions, he or she is protected against claims that receiving research services through the payment of brokerage commissions violates fiduciary responsibility. The person must determine that the "bundled" price of the services received is reasonable in relation to the value of the trading and research services received.

Rulings and interpretations by the Securities and Exchange Commission (SEC) provide the framework for applying Section 28(e). SEC determinations have covered diverse topics, such as the standards used to judge reasonableness of price, the relations between brokers and third-party vendors, and the definition of allowable research equipment and supplies.

Over the past years, several industry groups and regulatory agencies have issued reports which attempt to more closely define appropriate use, management and disclosure of soft dollar activity. SWIB has followed these discussions with interest and, in some cases, has helped to form broad industry guidelines. We believe that SWIB's existing soft dollar procedures continue to meet or exceed the recommended policies.

Alternative Brokerage Arrangements. In lieu of soft dollar arrangements, some brokerage firms offer "commission recapture" programs. Under such programs, a commission is paid to a broker when a trade is executed and the broker later refunds some portion of the commission back to the investor.

Our understanding is that the use of commission recapture programs by internally managed state pension funds is limited and may be more common among funds which rely heavily on outside advisors to manage their investments. In such situations, oversight of trading activities by the pension fund is not as direct and the benefits from commissions may tend to flow more to the outside advisor than to the fund itself. For pension funds that depend upon outside management, recapture programs provide one way to access some of the benefits of trading activity that the pension fund would not otherwise receive.

SWIB believes that good value is being received for the commissions we pay and that there is little additional value to be "recaptured." Our concern would be that reduced commissions could

potentially lead to a reduction in quality or quantity of trading services. For that reason, we have proceeded cautiously in our consideration of commission recapture arrangements and do not presently participate in such programs.

State of Wisconsin Investment Board CY2000 Soft Dollar Commissions

In calendar year 2000, SWIB's internally managed domestic equity portfolios generated a total of \$15.5 million in commissions. This total does not include transactions where fees were implicit in the sale/purchase price of the investment (principal transactions) or where the fees are paid by the issuer (syndicate transactions). Also included in the information below are soft dollars generated from bond transactions, whereby selling concessions were permitted to be designated to soft dollar brokers.

Third Party (non-exclusive) Soft Dollar Brokers. The table below lists the six third-party soft dollar brokerage firms with which SWIB transacted business during calendar year 2000. This exhibit itemizes the commission amounts expended with each firm and the credits earned with each firm.

<u>Soft Dollars CY 2000</u>		
<u>Broker</u>	<u>Commissions Generated</u>	<u>Credits Earned</u>
BISI	\$16,500	\$11,000
Cantor Fitzgerald	24,840	15,525
Citation	38,300	23,212
Jeffries & Co.	72,285	45,178
Lehman Brothers	159,021	99,388
Pacific American	295,284	184,553
TOTAL	\$606,230	\$378,856

Soft Dollar Expenditures – Calendar Year 2000. Expenditures from third-party soft dollar credits in 2000 totaled \$707,446. These expenditures fell into the following categories:

<u>Research Service</u>	<u>Amount</u>	<u>Percent</u>
Electronic Research/Equipment	\$263,968	37%
Investment Publications	195,877	28%
Professional Services	147,935	21%
Institutional Memberships	56,876	8%
Research Conference Registrations	34,415	5%
Books and Miscellaneous Items	8,375	1%
Total	\$707,446	100%

Electronic data services comprised 37% of the total. Included in this category are on-line services that provide current market data and prices to the securities analysts and traders, on-line performance monitoring services and electronic information and news retrieval. Also included in this figure are computer software and hardware purchases for equipment needed to receive and distribute research and information services to investment staff within the agency.

Investment publications, totaling 28%, include printed investment materials and periodicals ranging from daily newspapers to highly specialized financial analyses and reports. The bulk of the services received in this category can be attributed to specialty trade publications, which provide economic forecasting, company research, and credit analysis for fixed income investing.

Professional services, totaling 21%, include research and consulting services provided on a variety of investment topics including: performance analysis of specific real estate investments, projections for upcoming market trends from leading technology experts, comparative cost measurement studies which specialize in public pension fund analysis, and general economic forecasting and research.

The category of institutional memberships includes payments for SWIB's participation in organizations such as the Association for Investment Management and Research and the Security Traders Association.

SEC rules allow use of third-party soft dollar credits for registration fees at professional conferences. Travel and other expenses are not allowed. Conferences funded in this manner provide training opportunities in industry and company analysis, investment analysis tools and techniques and portfolio and asset allocation strategies.

The category of books includes a wide range of financial and legal reference materials and textbooks.

Directed Research (exclusive) Soft Dollar Brokers. As described earlier in this report, "directed research" describes research services provided to SWIB under contractual relationships between the broker and the research provider. In general, these research services are "exclusive" or "directed" in that they are only available through one or, at most, a handful of brokers. In other words, SWIB's traders must trade directly with a specific broker or brokers in order to obtain these research products.

The table below shows the amount of commission business transacted with exclusive soft dollar brokers in 2000. The commission amounts have not been converted to soft dollar credits because the fee arrangements between the broker and research provider are not disclosed to investors. This exhibit also provides a brief description of the research products received and the minimum level of commission business required to procure the services described.

Broker	Commissions Generated	
	2000	Research Service Received
Allied Research	\$4,920	Company specific stock research
Bridge Trading Co.	375,685	Electronic data service
Friemark Blair	37,014	International research service & conferences
ISI Group	80,319	Daily economic reports
O'Neil, William	279,348	Electronic data service
TOTAL	\$777,286	

Senator Brian Burke
Representative John Gard
January 31, 2001
Page 5

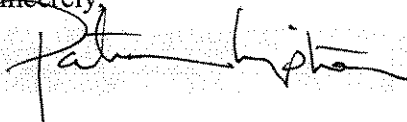
Investment Board Procedures Governing the Use of Soft Dollar Credits

The primary policy concern about the generation and use of soft dollar research credits is that dependence upon these credits to pay for services will lead to choosing brokers offering the credits rather than choosing the broker who can provide the best execution of the trade. SWIB's trading philosophy requires that each trade be performed with the broker that provides "best execution." If this requirement can be met with any number of brokerage firms, the trade may be executed with a broker that provides beneficial research services to SWIB, such as a soft dollar firm.

Since June 1994 SWIB has reduced its dependence on soft dollars. This is due to the reduction in the size of our internally managed stock portfolios and the corresponding reduction in the level of ongoing trading activity. Thus, SWIB's use of soft dollar credits is being limited to research services that are deemed to be less critical to essential investment operations. This serves the purpose of ensuring that SWIB's fiduciary duty of attaining "best execution" on all trades is not compromised. Services that are deemed to be of vital importance to the investment process are procured through more certain sources of funding.

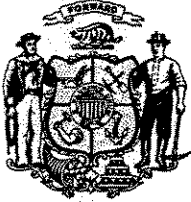
I hope you will find this information responsive to the statutory reporting requirements. Please feel free to contact me with any questions you might have about this report or other Investment Board matters.

Sincerely,



Patricia Lipton
Executive Director

cc: Members, Joint Committee on Finance
Robert Lang, Legislative Fiscal Bureau



State of Wisconsin Investment Board

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February 15, 2001

Senator Brian Burke, Co-Chair
Joint Committee on Finance
P.O. Box 7882
Madison, WI 53707-7882

Representative John Gard, Co-Chair
Joint Committee on Finance
P.O. Box 8952
Madison, WI 53708-8952

Mr. George Lightbourn, Secretary
Department of Administration
101 East Wilson Street
P.O. Box 7864
Madison, WI 53707-7864

Dear Senator Burke, Representative Gard and Secretary Lightbourn:

Attached is our quarterly report of charges to funds managed by the Investment Board for expenses incurred under ss. 25.18 (1)(a) and (m), Stats. This report includes payments made during the quarter ending December 31, 2000.

Under s. 25.18 (1)(a), Stats., the Board may employ special legal or investment counsel in any matter arising out of the scope of our investment authority. S. 25.18 (1)(m), Stats., authorizes the Board to employ professionals, contractors or agents to evaluate or operate any property in which the Board has an interest. Expenses for these services are charged to the current income of the fund for which the services were furnished.

Because the report represents actual payments made during the quarter, significant fluctuations in amounts reported for each vendor will occur from quarter to quarter. For example, the report, due to timing issues, will contain advisory fees that were incurred but not reported or paid in the previous quarter. Differences such as this make it difficult to draw conclusions from quarter-to-quarter comparisons of the data.

Section 25.17 (13m), Stats., requires that we provide this report on a quarterly basis. Please contact me if you have any questions or comments about the report.

Sincerely,

A handwritten signature in cursive script that reads "Patricia Lipton".

