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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

April 23, 2001

Honorable Brian Burke, Co-Chair
Joint Committee on Finance
PO Box 7882
Madison WI 53708-7882

Honorable John Gard, Co-Chair
Joint Committee of Finance
PO Box 8952
Madison WI 53708-8952

Honorable Gary George, Co-Chair
Joint Committee on Audit
PO Box 7882
Madison WI 53708-7882

Honorable Joseph Leibham, Co-Chair
Joint Committee on Audit
PO Box 8952
Madison WI 53708-8952

Mr. Donald Schneider, Senate Chief Clerk
PO Box 7882
Madison WI 53708-7882

Mr. John Scocos, Assembly Chief Clerk
PO Box 8952
Madison WI 53708-8952

Members of the Legislature:

Pursuant to ss. 25.17(14r), Stats., I have attached copies of SWIB's recently revised Investment Guidelines, the Risk Committee mandate and a summary of the changes.

This is the first extensive review of the Guidelines in a decade. The revisions were adopted after an extensive and in-depth review undertaken by Trustees and staff with the assistance of an outside consultant.

The revisions incorporate actions by the Board's Strategic Planning Committee modifying SWIB's management structure to follow more closely best practices used at top-performing pension funds. The changes also implement recommendations made by outside counsel and make the clear delineation between the role of Trustees as governing fiduciaries and staff as managing fiduciaries. Price Waterhouse had also suggested these changes a few years ago after their audit of the Private Placement Division.

We have marked substantive changes or new provisions to the documents. If you have any questions or comments, please contact me.

Sincerely,

Patricia Lipton
Executive Director

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Revisions to Investment Guidelines and Risk Committee Mandate
State of Wisconsin Investment Board
March 2001

Overview

At its March meeting, the Board of Trustees adopted revisions to the Investment Guidelines and Risk Committee mandate. It had been at least a decade since SWIB's Investment Guidelines had received a comprehensive review and update. These revisions were the result of a systematic and in-depth review undertaken over the prior six months with the assistance of Strategic Investment Solutions, an outside consultant. The revisions implement discussions of the Strategic Planning Committee regarding modification of SWIB's management structure to more closely follow best practices used at top-performing pension funds. The changes also implement recommendations made last year by SWIB's outside fiduciary counsel to improve delineation of the managing and governing fiduciary roles at SWIB. Price Waterhouse had also suggested these changes several years ago after their review of SWIB's Private Placement Division.

Summary of Recommendations

Consistent with investment guidelines currently used at other large public pension funds, the revisions to the Investment Guidelines made the following primary changes:

- Incorporated descriptions of SWIB's broader policy objectives at the fund, asset class and portfolio levels into the guidelines document;
- Included procedures to ensure compliance with SWIB's basic fiduciary responsibilities as a trust fund manager, including policies relating to asset allocation, risk management, performance monitoring and benchmarking;
- Adjusted the compliance checks for each portfolio's Investment Guidelines to maximize use of SWIB's new information technology systems;
- Enhanced the Board's role in determining investment strategies and evaluating performance and risk exposures for each portfolio and asset class by having more frequent and in-depth strategy and review sessions;
- Delegated greater responsibility for portfolio management decisions in the non-public portfolios to the staff to be consistent with the public portfolio guidelines and to implement fully best practice recommendations for clearer separation of managing and governing fiduciary roles at SWIB;
- Added "soft" expected parameters to the compulsory portfolio guidelines to trigger supervisory and Risk Committee discussions of portfolio risk exposures and strategies when managers significantly depart from their expected portfolio profiles;
- Substantially expanded the Risk Committee's role in reviewing individual non-public portfolio investments to provide for a similar level of ongoing oversight to what the Board's Alternative Investments and Real Estate (AIRE) Committee had exercised, while still observing the different fiduciary roles of Trustees and staff;

- Established procedures to require staff to give regular reports to the Board on deal pipeline flow, portfolio developments, strategy changes, defaults, and completed investments for the non-public portfolios; and

- Created a reporting mechanism to provide the same information to all Trustees on deal referrals or significant contacts with investment staff (other than status inquiries) by supervising fiduciaries for a portfolio investment.

Identification of Changes

Because of the comprehensive nature of the revisions, we have not marked minor wording changes on the attached Investment Guidelines and Risk Committee Policies and Procedures. Instead, substantive modifications are described in **bold** and **[bracketed]** text insertions.

The portfolio guidelines begin at page 11 with a compilation of general principles that apply to all of the individual portfolios. Apart from minor wording clarifications, these provisions are generally the same as those that appear in various places throughout the current guidelines. The primary change in the General Compulsory Guidelines section is expansion of the "material change" concept from the Private Placements Portfolio to all non-public portfolios and reflection of the Risk Committee's new role in reviewing individual investments in those portfolios.

Public Portfolio Revisions

The Board made only a few substantive modifications to the public portfolio Investment Guidelines. They include:

- A modest expansion of the domestic stock portfolios' limits for aggregate exposure to individual issuers (from 5% to 7%) and a change for purchase of issues subject to restricted trading from a portfolio to an aggregate 5% measure;

- An increase of the International Equities Portfolio emerging markets exposure limit from 10% to 15%;

- Elimination of an individual security rating requirement in deference to an overall portfolio credit quality requirement and authorization of up to 10% exposure to non-investment grade securities in the Global Bond Portfolio;

- Creation of "soft" parameters on number of holdings, maximum position size, median position size, P/E ratio, sector exposure, volatility and cash holdings for the equity portfolios; and

- Establishment of "soft" parameters on exposure to issuers, volatility and cash holdings for the fixed income portfolios.

Non-Public Portfolios

The Board adopted more substantive revisions to the non-public portfolio Investment Guidelines. First of all, a section of general non-public portfolio guidelines was added on page 16 to set forth reporting and Risk Committee oversight provisions. In addition, substantive modifications to the Guidelines included:

- Incorporating SWIB's internal rating system into the Private Placements Portfolio's delegated authority, provided that investments with only a SWIB rating do not exceed 20% of the portfolio;

- Including recommendations made by Price Waterhouse for Private Placements Portfolio aggregate portfolio issuer credit rating exposure limits;

- Increasing the allowable exposure to non-U.S. investments in the Private Placements Portfolio from 10% to 15%;

- Authorizing the Private Equity Portfolio and Real Estate Portfolio guidelines to make commitments to funds, provided a commitment does not exceed the lesser of $100 million or 25% of the fund;

- Increasing from 20% to 33% the non-U.S. exposure limits for the Private Equity Portfolio and Real Estate Portfolio;

- Establishing new limits on aggregate commitments to any fund manager for the Private Equity Portfolio (25%) and Real Estate Portfolio (20%);

- Creating aggregate private company investment limits of 25% for the Private Equity Portfolio, as well as a 3% limit for any one company, and including similar public REIT and real estate company aggregate limits of 15% and single company limits of 3% in the Real Estate Portfolio guidelines;

- Limiting Private Equity Portfolio ownership of the stock of any company to 50% of outstanding shares, and creating a similar provision limiting Real Estate Portfolio direct ownership of public REIT stock to 20%;

- Eliminating the Real Estate Portfolio distinction between core and non-core property, but placing soft parameter limit of 10% on development risk;

- Eliminated separate and additional investment guidelines for the Real Estate Portfolio, but included use of a Real Estate Procedures Manual issued by the portfolio manager for reference by outside real estate advisors;

- In the Opportunity Portfolio, including authority to make private fund and company investments, adding "soft" parameters on maximum sector (25%), and including fund manager (25%) and non-U.S. country (30%) exposure;

- Increasing the single public company equity ownership limit for the Opportunity Portfolio from 10% to 20% of outstanding shares; requiring the portfolio to have at least 65% of its assets in equity investments; raising the emerging markets exposure limit from 60% to 75%; and creating a maximum aggregate portfolio public securities holdings limit of 50%; and

- Establishing "Soft" parameters on industry (Private Placements Portfolio), fund type (Private Equity) and single property type (Real Estate) exposure.