Patricia Lipton
Executive Director

cc: Members, Joint Committee on Finance
Robert Lang, Legislative Fiscal Bureau

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges Under ss. 25.18 (1) (a) or (m)

10/1/00 to 12/31/00

Custodial and Banking Fees

Bank of New York	\$48,384	
Bankers Bank	\$2,500	
Boston Co. Institutional Investor	\$1,329,597	
Firststar	\$1,946	
Total Custodial and Banking Fees		\$1,382,427

Legal Fees, Services and Expenses

Alf & Associates	\$2,788	
Alzheimer & Gray	\$5,000	
Baker & Botts	\$5,803	
Bryan Cave LLP	\$8,710	
Department of Justice	\$3,281	
Foley & Lardner	\$26,829	
Godfrey & Kahn SC	\$112,314	
Jeffer, Mangels, Butler & Marmaro	\$5,931	
Jones, Day, Reavis & Pogue	\$19,612	
Mallon & Johnson P.C.	\$360	
Mayer, Brown & Platt	\$20,744	
Michael Best & Friedrich	\$8,497	
Reinhart Boerner Van Dueren	\$744	
Ruder, Ware & Michler	\$5,699	
Solheim, Billing & Grimker SC	\$6,460	
Stafford Rosenbaum Attorneys	\$2,853	
Sullivan, Hill, Lewin, Rez & Engel	\$56,497	
Wilmer, Cutler & Pickering	\$43,462	
Total Legal Fees, Services and Expenses		\$335,584

Investment Counsel

AG Risk Management	\$27,750	
American Stock Exchange	\$2,174	
Bloomberg, LP	\$118,612	
Bridge Information Services	\$6,394	
Bridgewater Associates	\$3,750	
Capital Management Sciences	\$21,330	
Council of Institutional Investors	\$25,000	
CP Risk Management	\$11,486	
DocuPro	\$654	
Dow Jones & Co	\$6,111	
Factset Data Systems	\$48,954	

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges Under ss. 25.18 (1) (a) or (m)

10/1/00 to 12/31/00

First Call	\$21,800	
Garland Associates, Inc.	\$12,542	
George Gilder	\$1,287	
IDC Portfolio Mgmt, Inc.	\$6,250	
Instinet	\$520	
Investor Responsibility Research Center	\$25,050	
KPA Advisory Study	\$1,345	
Maria Fiorini Ramirez	\$975	
McLagan Partners	\$17,425	
Merrill Lynch Capital Markets	\$682	
MOBEO	\$1,299	
NASDAQ Stock Market	\$320	
New York Stock Exchange	\$3,430	
Options Price Reporting Authority	\$3,657	
Petersen, John L.	\$330	
Reuters America Inc.	\$77,549	
Russell/Mellon Analytical Services	\$1,250	
Salomon Analytics Yield Book	\$15,000	
Smithers & Co.	\$4,000	
Standard & Poor's	\$50,483	
Stone & McCarthy Research	\$900	
Strategic Investment Solutions, Inc.	\$57,500	
Telerate	\$8,864	
Thomson Trading Services	\$4,800	
Toronto Stock Exchange	\$837	
Trade Web	\$1,800	
Wilshire	\$31,400	
Total Investment Counsel		\$623,513

Real Estate Advisory Fees

AETNA PMSA Fund	\$49,045
Apollo Advisors II & LP	\$156,250
Bristol Group, Inc.	\$156,787
Fortress Investment Corp	\$586,806
Goldman Sachs & Co.	\$849,730
Hudson Advisors (Lonestar Funds)	\$323,867
Invesco Realty Advisors, Inc.	\$47,415
Kensington Realty Advisors	\$116,866
Koll Bren Realty Advisors	\$345,665
Landmark Realty Advisors	\$148,175
Lazard Freres	\$156,250

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges Under ss. 25.18 (1) (a) or (m)

10/1/00 to 12/31/00

Lend Lease Real Estate Investment	\$167,655	
MIG Realty Advisors, Inc.	\$63,276	
New England Mutual	\$3,077	
PM Realty Advisors, Inc.	\$38,785	
PRICOA Trans European	\$64,027	
Prudential (Senior Housing)	\$48,055	
Security Capital	\$622,560	
Sentinel Realty Advisors Corp.	\$26,827	
Westbrook Real Estate	\$455,622	
Wispark Corporation	\$7,970	
Total Real Estate Advisory Fees		\$4,434,710

Total

\$6,776,233

State of Wisconsin Investment Board

Investment Goals, Strategies and Performance



March 2001

State of Wisconsin Investment Board
Investment Goals, Strategies and Performance

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Executive Summary

- Reflecting a downturn in national and global markets, **total assets managed by SWIB** fell from \$69.2 billion at the end of 1999 to \$67.0 billion as of December 31, 2000, a decrease of \$2.2 billion. At the end of 2000, SWIB managed \$62.1 billion in the Wisconsin Retirement System (WRS), \$4.2 billion in the State Investment Fund (SIF) and \$0.7 billion in smaller funds.
- The -0.8% annual investment return for the **Fixed Fund** for 2000 exceeded the -1.4% return for the investment benchmark, but trailed the 8.0% actuarial target needed to finance pension benefits over the long term. At year-end, accumulated gains in the transaction amortization account (TAA) totaled \$11.6 billion, a decrease of \$2.3 billion from the beginning of 2000 when it totaled \$13.9 billion. The Fixed Fund continued to outperform its investment benchmark and the 8% actuarial target on a five-year and ten-year basis.
- Preliminary data indicate that the -0.8% loss for the **Fixed Fund** trailed the -0.3% median return for a peer group of public funds with assets over \$1.0 billion in 2000. The median five-year return for this peer group was 12.6% compared to 12.0% for the Fixed Fund. These returns are not reported on a risk-adjusted basis.
- SWIB's **total cost to manage the Fixed Fund** (15 cents per \$100 managed) was less than the typical costs for funds of similar size and asset mix (19.3 cents per \$100 managed).
- As a result of the **increased budget authority** granted in 1999, SWIB was able to provide a more competitive compensation package. This has assisted in recruiting for vacant positions and retaining existing staff.
- **Strategic changes in 2000:** SWIB implemented several **strategic changes in 2000** to enhance the long-term performance of the trust funds while maintaining an appropriate level of risk. Those changes included:
 - ✓ Moving \$1 billion from outside passive management to inside passive management with plans to move up to \$3 billion. This is the first step toward moving some of our externally managed "enhanced index" assets inside.
 - ✓ Increasing the allocation to passive and enhanced index funds from 34% to approximately 38% of the Fixed Fund's assets.
 - ✓ Increasing the allocation target for international stocks from 15% to 18% of the Fixed Fund assets and reducing it from 27% to 25% for the Variable Fund.
 - ✓ Restructuring the domestic bond portfolios to more closely match the composition of the market.
 - ✓ Reducing the funds allocated to small company stocks by selling \$1 billion in assets and shifting nearly 25% of the portfolio from active management to an index fund to reduce both the small company exposure and volatility.
 - ✓ Moving \$8 billion from the S&P 500 Index Fund to an enhanced index fund that has outperformed its benchmark over time.

- ✓ Reducing the size of the mid cap stock portfolio to a level near market weight.
- The -7.2% return for the **Variable Fund** surpassed a -8.8% return for its benchmark and a -9.1% return for the S&P 500. The Fund, which is invested in domestic and international stocks, is also ahead of its five-year and ten-year benchmarks.
- After an internal review and discussions with participant groups, SWIB decided not to significantly modify the use of **passive strategies for the Variable Fund**. Approximately 53% of the assets of the Variable Fund were managed in index funds at the end of the year.
- The 6.3% gain for the **State Investment Fund (SIF)** exceeded a 6.0% return for its benchmark. SIF also exceeded its benchmark for the five-year and ten-year periods. SIF's return for 2000 ranked second out of 222 government funds in the iMoneyNet Government Fund Report and 97 out of 1,023 money market funds in the iMoneyNet All Taxable Money Market Index.
- During fiscal year 2000, SWIB made \$1.2 billion in **new investments in Wisconsin companies**, exceeding the \$1 billion mark for the third consecutive year. Over the last three years, new investments in Wisconsin totaled \$3.4 billion, approaching the top of SWIB's goal to invest between \$2.2 billion and \$3.9 billion in the state by 2004. Wisconsin investments are subject to the same due diligence and fiduciary responsibility that apply to all other investments.
- SWIB has earmarked up to \$65 million of **venture capital funds for investment in biotechnology** and other high technology start-ups in Wisconsin and the Midwest. During 2000, SWIB contracted with two venture capital firms and to date has committed \$45 million for investment in the two firms.
- **Strategic changes for 2001:** With the assistance of an outside consultant, the Board again conducted a thorough review of the allocation of WRS funds. Following the review, the Board agreed to continue with the asset allocation process of the previous year except they decided to make the following modifications:
 - ✓ Close the dedicated allocation to emerging markets as separate equity portfolios and move the funds into developed international equity portfolios. In the future, SWIB will make investments in emerging markets on an opportunistic basis from the international portfolios.
 - ✓ Decrease the target that the Variable Fund invests in international stocks from 25% to 20% and correspondingly increase the portion allocated to domestic stocks from 75% to 80%.
 - ✓ Maintain the present exposure in the small cap market for now but continue to monitor its risk and performance and reduce the exposure during the year if appropriate.
 - ✓ Close an under performing, externally managed global fixed income portfolio and move those assets to passive management.
 - ✓ Decrease the funds under management with two other fixed income external managers and bring the funds in-house for active management.

State of Wisconsin Investment Board

Investment Goals, Strategies and Performance

Section 25.17 (14g), Stats., requires the State of Wisconsin Investment Board (SWIB) to submit an annual report to the Legislature regarding the Board's investment goals and long-term strategies, noting any changes from the previous year. Section 25.17(14m), Stats., requires that SWIB submit an annual report on the Board's investment performance (Appendix A quotes the statutory language for the required reports.) As we did last year, we have combined the two reports to make it easier to understand the relationship between our goals, strategies and performance.

We took a number of steps in 1999 to review our strategies, including work with outside consultants and discussions with several other large public pension funds. We continued that review during 2000. Part of our review dealt with the potential impact of 1999 Wisconsin Act 11, which includes significant changes to the financing and benefit structure of the Wisconsin Retirement System (WRS). This legislation is currently before the Supreme Court.

Assets Under Management

SWIB is responsible for managing the assets of the WRS, which is composed of the Fixed Fund and the Variable Fund, the State Investment Fund (SIF) and several smaller trust funds. Our mission is to ensure that funds, for which we are responsible and that the State holds in trust, are prudently managed. This is accomplished by earning optimal investment returns consistent with the purpose and risk profile of each trust. As of December 31, 2000, assets under management totaled nearly \$67 billion. As a result of market downturns in 2000, total assets decreased by \$2.2 billion over the prior 12 months. (See Appendix B)

Funds Managed by SWIB		
December 31, 2000		
Fund	\$ in Millions	% of Total
Wisconsin Retirement System (WRS)	\$62,123	93%
<i>Fixed Trust Fund</i>	54,789	82%
<i>Variable Trust Fund</i>	7,334	11%
State Investment Fund (SIF)*	4,176	6%
Other Funds	672	1%
State Life Insurance Fund	68	
Local Property Insurance Fund	28	
Historical Society Endowment Fund	12	
Patients Compensation Fund	556	
Tuition Trust Fund (EdVest)	8	
TOTAL	\$66,970	100%
*Excludes WRS Trust Funds cash balances.		

Wisconsin Retirement System (WRS)

With assets of nearly \$55 billion, the **Fixed** (or balanced) **Fund** is the largest trust under SWIB's management. It comprises 82% of all SWIB assets under management and 88% of all WRS assets. All of the 473,000 current or former state and local government employees have at least half, if not all, of their pension accounts invested in this Fund. The Fixed Fund invests in a diversified mix of asset classes. This includes stocks, bonds, business loans, real estate and other holdings. Within each asset class, investments are further diversified by portfolio. Diversification helps to stabilize the effects of market changes.

The remaining WRS assets are in the **Variable Fund**, which by statute is an equity fund. As of December 31, 2000, those assets were valued at \$7.3 billion and comprised nearly 12% of all WRS assets. Approximately 10% of WRS participants were in the Variable Fund at year-end.

Prior to 1980, employees could choose to place half of their pension fund contributions in the Variable Fund where nearly all assets are invested in the stock markets. Participants who chose the Variable Fund option accepted a greater degree of risk for the potential of greater long-term returns. Until the mid-1980s, the Fixed Fund had invested approximately 30% of its assets in stocks, thus making it considerably less volatile than the Variable Fund. Today the Fixed Fund is invested nearly 60% in stocks. The Fixed Fund has a smoothing mechanism – the transaction amortization account (TAA) – that smoothes gains and losses from one year to the next.

The stocks in the Variable Fund are the same as those in the Fixed Fund. Like the Fixed Fund, the investments are diversified. What makes the Variable Fund riskier than the Fixed Fund is that, unlike the Fixed Fund that also includes other types of assets, it is a total stock fund and does not have a smoothing mechanism such as the TAA. Gains or losses are recognized in the year after they occur.

State law has barred additional participants from entering the Variable Fund since April 1980. The Legislature had closed the Variable Fund to new entrants because of the negative stock market returns that occurred in the 1970s. However, 1999 WI Act 11, if found constitutional by the Supreme Court, allows active employees, beginning January 1, 2001, to again elect to direct 50% of their future WRS contributions into the Variable Fund. Anticipating that the Court will find the law constitutional, to date nearly 60,000 participants have opted coverage under the Variable Fund beginning in 2001.

Investment Goals

Successful investment returns benefit all WRS stakeholders. First, they reduce the contributions public employers (taxpayers) and employees must pay into the WRS. Secondly, they allow for improved benefit payments after retirement. This includes both the initial payment and the annual dividend that annuitants receive. Investment returns ultimately provide for about 85% of the cost of retirement benefits WRS members receive. Exceptional investment returns have been instrumental in allowing the Employee Trust Funds Board to reduce the contribution rates each year for the last six years.

Because of their different structures, investment goals differ for the Fixed Fund and the Variable Fund. The basic investment objective for the Fixed Fund is to achieve an 8.0% annual

average rate of return over the long-term. An 8.0% return is the minimum investment requirement set by the WRS actuary to accumulate the funds needed to pay projected benefits over time. Projected to be 3.5% more than the annual wage growth, an 8% return is an estimate of what is needed to ensure that a person who retires will receive a benefit that will stay constant in real terms.

A goal for both funds is to exceed an investment rate of return or "benchmark" established by SWIB's Board of Trustees. The benchmark for the Fixed Fund is a weighted blend of indices that measure the performance of the broader markets for stocks, bonds and other assets. Each individual portfolio within the Fixed Fund has a separate benchmark that compares its performance to that achieved by an index fund with similar characteristics and reflects a particular market focus. For example, the large company stock portfolio is compared to the S&P 500.

The Standard and Poor's Index of 500 stocks and a benchmark containing a broader mix of equity markets are used to measure the Variable Fund's performance. In addition to the S&P 500, the benchmark includes indices for small cap, mid cap and international stock markets that are represented in the Variable Fund's assets.

Finally, the investment results of both trust funds and their portfolios are compared to those of other managed funds and portfolios.

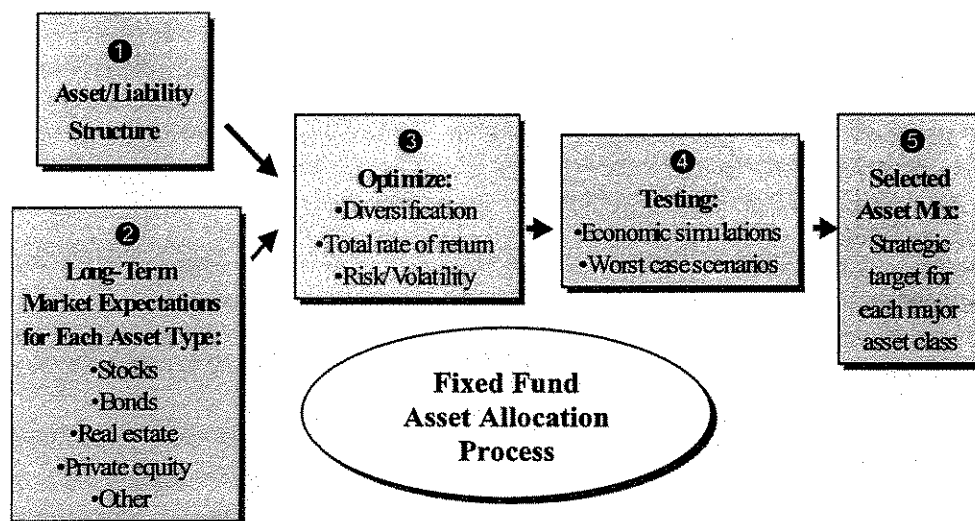
Asset Allocation The Process

In keeping with the extended time horizon of the Fixed Fund's obligations, the investment strategy for the Fund has a long-term focus. The WRS actuary uses a 30 plus year projection when estimating the expected obligations. At 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 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.

The purpose of allocating assets to specific classes of investments is to get the most return for a reasonable amount of risk associated with the investments in those individual asset classes. After the Board of Trustees approves the strategic asset allocation decisions, the Board's professional investment staff make the daily decisions 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 Committee, which is composed of senior staff. Following 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) improve delineation of the managing and governing fiduciary roles between SWIB's Trustees and staff.

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.

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, we evaluate the volatility of the expected return (risk) 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.** The Board of Trustees approves: (1) *asset classes* in which the Fixed Fund invests; (2) *policy ranges* that set the minimum and maximum share of the Fund that may be allocated to each asset class; and (3) *strategic targets* that set a specific allocation target within the policy range. The Board annually reviews asset allocation targets based on the work done in steps ❶ to ❹.

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 within

four to five years and likely one year sooner under Act 11. 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 funds and will withdraw assets from whichever asset class is over-funded relative to 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 an acceptable target 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.

In late 2000, we conducted our annual review of the Fixed Fund's asset allocation and investment strategies. With the help of outside consultants originally retained in 1999, we 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.

Because of the significant changes it makes to the WRS, SWIB examined the effect that 1999 WI Act 11, the comprehensive pension bill, could have on the Fixed Fund. If the courts uphold the law, Fixed Fund investment gains and losses will be recognized more quickly in the future. This would include an immediate recognition of \$4 billion in accumulated gains from the transaction amortization account (TAA). Over the next five years, the TAA would be phased out and a market recognition account implemented. In addition, Act 11 reopens the Variable Fund, which could have an impact on Fixed Fund asset levels and strategy.

Even though the impending court decision will primarily affect the Fixed Fund, the asset allocation work suggested that SWIB should retain its current strategic asset allocation targets for the Fixed Fund but should revise its strategic asset allocation targets for the Variable Fund.

Within each asset class, we implemented a number of strategy changes at the portfolio level during 2000. We will continue to refine the individual portfolio strategies during 2001. These changes are discussed under "**Portfolio Highlights**".

How Assets Are Allocated

For the broad asset classes within the Fixed and Variable Funds, the following tables illustrate the strategic targets for 2000 and 2001 and how the assets were actually allocated at the end of 1999 and 2000.

Fixed Trust Fund Asset Allocation					
Asset Class	Policy Range	1999	2000		2001
		Actual 12/31/99	Strategic Target	Actual 12/31/00	Strategic Target
Stocks	40-65%	<u>59%</u>	<u>57%</u>	<u>54%</u>	<u>57%</u>
<i>Domestic</i>		43%	39%	36%	39%
<i>International</i>		17%	18%	17%	18%
Fixed Income	30-50%	<u>31%</u>	<u>34%</u>	<u>36%</u>	<u>34%</u>
<i>Domestic</i>		25%		29%	
<i>Global</i>		6%		7%	
Real Estate	0-10%	3%	4%	4%	4%
Alternative	0-10%	5%	5%	5%	5%
Cash	0-20%	1%	0%	2%	0%
TOTAL		100%	100%	100%	100%

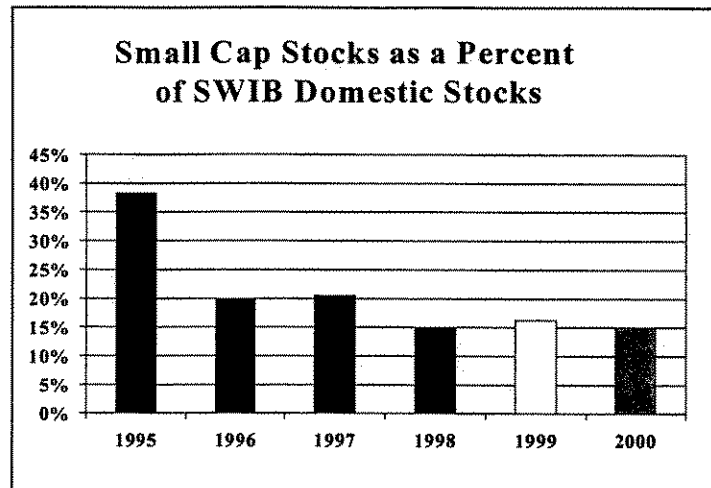
Variable Trust Fund Asset Allocation					
Asset Class	Policy Range	1999	2000		2001
		Actual 12/31/99	Strategic Target	Actual 12/31/00	Strategic Target
Stocks	90-100%	<u>98%</u>	<u>100%</u>	<u>98%</u>	<u>100%</u>
<i>Domestic</i>		71%	75%	75%	80%
<i>International</i>		27%	25%	24%	20%
Cash	0-10%	2%	0%	2%	0%
TOTAL		100%	100%	100%	100%