Risk Committee Mandate Adjustments

The Board of Trustees also made several adjustments regarding the Risk Committee's policies and procedures. This was done to preserve an appropriate level of oversight for the non-public portfolios, given the increased level of portfolio manager discretion provided under the Investment Guideline recommendations. The primary changes include:

- The Risk Committee was authorized to review all unrated or below investment grade non-public portfolio investments for investment guideline and Board-approved strategy compliance and to suspend a portfolio manager's ability to complete a proposed investment without AIRE Committee or Board approval;
- The size of the Risk Committee was reduced in order to facilitate effectiveness;
- Quorum requirements and voting procedures were specified;
- The compliance review process was corrected to reflect the new role of SWIB's Compliance Officer in regularly reviewing portfolio compliance and reporting to the Committee at least quarterly;
- Operational and processing procedures for internal staff were moved from the Committee Charter to a separate Committee procedures document; and
- The charter requires all Risk Committee minutes be provided to the Board.

INVESTMENT POLICY, OBJECTIVES, AND GUIDELINES

STATE OF WISCONSIN INVESTMENT BOARD

March 7, 2001

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INTRODUCTION

The State of Wisconsin Investment Board ("SWIB") is an independent state agency responsible for the management and investment of all funds entrusted to it, including assets of the Wisconsin Retirement System (WRS), the State Investment Fund, and the assets of various other state agencies and programs. In its role as investment manager for these funds, SWIB is held by law to a high standard of fiduciary duty.

SWIB was created by the Wisconsin Legislature for the sole purpose of providing professional investment management of trusts and public funds under its control, in accordance with its standard of fiduciary responsibility. The Trustees of the Board have established the investment guidelines set forth herein, pursuant to a comprehensive and ongoing evaluation of the appropriate risk and return standards for each fund under management. These guidelines are intended to assist in development of a diversified portfolio of investments, tailored to accomplish the purpose of each fund within acceptable risk parameters. They represent a delegation of standing authority to investment managers within the organization, in an effort to promote efficient and cost effective operation of the funds.

These guidelines are not intended to represent an absolute limit on the type of investments which can be made by the Board or considered by staff. In many instances, investments which fall outside of the standing authority delegated to Investment Board staff, may well be appropriate for inclusion in one or more of the Board's portfolios. The Trustees of the Board explicitly reserve the right to authorize such other investments as they deem consistent with the Board's responsibilities as a fiduciary.

Accordingly, the Trustees of the Board hereby delegate to the Executive Director and professional investment staff of the Board, standing authority to make prudent investments within the following investment guidelines, pursuant to sections 15.02(4) and 25.16(1) of the Statutes and section IB 2.02 of the Wisconsin Administrative Code.

MISSION STATEMENTS

The Wisconsin Retirement System (WRS)

The assets of the WRS constitute a large majority of the total funds invested by SWIB. The retirement funds are managed in both domestic and foreign, and long-term and short-term investments, across a wide range of asset types and classes. The WRS assets are divided into two funds---A Fixed Retirement Investment Trust and a Variable Retirement Investment Trust. The Fixed Trust is a broadly diversified portfolio of bonds, stocks, mortgages, non-public securities, real estate and other holdings. The Variable Trust Fund is primarily invested in common stocks and other equity holdings.

A. ***Fixed Retirement Investment Trust***

The Fixed Trust Fund consists of the retirement contributions made by and on behalf of participants in the WRS. These participants include state, school, and local government employees. All participant contributions are invested through this Trust unless the participant has elected to contribute to the Variable Trust.

B. ***Variable Retirement Investment Trust***

The Variable Trust, like the Fixed Trust, is a pooled fund consisting of retirement contributions for the participants within the WRS. A qualified participant can elect to credit up to 50% of their total monthly retirement contribution to the Variable Trust, with the balance going to the Fixed Trust. The purpose of the Variable Trust is to permit participants to share in the expanding economy of the nation through the profits of business and industry. However, unlike the Fixed Trust, the Variable Trust does not enjoy diversification across a variety of different asset classes and could be subject to greater volatility of earnings.

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The State Investment Fund

The State Investment Fund (SIF) is a pool of the cash balances of various state agencies and departments, WRS fund cash balances pending longer term investment, and numerous other local governmental bodies which elect to participate in the SIF through the Local Government Investment Pool. The SIF functions as the state's cash management fund. By pooling idle cash balances of the WRS, all state funds and a large number of municipalities, the SIF provides all participants in the fund with strong rates of return and enhanced liquidity. The stated objectives of the SIF are to provide liquidity, safety of principal and reasonable rates of return. The SIF is invested primarily in obligations of the U.S. Government and its agencies, and high quality commercial bank and corporate debt obligations.