Strategic Changes in 2000 and 2001

Strategic Changes Implemented in 2000 -- The Board made changes in investment strategy during 2000 as a result of the asset allocation exercise. Those changes included:

- In mid-2000, SWIB transferred \$8 billion or approximately one-half of the assets from the passive Barclays Global Investors (BGI)* S&P 500 Index Fund to the **BGI S&P Alpha Tilts Fund**. The Alpha Tilts Fund is an enhanced passive fund that outperformed the S&P 500 in 12 of the past 15 years by an average of 1.2% per year. Placing some of the money in the Alpha Tilts Fund will provide greater diversification and value and help domestic equities to outperform the index over the long term.
- SWIB grouped the Opportunity Portfolio, the Leveraged Buyout Portfolio and the Venture Capital Portfolio under the **Alternative Investments** asset class. With these investments combined into one class, it is easier to identify the portion of the Fixed Fund where added return is sought through added risk.
- SWIB reduced the actively managed **domestic public fixed income portfolios** from three to two portfolios, restructured the portfolios and used the passive portfolios to match the benchmark more closely. This change grew out of the comprehensive asset allocation review, acknowledged the limited staff in the fixed income division and the need to have backup in place for each portfolio. The long-term portfolio decreased from \$3.7 billion to \$2.6 billion. The average maturity for the mid-term portfolio went from eleven plus years to five years.
- In early 2000, it was necessary to reduce the **mid-cap equity portfolio** to address staffing issues. Approximately \$3.5 billion was transferred to two index funds, and the benchmark was changed to the S&P 400 Index. The index change streamlined the management of the portfolio while retaining the alignment of all domestic equity holdings with the Russell 3000, which is a broad measure of the entire US stock market.
- Investment guidelines for the **Wisconsin Certificate of Deposit Program** increased available funds from \$350 million to \$400 million. Using Bankers' Bank as the program administrator, SWIB's Certificate of Deposit Program provides a competitive rate of return to SWIB on CDs that SWIB purchases from Wisconsin banks and thrifts. This enables the banks and thrifts to put more capital to work in their communities.
- SWIB moved the first \$1 billion of an eventual \$3 billion in domestic equity assets from outside passive management to **internal passive management**. This is a first step in moving more funds from outside passive management to inside management.
- SWIB moved approximately 25% of the assets from the **internal small company (cap) equity portfolio** to an external index fund. SWIB also sold \$1 billion in assets from this portfolio and reinvested the assets in large cap equities -- \$100 million to the internal large cap portfolio and \$900 million to the external S&P 500 Index Fund. This was done to lessen

*BGI manages SWIB's index funds and is the largest such manager with over \$400 billion under management in index products.



the small cap exposure, reduce volatility, and lower the weight in small caps compared to the broader market. However, because of the portfolio's good performance during 2000, the small company share of SWIB's domestic equities investments is about 2.5 times their share of the overall stock market.

- The target for **international stocks** was increased from 15% to 18% for the Fixed Fund and lowered from 27% to 25% for the Variable Fund.
- An additional position authorized in the 1999-01 biennial budget was allocated to our **venture capital/LBO portfolios** to strengthen support for those portfolios.
- SWIB earmarked up to \$65 million of **venture capital funds** for investment in biotechnology and other high technology start-ups in Wisconsin and the Midwest. After conducting an extensive survey of potential venture capital funds, SWIB contracted with two venture capital funds located in Wisconsin. As of December 31, 2000, SWIB had committed \$45 million of the earmarked funds.

Strategic Changes Planned for 2001 -- Following the recent asset allocation review, the Board of Trustees decided to:

- Lower the target for **international stocks for the Variable Fund** from 25% to 20%. The target for domestic stocks correspondingly increased from 75% to 80%. This was done to reduce somewhat the overall risk for the Variable Fund, partly in consideration of the large number of participants who will have half their WRS contributions invested for the first time in the Variable Fund if the Court finds Act 11 constitutional.
- Phase out its ongoing commitment to the **emerging markets portfolios for equities** and move the funds to international portfolios for developed markets. In lieu of the dedicated portfolios, investments in emerging markets will be made on an opportunistic basis from the existing developed international portfolios.
- Not further decrease its exposure in the small cap market. Work done by the consultant suggested that **small cap equities** are expected to continue to outperform large cap stocks as they did in 1999 and 2000. As a result, senior investment staff recommended that SWIB

not significantly reduce its exposure in the small company market. Although there is greater volatility in this market, SWIB's long-term investment time horizon coupled with the WRS' smoothing mechanism for the Fixed Fund enable the Fund to take advantage of opportunities in this market. The Board will continue, however, to monitor the valuation level, liquidity trends and net flows within the market and reduce its exposure if appropriate. The Risk Committee will monitor these trends.

- Review the role of the **Opportunity E portfolio**. The portfolio is transitioning from considering opportunistic investments in all asset classes to fewer but larger investments primarily in international private equity. SWIB just recently hired an assistant portfolio manager who has several years of experience working in financial markets in developing countries.
- **Bring more funds inside for management**. Because of the increased budget authority received in the last biennial budget, the agency has been able to fill some vacant investment positions and to recruit three assistant portfolio managers. As mentioned above, we established an internal passive equities portfolio in late 2000. In 2001, we plan to move assets from external global bond managers to the in-house global bond manager.
- Terminate its relationship with an **external global bond manager**. Because of management changes and poor performance, SWIB will move these funds to passive management.

How Funds Are Managed

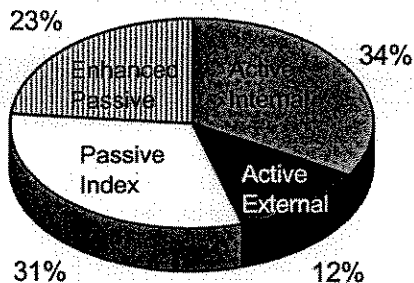
SWIB uses both active and passive strategies in managing the assets of the WRS. At the end of 2000 for the **Fixed Fund**:

- SWIB staff actively managed 47% of the assets,
- 14% was actively managed by outside advisors,
- 27% was passively managed in index funds that earned the rate of return for that market, and
- 12% was managed in quantitative/enhanced index funds that are expected to earn somewhat more than a totally passive fund.

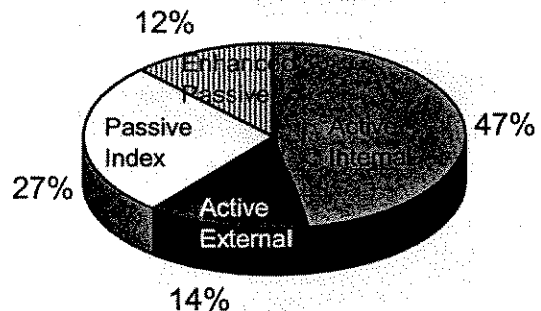
For the **Variable Fund** at year end:

- SWIB staff actively managed 34% of the assets,
- 12% was actively managed by outside advisors,
- 31% was passively managed in index funds that earned the rate of return for that market, and
- 23% was managed in quantitative/enhanced index funds.

How Funds Are Managed/Variable Fund



How Funds Are Managed/Fixed Fund



The mix of active and passive management varies by asset class and depends upon market efficiency and the availability of passive options. We expect the passive share to remain relatively stable at approximately 27% of Fixed Fund assets in 2001. 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 or "tracking error" from the benchmark is expected in the more illiquid markets. The more transactions we have in and out of an index fund may also result in variations from the benchmark.

As previously stated, the Variable Fund is invested almost entirely in stocks. Because we use passive strategies in the stock portfolios to a greater extent than in other asset classes, the overall share of assets managed passively in 2000 was greater for the Variable Fund (31%) than for the Fixed Fund (27%). Those percentages are expected to remain relatively stable for 2001.

In early 2000, we considered increasing the Variable Fund assets that are passively managed. We discussed this with participant groups, particularly the retirees. They supported internal management, were satisfied with the returns they had received from internal management and were not in favor of more assets being passively managed by outside managers. As a result of those discussions and the increased budget authority SWIB received in the 1999-2001 budget, we decided not to increase significantly the assets under passive management.

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.

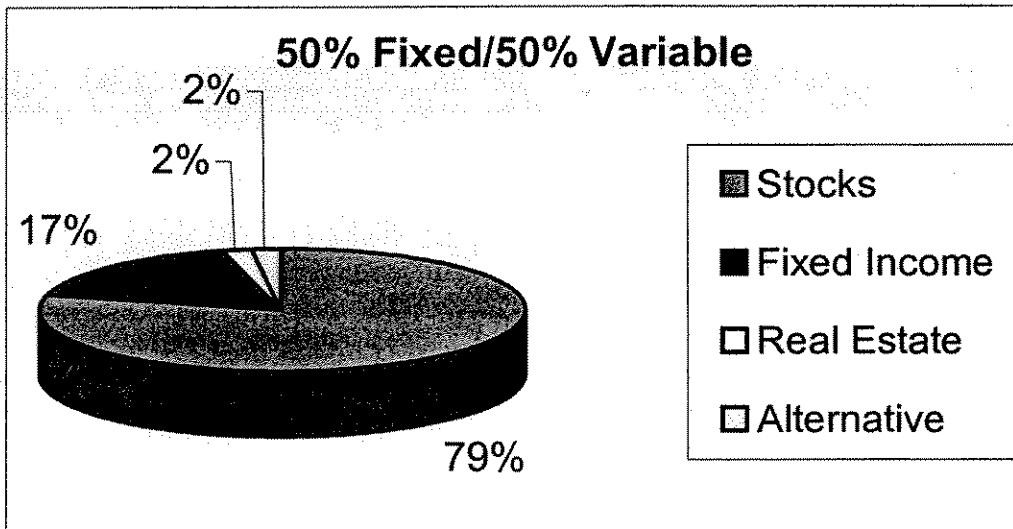
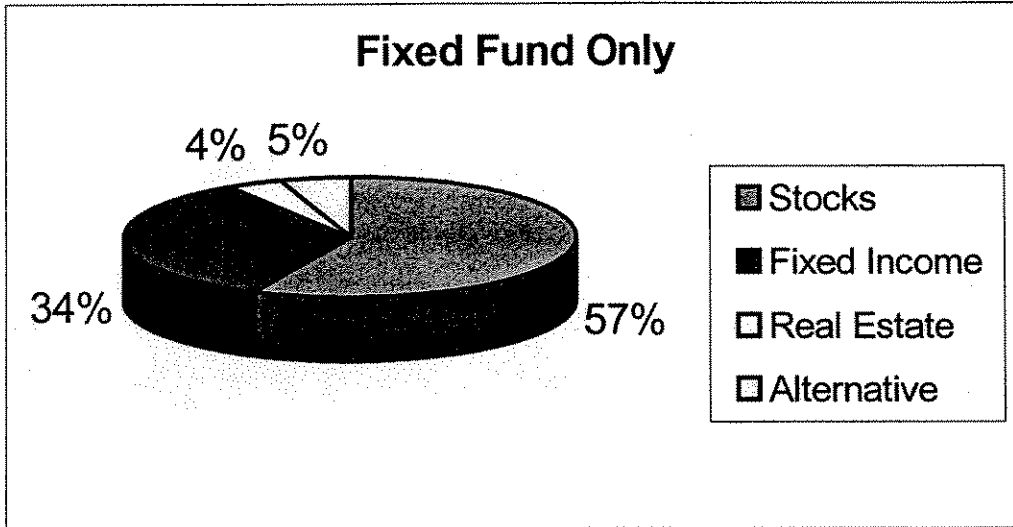
Second, these approaches closely monitor and track the portfolio's deviation from an index, providing added risk control. In most instances, these portfolios will look similar to the index with respect to sector weights, market capitalization and other portfolio characteristics. Deviations from the index 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 are shared by each fund on a roughly 80/20 percent pro-rata basis. This means that for each equity investment, 80% would be credited to the Fixed Fund and 20% to the Variable Fund. Because domestic stocks represent a larger percentage of the internally managed assets in the Variable Fund (75%) than in the Fixed Fund (39%), the impact of strategy changes tended to have a greater effect on Variable Fund performance.

New management information systems enabled us to de-couple the two funds within our accounting system and to develop a separate investment strategy for the Variable Fund. When initially de-coupled from the Fixed Fund, the Variable Fund inherited a fairly substantial non-domestic equity exposure. **Given the ability to develop a separate asset allocation and the expected re-opening of the Variable Fund, the Board decided to reduce the non-domestic target from its 2000 level of 25% to 20%.** This will be done incrementally over the course of the year. It was felt that a 25% exposure in non-domestic stocks may be too high given the participants' risk expectations. Quantitative modeling prepared by the Board's consultant showed that lowering the non-domestic equities to 20% will have little or no impact on expected returns.

As illustrated below, those individuals who opt into the Variable Fund will 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. **Assuming the Court finds reopening the Variable Fund constitutional, participants who have opted to place 50% of their contributions in the Variable Fund will have 79% of their total WRS contributions for 2001 invested in stocks.** This is a higher percentage than other public pension funds 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, 1999 and December 31, 2000. "Portfolio Highlights" describes the asset categories.

Fixed Trust Fund Holdings By Portfolio				
	12/31/99		12/31/00	
	\$ in Millions	% of Total	\$ in Millions	% of Total
<u>Equities</u>				
Domestic				
Active Portfolios	\$ 8,927	16%	\$6,176	11%
Quantitative/Enhanced	1,042	2%	6,761	12%
Passive Index Funds	13,791	25%	6,908	13%
International				
Active Portfolios	8,079	14%	6,824	12%
Passive Index Funds	626	1%	2,151	4%
Emerging Markets	642	1%	554	1%
Total Equities	<u>\$33,107</u>	<u>62%</u>	<u>\$29,376</u>	<u>54%</u>
<u>Fixed Income</u>				
Public Bonds				
Active Portfolios	6,591	12%	6,434	12%
Passive Index Fund	3,838	7%	5,486	10%
Private Placements	3,172	6%	3,620	7%
Global Bonds				
Active Portfolios	3,205	6%	3,256	6%
Passive Index Funds	222	0%	225	0%
Real Estate Mortgages	352	1%	547	1%
Emerging Markets	140	0%	163	0%
Total Fixed Income	<u>\$17,519</u>	<u>32%</u>	<u>\$19,731</u>	<u>36%</u>
<u>Real Estate</u>	\$ 1,907	3%	\$2,023	4%
<u>Alternative</u>				
Opportunity E	\$ 1,304	2%	\$1,100	2%
Private Equity	1,334	3%	1,403	3%
Private Biotechnology	4	0%	4	0%
	<u>\$ 2,538</u>	<u>5%</u>	<u>\$2,507</u>	<u>5%</u>
<u>Cash</u> (Managed in SIF)	\$ 729	1%	\$1,152	2%
<u>Total</u>	\$55,901	100%	\$54,790	100%
<small>Note: Rounding may cause numbers not to add correctly.</small>				

Variable Trust Fund Holdings By Portfolio				
	12/31/99		12/31/00	
	\$ in Millions	% of Total	\$ in Millions	% of Total
<u>Equities</u>				
Domestic				
Active Portfolios	\$2,228	27%	\$1,543	22%
Quantitative/Enhanced Portfolios	261	3%	1,691	23%
Passive Index Funds	3,421	41%	2,244	30%
International				
Active Portfolios	2,011	24%	1,535	21%
Passive Index Funds	62	1%	54	1%
Emerging Markets	<u>60</u>	<u>2%</u>	<u>113</u>	<u>2%</u>
Total Equities	\$8,143	98%	\$7,179	98%
Cash	\$194	2%	\$155	2%
TOTAL	\$8,337	100%	\$7,334	100%

Fixed Fund Performance

Fixed Retirement Trust Fund Performance			
<i>Annualized Returns For Periods Ending December 31, 2000</i>			
	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>
Fixed Fund Return	-0.8%	12.0%	12.6%
Investment Benchmark	-1.4	11.4	12.0
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.
- Since 1991, the returns for the Fixed Fund have exceeded the rolling five-year investment benchmark 85% of the time at the end of the fiscal year and calendar year. The Fund has also exceeded its ten-year investment benchmark 95% of the time.
- On a risk-adjusted basis, the Fixed Fund return exceeded both the five-year benchmark and the ten-year benchmark. 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.

- Preliminary data indicate that the -0.8% return for the Fixed Fund trailed the -0.3% median return for 31 public funds with assets over \$1.0 billion. The five-year return for the peer group was 12.6% compared to 12.0% for the Fixed Fund. The difference likely reflects a greater allocation to domestic stocks by some of our peers, the best performing but most volatile major asset class in recent years.¹ More complete comparative data should be available over the next several months.
- SWIB's total cost of 15.2 basis points to manage the Fixed Fund (15.2 cents per \$100 managed) is less than what is typical for funds managing a similar mix of assets (19 cents per \$100 managed).²

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, 2000.

Variable Retirement Trust Fund Performance
Annualized Returns For Periods Ending December 31, 2000

	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>
Variable Fund Return	-7.2%	15.2%	15.5%
S&P 500	-9.1	18.3	17.4
Investment Benchmark	-8.8	13.9	15.1

- 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. When adjusted for volatility, the Fund has exceeded its benchmark over the five-year period and nearly matched its benchmark over the ten-year period. The benchmark includes indices for each of the equity markets represented in the Fixed and Variable Funds and the performance of privately managed equity funds that invest in these same markets.
- Assets of the Variable Fund are diversified into a number of markets that are not represented in the S&P 500, including international, emerging markets, mid cap and smaller growth stocks. These categories now represent about 45% 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.

¹ Trust Universe Comparison Service (TUCCS) data

² Cost Effectiveness Measurement, Inc. data

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. **Funding Retirement System Liabilities.** 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. **The projection again showed that the WRS is 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.
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, 2000, the Fixed Trust Fund, when adjusted for volatility, exceeded its benchmark over the five- and ten-year periods. 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 2000 returns, investors should be prepared for significant year-to-year fluctuations in returns and the possibility that unfavorable stock market performance will result in Variable Fund 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 74% 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 our international equity holdings and, to a lesser extent, from domestic stocks and international fixed income investments. 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. The relative amount of foreign currency exposure is greater in the Variable Fund than in the Fixed Fund because a larger percentage of Variable Fund assets are invested in international equities. Approximately 23% of the Fixed and Variable Funds is exposed to foreign currency risk resulting from these holdings. This compares to 21% at the end of 1999. This exposure should reduce in 2001 with less of the Variable Fund targeted for international equities. International equity currency risk is further managed through diversification across international regions, economies,

sectors and individual investments.

- **Emerging markets:** Investments in developing countries represented approximately 3% of Fixed Fund assets and 2% of Variable Fund assets at the end of 2000. To diversify from a risk management perspective, four separate external managers primarily managed SWIB's investments in emerging markets – two for fixed income and two for equities. As a part of its asset allocation review, the Board of Trustees agreed to phase out the dedicated equities emerging markets portfolios and move those funds to the developed international equities portfolios beginning in 2001. In the future, investments in emerging markets may be made on an opportunistic basis from any of the developed international equity portfolios.
- **Liquidity:** An estimated 73% of Fixed Fund assets and 84% 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, 2000. Whereas on December 31, 1999, the Fixed Fund had a net unrealized gain of \$9.0 million, and the Variable Fund had a net unrealized loss of \$4.3 million. At the end of 2000, net realized appreciation on open futures contracts was approximately a -\$100,000 for the Fixed Fund and approximately a -\$70,000 for the Variable Fund. The total net realized appreciation on open futures contracts at the end of 1999 was \$1.3 million for the Fixed Fund and \$300,000 for the Variable Fund. Appendix D describes the derivatives' exposure in both funds.
- **Tracking Error:** "Tracking error" measures volatility of excess return to that of the benchmark. This 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 that particular Fund. The 1.6% five-year tracking error as of December 31, 2000 was very close to the 1.52% level as of December 31, 1999 for the Fixed Fund. The 2.18% five-year tracking error for the Variable Fund as of December 31, 2000 was slightly greater than for the Fixed Fund and somewhat higher than the 1.96% level as of December 31, 1999.
- **Soft Risk Parameters:** In 2001, our investment guidelines have been expanded to include "soft risk parameters". These are supplementary guidelines within which a portfolio is expected to operate over time, and the staff Risk Committee will monitor them.