Other Funds

SWIB also manages several other smaller funds established by state law. Separate objectives, policies, and guidelines apply to investment of the assets in each fund. They are managed in accordance with risk and investment parameters determined to be appropriate for achieving the purpose of each fund.

IMPLEMENTATION

This document is intended to summarize the fundamental investment objectives, philosophies, and directives relative to the implementation and oversight of the investment of SWIB assets. Key areas are elaborated upon, and specific investment guidelines are articulated. The document is intended to provide an abridged outline of the common and critical components of successful administration of a large pool of public assets. Detailed supplemental policies and procedures for portfolios are maintained separately.

The following practices pertain primarily to the management of WRS assets. Other funds are managed by SWIB in similar but not identical fashion.

BROAD INVESTMENT OBJECTIVES

SWIB's overall objectives in managing WRS assets are:

1. To ensure that sufficient funds are available to meet obligations;

2. To comply with all applicable fiduciary and legal standards; and

3. To create marginal value added to help reduce the cost of, or to improve, benefits.

KEY INVESTMENT PHILOSOPHIES

1. Through quantitative asset/liability modeling and qualitative evaluation, an appropriate strategic asset allocation mix can be selected. Rebalancing back to strategic targets after allowing a predetermined amount of "drift" around targets effectively contains allocation risk and can add value by enforcing a "buy low, sell high" approach at the asset class level.

2. A well-diversified asset mix dominated by equities is a favorable position for meeting long-term objectives, recognizing that strategies will not always appear to add value over shorter time frames. It is essential to hold to the investment program during difficult times, and the diversified mixture will mitigate the impact of negative market environments.

3. A core of passive investments within major asset classes deemed to be relatively efficient provides risk control to enable fully active strategies, and facilitates timely fund rebalancing activities.

4. Over the long term, active management can add value beyond market-neutral benchmarks at the asset class, sector, and security levels by exploiting market inefficiencies and their resulting valuation opportunities. Relatively more or less can be managed actively within asset type based on an assessment of the level of market efficiency and opportunity.

5. Risk management and cost control are integral to the entire investment process. Risk is addressed from asset allocation through individual security selection and ex post measurement by a sound risk management structure. Costs are contained through lower-cost internal and passive management approaches, and external fee negotiations.

6. Fund and portfolio results are most appropriately measured against market indices, representing neutral, or passive market positions. Peer comparisons are fraught with difficulties due to differences in liability structure, investment style, risk preferences, and inconsistencies over time, and are used only as secondary comparisons. Results are evaluated on the basis of investment return as well as return for the level of risk taken on.

RESPONSIBILITES

SWIB's investment responsibilities break down into these key areas:

1. Asset Allocation
2. Asset Class Structure
3. Guideline Formulation and Benchmark Selection
4. Manager Selection and Portfolio Implementation
5. Monitoring/Maintenance
   (a) Fund Rebalancing
   (b) Risk Monitoring and Compliance
   (c) Performance Evaluations

ASSET ALLOCATION

SWIB undertakes an annual review of its strategic asset allocation plan to determine a suitable target allocation for each asset class included in the portfolio. The strategic nature of these reviews contemplates a long-term (5-7 years) time horizon over which potential results are evaluated. This exercise is not an attempt to predict short-term market movements, but an effort to understand the long-term impacts of poor, normal, and above average market results.

In addition to the potential future market impacts, SWIB also contemplates the impacts of benefit changes, the soundness of investment return and risk expectations, and the asset allocation policies of its peers.

Historical strategic asset allocation targets by calendar year are contained in *Appendix 1* for the Fixed and Variable Trust Funds.

The policy targets that have been adopted for the Fixed Trust Fund are currently:

U.S. Equities	39%
Fixed Income	34%
International Equities	18%
Real Estate	4%

Alternatives 5%

Based on the assumptions used in the review, this portfolio has a return expectation of approximately 8.8% (6.2% real return). However, in one out of three years, the return is expected to be higher than 21.3% or lower than –3.7%.