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 investments in US stocks. The combined domestic equities' portfolios returned an aggregate -4.6% in 2000. This performance exceeded the -7.5% return for the Russell 3000, a broad indicator for the US stock market.

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 -11.6% compared to the -13.4% for the Morgan Stanley Capital International (MSCI) World Index that represents stocks in 21 developed foreign markets. These portfolios may or may not be currency hedged through the use of derivative instruments. In 2000, investment guidelines permitted up to 10% of an international equities portfolio to be invested in emerging markets. The Board increased that to 15% for 2001 to allow for opportunistic investments after closing the two dedicated emerging markets portfolios and transferring those assets to the developed international portfolios.

Emerging market equities focus on investments 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 will be made on an opportunistic basis from existing international equity portfolios.

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 internally managed portfolio focuses on undervalued large cap stocks with market capitalization 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
Market Value \$2.3 billion
Benchmark S&P 500 Index

	<u>One Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	-4.2%	18.5%
" -- Benchmark	-9.1	16.9

Mid Cap Portfolio

Created July 31, 1990; modified July 1996
Description This internally managed portfolio focuses on domestic companies with a market capitalization of \$1 billion to \$10 billion. It is a broadly diversified portfolio containing a wide range of value and growth stocks.
Managed Active
Market Value \$2.7 billion
Benchmark S&P 400 Index

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	15.9%	19.4%	17.7%
" -- Benchmark	17.7	18.4	17.8

Small Cap Portfolio

Created December 31, 1982, modified July 1996
Description This internally managed small cap portfolio invests in a broadly diversified set of small company stocks, convertibles and cash. It focuses on domestic companies with a market capitalization up to \$1.5 billion. The manager has authority to purchase companies that meet three of five risk tests. This portfolio outperformed the large company sector for the second consecutive year. This portfolio has a heavy emphasis on technology stocks and returned -0.2% compared to a -3.0% return for the Russell 2000.
Managed Active
Market Value \$3 billion
Benchmark Russell 2000 Index

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	-0.2%	13.7%	16.2%
" -- Benchmark	-3.0	10.7	14.7

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 strategy that attempts to loosely track the S&P 500 Index, while earning excess returns by variations from the index. The quantitative core strategy employed by GMO makes use of more subjective inputs and does not have a predefined expected tracking error relative to the benchmark. Utilizing this method, the portfolio exceeded the S&P 500 Index for both the one year and since inception.
Managed Quantitative/Enhanced
Market Value \$339 million
Benchmark S&P 500 Index

	<u>One Year</u>	<u>Inception - 12/31/00</u>
Performance -- Fund	0.9%	11.5%
" -- Benchmark	-9.1	7.6

Baker Quantitative Large Cap

Created June 30, 2000
Description This portfolio is managed by Baker Investment Group. It uses a risk-controlled strategy that attempts to loosely track the S&P 500 Index, while earning excess returns by variations from the index. Since its inception, the fund has exceeded the S&P 500.
Managed Quantitative/Enhanced
Market Value \$318 million
Benchmark S&P 500 Index

	<u>Inception-12/31/00</u>
Performance -- Fund	-5.8%
" -- Benchmark	-8.7

JP Morgan Enhanced Large Cap

Created June 30, 1998
Description This portfolio is managed by JP Morgan Investments. It is similar to a quantitative portfolio yet retains more restrictions on variations from the S&P 500 Index. SWIB is terminating this portfolio in 2001 due to performance issues and lack of fit with SWIB's current strategic directions. The funds will flow to the internal large cap portfolio.
Managed Quantitative/Enhanced
Market Value \$600 million
Benchmark S&P 500 Index

	<u>One Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	-10.6%	6.7%
" -- Benchmark	-9.1	7.6

BGI Alpha Tilts Large Cap

Created July 31, 2000
Description Constructed by Barclays Global Investors, 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.
Managed Quantitative/Enhanced
Market Value \$7.2 billion
Benchmark S&P 500

	<u>Inception-12/31/00</u>
Performance -- Fund	-7.3%
" -- Benchmark	-7.3

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

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	-9.3%	18.3%	16.6%
" -- Benchmark	-9.1	18.3	16.6

BGI Intermediate 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 \$1.2 billion

Benchmark BGI Intermediate Cap Index

	<u>One Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	-12.9%	10.7%
" -- Benchmark	-13.3	10.2

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.

Managed Passive Index Fund

Market Value \$487 million

Benchmark Russell 2000 Index

	<u>One Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	-3.3%	7.9%
" -- Benchmark	-3.0	8.1

International 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 comprises about 75% of all available investments. Although it trailed its benchmark in 2000, it remains ahead of its five- and ten-year benchmarks.

Managed Active

Market Value \$4.1 billion

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

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	-17.8%	11.7%	14.3%
" -- Benchmark	-13.4	10.4	11.0

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)

	<u>One Year</u>	<u>Five Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	-16.7%	13.9%	13.4%
" -- Benchmark	-13.4	10.4	11.6

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

Market Value \$2.6 Billion

Benchmark MSCI World Index ex US (Net Tax)

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	10.5%	17.1%	16.3%
Performance -- Benchmark	-13.4	10.4	11.0

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
Market Value \$1.2 Billion
Benchmark MSCI World Index ex US (Net Tax)

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	-19.0%	15.2%	14.4%
Performance -- Benchmark	-13.4	10.4	11.0

MSCI Index Fund

Created November 30, 1996
Description This fund is managed by Barclays Global Investors and tracks the MSCI World Index of markets in 21 countries, excluding the US.
Managed Passive Index Fund
Market Value \$2.2 million
Benchmark MSCI World ex US (Net Tax)

	<u>One Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	-13.1%	8.8%
" -- Benchmark	-13.4	8.8

Capital Guardian Fund

Created April 30, 1992
Description This emerging markets equity fund is managed by Capital International, Inc., and makes investments in developing countries.
Managed Active
Market Value \$376 million
Benchmark Morgan Stanley Emerging Market Free Index

	<u>One Year</u>	<u>Five Year</u>	<u>Inception - 12/31/00</u>
Performance -- Fund	-31.0%	3.3%	6.6%
" -- Benchmark	-30.6	-3.7	2.2

Genesis Fund

Created April 30, 1992
Description Genesis Investments Limited manages this emerging markets equities fund, which makes investments in developing countries.
Managed Active
Market Value \$290 million

Benchmark	Morgan Stanley Emerging Market Free Index			
		<u>One Year</u>	<u>Five Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund		-28.0%	-1.9%	3.8%
" -- Benchmark		-30.6	-3.7	2.2

Fixed Income

Fixed income investments include government and corporate bonds and long-term loans. In aggregate, these investments returned 10.0% in 2000 compared to the benchmark's return of 9.4%.

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. The portfolio was reduced from \$3.7 billion to \$2.6 billion in 2000.
 Managed Active
 Market Value \$2.8 billion
 Benchmark Lehman Long Term Government/Corporate Index

		<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund		15.5%	7.0%	9.6%
" -- Benchmark		14.8	6.9	9.1

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
 Market Value \$3.7 billion
 Benchmark Lehman Intermediate Government/Corporate Index

		<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund		10.8%	5.9%	8.5%
" -- Benchmark		11.4	6.4	8.5

Lehman Government/Credit 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 \$5.6 billion
Benchmark Lehman Aggregate Index

	<u>One Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	11.5%	7.5%
" -- Benchmark	11.3	7.4

Internal Global Bond Portfolio

Created December 1996
Description Internally managed, 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 is bringing in-house more of the assets previously managed by external global managers. This is possible because of the authority to hire an assistant internal portfolio manager authorized in the 1999-2001 biennial budget.
Managed Active
Market Value \$990 million
Benchmark Salomon World Government Bond Index (WGBI) Unhedged (Net Tax)

	<u>One Year</u>	<u>Inception - 12/31/00</u>
Performance -- Fund	2.3%	4.9%
" -- Benchmark	1.6	5.4

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
Market Value \$835 million
Benchmark Salomon WGBI Unhedged (Net Tax)

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Years</u>
Performance -- Fund	3.0%	7.6%	8.6%
" -- Benchmark	1.6	7.9	8.3

Morgan Grenfell Global Fixed Income Portfolio

Created	September 30, 1989			
Description	Managed by 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			
Market Value	\$939 million			
Benchmark	Salomon WGBI Unhedged (Net Tax)			
		<u>One Year</u>	<u>Five Year</u>	<u>Ten Years</u>
Performance -- Fund		1.8%	7.6%	9.0%
" -- Benchmark		1.6	7.9	8.3

Nomura Global Fixed Income Portfolio

Created	September 30, 1989			
Description	Managed by Nomura Asset, 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. Because of its lackluster performance and management turnover, SWIB decided to discontinue its relationship with Nomura. Funds from that portfolio (\$538 million at year-end) are being transferred to the internal global manager.			
Managed	Active			
Market Value	\$538 million			
Benchmark	Salomon WGBI Unhedged (Net Tax)			
		<u>One Year</u>	<u>Five Year</u>	<u>Ten Years</u>
Performance -- Fund		0.7%	7.6%	7.9%
" -- Benchmark		1.6	7.9	8.3

BGI Salomon World Global Bond Index (WGBI) Fund

Created	November 30, 1999			
Description	This fund tracks the Salomon World Government Bond (WGBI) Index.			
Managed	Passive			
Market Value	\$225 million			
Benchmark	WGBI Unhedged (Net Tax)			
		<u>One Year</u>	<u>Inception/12-31-00</u>	
Performance -- Fund		1.3%	0.8%	
" -- Benchmark		1.6	1.2	

Morgan Grenfell Emerging Markets Fund

Created	December 31, 1994			
Description	The Deutsche 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			

Market Value \$87 million

Benchmark JP Morgan Emerging Market Bond Index

	<u>One Year</u>	<u>Five Year</u>	<u>Inception – 12/31/00</u>
Performance -- Fund	20.4%	16.5%	19.5%
" -- Benchmark	15.7	14.0	16.2

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

Market Value \$80 million

Benchmark JP Morgan Emerging Market Bond Index

	<u>One Year</u>	<u>Five Year</u>	<u>Inception/12/31/00</u>
Performance -- Fund	14.8%	14.8%	17.8%
" -- Benchmark	15.7	14.0	16.2

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 the outlook continues strong for 2001. The private placement initiative represents an important component of SWIB's overall fixed income strategy, particularly when market conditions are advantageous. The Board of Trustees decided to allocate an additional \$300 million to this portfolio to be drawn upon as needed during 2001.

Managed Active

Market Value \$3.8 billion

Benchmark Sector-Weighted Corporate Bond Index

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	12.3%	6.9%	8.9%
" -- Benchmark	9.0	6.0	8.3

Real Estate Mortgage Portfolio

Created June 30, 1999

Description This portfolio consists of private commercial mortgages invested in conjunction with Northwestern Mutual Life 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. SWIB made an initial \$500 million commitment in 1999 and an additional \$500 million commitment in 2000

Managed Active
 Market Value \$572 million
 Benchmark Duration adjusted Lehman BAA Corporate Index

	<u>One Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	6.7%	6.5%
" -- Benchmark	7.6	5.6

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 allocated an additional \$100 million to this portfolio for 2001 to keep it close to the 4% target.

Managed Active
 Market Value \$2.1 billion
 Benchmark National Council of Real Estate Investment Fiduciaries' Index

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	12.5%	11.2%	7.7%
" -- Benchmark	11.7	11.7	5.2

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. **Early stage Alternative Investments are expected to earn below benchmark returns until a longer, typically five-year, period has passed.**

Opportunity E Portfolio

Created January 1994

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.

Managed Active

Market Value \$1.2 billion

Benchmark 15% Net of Fees Absolute Return (Effective July 1, 2000)

	<u>One Year</u>	<u>Five Year</u>	<u>Inception-12/31/00</u>
Performance -- Fund	-11.0%	7.3%	8.9%
" -- Benchmark	4.5	16.0	16.4

Opportunity E Portfolio <i>Fixed Trust Fund</i>				
Category	December 31, 1999		December 31, 2000	
	Market Value (in millions)	Percent Of Total	Market Value (in millions)	Percent of Total
US Stocks	\$370.7	27%	\$202.0	16%
Emerging Markets	412.0	30%	588.0	48%
Foreign Stocks	316.3	23%	301.0	25%
Fixed Income	154.0	11%	9.0	1%
Cash	73.6	5%	120.0	10%
Options	50.7	4%		0%
TOTAL	\$1,333.4	100%	\$1,220.0	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. Each partnership commitment is approved in advance by the Board.

Managed Active

Market Value \$1.6 billion

Benchmark 15% net of fees absolute return

	<u>One Year</u>	<u>Five Year</u>	<u>Ten Year</u>
Performance -- Fund	0.9%	15.1%	13.1%
" -- 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, 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 \$8 million of the committed funds had actually been invested. These investments are subject to higher risks but offer the

prospect of higher returns. Each partnership commitment must meet the same due diligence as other SWIB investments.

Managed	Active	
Market Value	\$8 million	
Benchmark	15% net of fees absolute return	
		<u>Inception-12/31/00</u>
Performance – Fund		-5.4%
“ – Benchmark		7.2

CASH

The Fixed and Variable Funds will have 1-2% in cash at any given time. While temporary cash balances are awaiting permanent investment, they are invested by the State Investment Fund 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 2000, 2.1% of WRS assets were in cash, which earned 6.3% for the year compared to the 6% 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 1,100 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 \$4.2 billion on December 31, 2000 (excluding WRS trust funds). The following table indicates the average month-end SIF balance and participation in 2000. The average balance in 2000 was \$5.4 billion.

State Investment Fund Average Month-End Balances for Calendar Year 2000		
Source	Amount (in millions)	Percent Of Total
Local Government Investment Pool (LGIP)	\$2,762	51%
State Funds	2,195	40
WRS Trust Funds	466	9
TOTAL	\$5,422	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, 2000 to holdings a year earlier. Appendix C provides a description of each category. By the end of 2000, we had increased holdings in US government paper and decreased holdings in commercial paper, as spreads from those issues narrowed over Treasury issues.

State Investment Fund Holdings				
Asset Type	12/31/99		12/31/00	
	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	192	4	142	3
Agencies	2,543	47	3,039	60
Open Repurchase Agreements	705	13	774	15
Asset-Backed Securities	27	0	16	0
Mortgage-Backed Securities	4	0	3	0
Yankee/Euro Dollar Issues	0	0	0	0
Certificates of Deposit and Bankers Acceptances	431	8	400	8
Commercial Paper and Corporate Notes	1,549	28	696	14
TOTAL	\$5,451	100%	\$5,070	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, 2000, SIF's 6.29% return ranked 2nd out of 222 government funds in the iMoneyNet Government Fund Report (formerly IBC/Donoghue Government Index) and 97th out of 1,023 money market funds in the iMoneyNet All Taxable Money Market Index (top 10%). Without the 1995 derivatives loss, SIF's return of 6.42% would have ranked 1st out of the 222 Government Funds and 36th out of the 1,023 Money Market Funds (top 4%).
- The economic activity in the US began downshifting in early summer. As additional, and at times contradictory, data accumulated, it became evident that the economy was indeed slowing. The fixed income markets quickly adjusted to the premise that the Federal Reserve's tightening process was over. While a "soft" landing seemed the most likely outcome, there were growing concerns that the drag on the future economic growth from a slumping stock market, rising oil prices and developing credit problems could be greater than expected. Until the end of the summer, the SIF maintained a cautious position with an average maturity of less than 50 days. In the fall, as signs of a slowing economy became more pronounced, the SIF's average maturity was extended to 81 days. This proved to be a successful strategy as rates declined significantly by year-end.

- 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, 2000, the remaining unamortized balance on the \$95 million was approximately \$15.5 million. There were no other derivatives in the State Investment Fund during 2000.

State Investment Fund Performance
Annualized For Period Ending December 31, 2000

	<u>One Year</u>	<u>Five Years</u>	<u>Ten Years</u>
State Investment Fund Return	6.29%	5.43%	5.33%
Investment Benchmark	5.98	5.27	4.88

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 78% of the Fund was invested in US government securities as of December 31, 2000. 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, 2000 was 64 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, 2000, over 80% of the fund was invested in securities maturing within 90 days to meet this contingency.
3. **Interest Rate Sensitivity.** Interest rates for 80% of portfolio assets reset within three months or less, while 22.7% 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 reports biennially on its five-year plan for investments in the State. We update this information annually as of June 30 and report it as part of our annual fiscal report. SWIB provided its most recent five-year plan to the Governor and Legislature on June 30, 1999. For the five-year period including fiscal years ending June 30, 1999 through June 30, 2004, SWIB plans 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, 2000 totaled \$1.2 billion, exceeding the \$1 billion mark for the third consecutive year. (See Appendix E) Investments included:

- \$212 million of new investments in stocks of 20 publicly held Wisconsin companies,
- \$414 million of new investments in high quality commercial paper issued by public utilities and Wisconsin companies,
- \$364 million in certificates of deposit from Wisconsin banks and thrifts,
- \$93 million in bonds of Wisconsin corporations, and
- \$116 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.

New and existing investments in companies headquartered in Wisconsin totaled over \$2 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 more than \$8.5 billion.

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 2000, SWIB directed \$584,221 or 3.5% of the \$1,821,145 total listed commissions to the one eligible Wisconsin broker.

Summary of SWIB Investments in Wisconsin
June 30, 2000

	<u>Headquartered in Wisconsin</u>	<u>Not Headquartered in Wisconsin But w/ 20+ WI Employees</u>	<u>Total Investment in Wisconsin</u>
Public Bonds (1)	\$133,366,197	\$2,081,631,924	\$2,214,998,121
Liquid Assets (2)	782,635,444	906,200,000	1,688,835,444
Public Equities (1)	514,731,462	2,579,987,447	3,094,718,909
Real Estate (1)	16,090,848	0	16,090,848
Private Placements (1)(3)	<u>488,971,400</u>	<u>1,156,264,600</u>	<u>1,645,236,100</u>
Total	\$2,031,009,300	\$6,519,365,031	\$8,550,374,331

(1) Valued at market value.

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

(3) Includes private equity and private loans.

Appendix A
Investment Goals, Strategies and Performance Reports

Investment Goals and Strategies

s. 25.17(14g). Annually, on or before January 1, the Investment Board shall submit to the joint legislative audit committee, to the joint committee on finance and to the chief clerk of each house, for distribution to the appropriate standing committees, a report of the board's annual investment goals and long-term investment strategies. The report shall specify any change in the annual investment goals and long-term investment strategies from those in the previous year.

Performance

s. 25.17(14m). Annually, on or before March 31, the Investment Board shall submit to the joint legislative audit committee, to the joint committee on finance and to the chief clerk of each house, for distribution to the appropriate standing committees a report including all of the following:

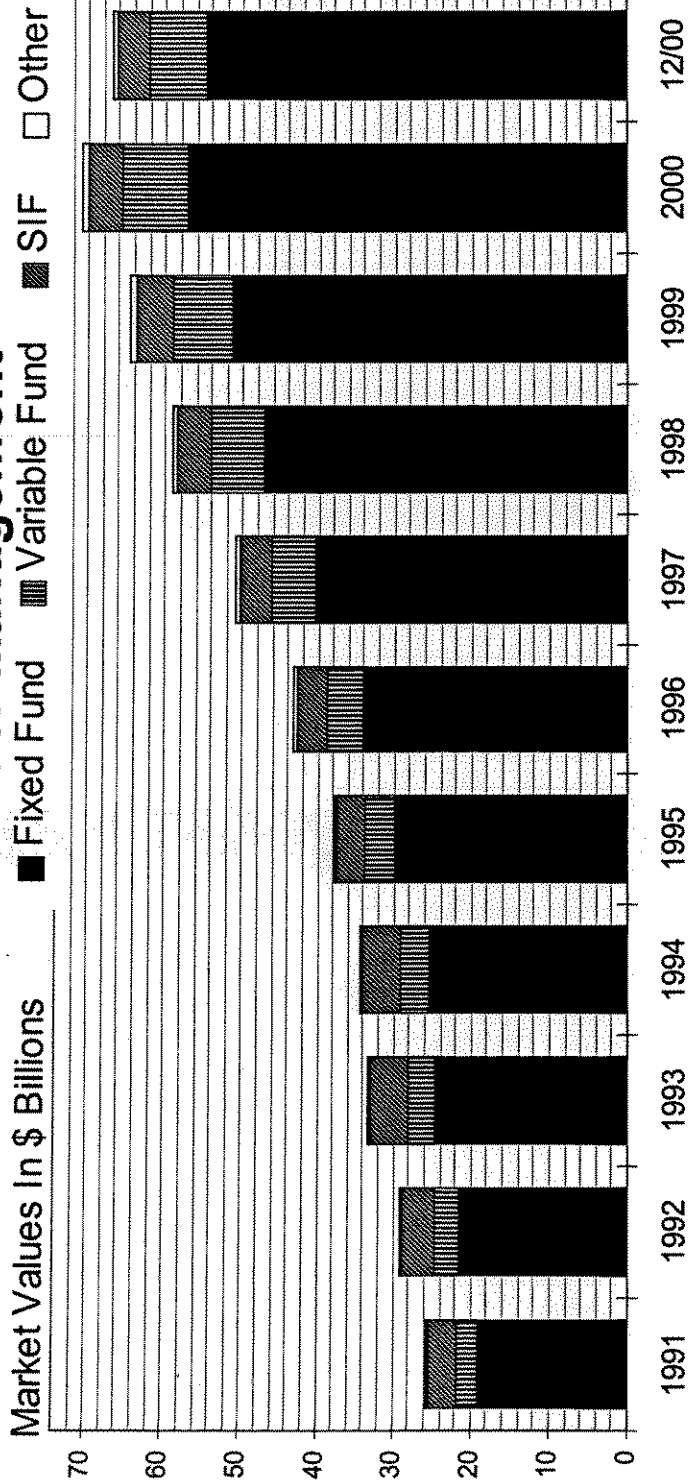
(a) An assessment of the board's progress in meeting its annual investment goals established in the report under sub. (14g).

(b) Information on the types of investments held by the board, including the market values of the investments and the degree of risk associated with the investments, the board's use of derivatives, as defined in s. 25.183 (1) (a), any ventures by the board into new markets, any use of new investment instruments by the board and a comparison of the investment performance of the board to that achieved by a peer group of public and private entities that invest similar-sized funds

(c) A discussion of the amounts and categories of investments made within the state, including the amounts and categories of investments described, and progress in meeting the objectives of the plan submitted, under sub. (70).

State of Wisconsin Investment Board

Assets Under Management



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

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 Committee comprised of senior SWIB staff must review all derivatives' transactions. Derivative investment strategies are reviewed by the Risk Committee to ensure that they are in compliance with investment guidelines.
- The Risk 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

Reflecting these policies, there was a reduced use of hedging instruments as of December 31, 1999. At that time, the Fixed Fund held one foreign currency call option to enhance earnings in the event of foreign currency fluctuations. There is no market risk associated with owning this instrument beyond the initial cost of its purchase. At the end of 2000, SWIB no longer held any foreign currency call options.

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, however, held no equity options as of December 31, 2000.
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. Buying futures tends to increase the fund's exposure to the underlying instrument. Selling futures tends to decrease the fund's exposure to the underlying instrument or hedge other fund instruments.

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.

The market value of the open contracts held in the Fixed Fund as of December 31, 2000 was approximately -\$100,000 million. Net realized appreciation for these contracts was approximately -\$0.1 million.

The following table compares the market value of derivative positions in the Fixed Fund on December 31, 1999 to the values as of December 31, 2000. This table indicates that the unrealized gains and losses from derivative investments decreased from gains of \$9 million in 1999 to zero in 2000, and the open futures contracts went from \$1.3 million to -\$100,000.

**Derivative Investment Activities
Fixed Retirement Trust Fund**

	12/31/99 Market Value (In Millions)	12/31/00 Market Value (In Millions)
Hedging Investments		
Foreign Currency Forward Contracts	\$ 0.9	\$ 36.4
Market Gains/Losses on Underlying Securities	<u>(0.9)</u>	<u>(36.4)</u>
Net	\$ 0.0	\$ 0.0
Yield Enhancing Activities		
Options		
Written Options Cost	0.8	0.0
Less Market Value of Written Options	<u>(2.3)</u>	<u>0.0</u>
Net	(1.5)	0.0
Purchased Options Cost		
	(23.4)	0.0
Less Market Value of Purchased Options	<u>50.7</u>	<u>0.0</u>
Net	\$ 27.3	\$ 0.0
Foreign Currency Forward Contracts*	\$ (16.8)	
Net Unrealized Gains/(Losses)	<u>\$ 9.0</u>	<u>\$ 0.0</u>
Futures Contracts		
Market Value of Outstanding Contracts	23.4	2.3
Purchase price	<u>22.1</u>	<u>2.4</u>
Net Realized Appreciation on Open Contracts	<u>\$1.3</u>	<u>\$ (0.1)</u>

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

Variable Retirement Trust Fund

Because the Variable Fund owns shares of the same domestic and international companies as the Fixed Fund, the same currency forward and options derivatives are used for the Variable Fund.

The following table compares the market value of derivative positions in the Variable Fund on December 31, 1999 to the values on December 31, 2000. This table indicates that the unrealized losses on derivative investments decreased from \$4.3 million to \$0.0 in 2000. The market value of open futures contracts held in the Variable Fund as of December 31, 2000 was

approximately \$1.0 million. At year-end, the net realized appreciation for these contracts was approximately -\$70,000 as opposed to \$300,000 at the end of 1999.

Derivative Investment Activities		
Variable Retirement Trust Fund		
	12/31/99	12/31/00
	Market Value	Market Value
	<u>(In Millions)</u>	<u>(In Millions)</u>
Hedging Investments		
Foreign Currency Forward Contracts	\$ (1.5)	\$ 6.0
Market Gains/Losses on Underlying Securities	<u>1.5</u>	<u>(6.0)</u>
Net	\$ -0-	\$ -0-
Yield Enhancing Activities		
Options		
Written Options Cost	\$ 0.2	\$ 0.0
Less Market Value of Purchased Options	<u>(0.6)</u>	<u>0.0</u>
Net	\$ (0.4)	\$ 0.0
Foreign Currency Forward Contracts	\$ (3.9)	\$ 0.0
Net Unrealized Losses	\$ (4.3)	\$ 0.0
Futures Contracts		
Market Value of Outstanding Contracts	\$ 5.9	\$ 1.00
Purchase price	<u>5.6</u>	<u>1.03</u>
Net Realized Appreciation on Open Contracts	\$ 0.3	\$ (0.07)

Attachment E
New Investments in Wisconsin Companies - Fiscal Year 2000

Liquid Asset Investments

American Family	\$50,000,000	Madison
Alliant Energy (Interstate Power, WP&L)	25,000,000	Madison
Kimberly Clark Corp.	34,950,000	Neenah
Madison Gas & Elec.	11,000,000	Madison
M&I	25,000,000	Milwaukee
Northern States Power	50,000,000	Various
Wisconsin Certificate of Deposit Program	364,115,000	Various
Wisconsin Corporate Central Credit Union	50,000,000	Hales Corners
Wisconsin Electric Power Co.	71,750,000	Milwaukee
Wisconsin Energy Corp.	40,000,000	Milwaukee
Wisconsin Gas Co.	20,000,000	Milwaukee
WPS Resources	36,250,000	Green Bay
Total	\$778,065,000	

Loans and Private Equity

Advanced Separation & Process	1,000,000	Windsor/Deforest
Alliant Energy Resources	10,000,000	Madison
Baird Capital Partners II*	202,932	Milwaukee
BayCare Aurora	20,000,000	Green Bay
Dean Health Systems	20,000,000	Madison
Emmpak Foods, Inc.	1,078,700	Milwaukee
Facilatator Capital Fund*	2,500,779	Madison
Horizon Capital Partners*	941,852	Milwaukee
Housing Horizons	5,250,000	Janesville/Chapel Valley
Johnson Bank	10,000,000	Racine
Mason Wells Fund I, LP*	7,857,142	Milwaukee
Milk Specialties	7,000,000	Boscobel/New Holstein
National Guardian Life	30,000,000	Madison
Total	\$115,831,404	

Public Bonds

Fort James	49,913,350	Green Bay
Johnson Controls	20,206,200	Milwaukee
Kohis Corp.	23,440,544	Menomonee Falls
Total	\$93,560,094	

Public Equities

Advantage Learning System, Inc.	1,537,500	Wisconsin Rapids
Bone Care International, Inc.	32,869,688	Madison
Catalyst International, Inc.	6,027,450	Milwaukee
Firstar Corp.	2,717,063	Milwaukee
Johnson Controls, Inc.	877,444	Milwaukee
Kimberly-Clark Corp.	19,335,375	Neenah
Lands' End, Inc.	3,430,950	Dodgeville
Manitowoc Company, Inc.	1,471,250	Manitowoc
Marshall & Ilsley Corp.	7,868,400	Milwaukee
MGIC Investment Corp.	596,050	Milwaukee
Midwest Express Holdings, Inc.	1,075,000	Oak Creek
Northland Cranberries, Inc.	1,314,788	Wisconsin Rapids
Philip Morris Companies Inc.	55,345,625	Various
Rayovac Corp.	11,411,250	Madison
Regal-Beloit Corp.	1,717,081	Beloit
Sybron International Corp.	24,765,625	Milwaukee
Universal Foods Corp.	9,620,000	Milwaukee
Walgreens Co.	12,086,406	Various
Wisconsin Central Transportation Corp.	18,265,000	Various
Wisconsin Energy Corp.	57,456	Milwaukee
Total	212,389,400	

GRAND TOTAL

1,199,845,898.30

* This represents the amount called in 2000. Initial commitments were made to these funds in prior fiscal years.