The policy targets that have been adopted for the Variable Trust Fund are currently:

U.S. Equities 80%
International Equities 20%

Based on the assumptions used in the review, this portfolio has a return expectation of approximately 9.0%. However, in one out of three years, the return is expected to be higher than 25.8% or lower than –7.8%.

ASSET CLASS STRUCTURE

Major asset class portfolios will be structured in a manner that attempts to effectively cover the universe represented by the asset class benchmarks, and provide adequate flexibility to position the asset class as desired relative to benchmarks. Index funds and actively managed portfolios will be combined in a manner that attempts to accomplish desired performance objectives within acceptable risk parameters.

SWIB is subject to a Wisconsin statute that limits external management (not including index and other commingled funds) to 15% of its total assets. In structuring asset class portfolios in light of this limitation, external allocations will be rationed to investment advisors operating in less efficient markets and/or advisors who are able to provide strategic assistance to SWIB's internal managers.

ASSET ALLOCATION REBALANCING

Fixed and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. When feasible, index funds will be used to facilitate rebalancings to minimize time frame and costs. Derivative securities may be used to implement temporary adjustments. When active portfolios are used in a rebalance, portfolio managers will be consulted and included in the process.

When a major liquid asset class (*i.e.*, U.S. Equities, Fixed Income, International Equities) exceeds ±10% of its target allocation, a rebalancing exercise will be initiated. When a rebalance is triggered, specific dollar amounts will be considered for movement based on the degree of the over/underweight, liquidity characteristics, and current market conditions.

RISK MONITORING AND COMPLIANCE

It is recognized that risk issues permeate the entire investment process, and risk is considered throughout the investment process from asset allocation to performance evaluation. Ongoing monitoring will be accomplished through a "mosaic" approach, wherein multiple forms of analysis and reporting contribute to the total picture. Inspection of levels of diversification, nominal risk exposures, risk/return plots, Value at Risk, tracking error, and worst case scenario modeling form the core of the monitoring process. Quarterly comprehensive reports will be assembled and presented to SWIB's Risk Committee and the Board of Trustees.

SWIB'S Compliance Officer will review portfolios and asset classes monthly for firm guideline as well as softer risk parameter conformance. Portfolios out of guideline compliance are brought into compliance immediately, or a plan for doing so is discussed and approved by the Risk Committee. Portfolios outside of softer risk parameters are discussed with the Committee, and justification for maintaining the exposure, if desired, is provided to the Committee. Decisions based on compliance issues are brought to the Board of Trustees for their information and vote if required.

PERFORMANCE EVALUATIONS

SWIB will review monthly fund, portfolio, and benchmark returns. At least quarterly, reviews of performance and allocation/guideline compliance will be conducted.

Performance reviews will be conducted versus benchmarks and peers as outlined in *Appendices 2-3*. Quarterly results will be evaluated to review progress toward longer term objectives. Comprehensive performance evaluations will be conducted annually. It is understood that there are likely to be intermittent periods when portfolio performance deviates from market indexes. During such times, comparisons with specific peer groups will also be considered.

SPECIFIC INVESTMENT PERFORMANCE OBJECTIVES

The following are goals SWIB will seek to meet in managing WRS assets. *Appendix 2* contains additional objectives at the asset class and portfolio levels.

A. Fixed Trust Fund

1. A long-term annualized return in excess of 3.5% above wage inflation.

2. A return in excess of a hypothetical portfolio comprised of asset class benchmarks weighted by strategic target allocations (adjusted for 2% cash), over all cumulative time periods over three years in length:

   39% Russell 3000
   18% Morgan Stanley All Country World Index ex US
   34% Fixed Income Roll Up

4% NCREIF (National Council of Real Estate Investment Fiduciaries)
5% "15%"

3. A nominal return in excess of the Fund's actuarial earnings assumption (currently 8%) over a long-term period (5 to 10 year periods).

4. A return ranking of median or above median versus SWIB's peers (large public pension funds) over five-year periods, with a volatility of return ranking of median or below median.

B. Variable Trust Fund

1. A return in excess of a hypothetical portfolio comprised of asset class benchmarks weighted by strategic target allocations (adjusted for 2% cash), over all cumulative time periods over three years in length:

   80% Russell 3000
   20% Morgan Stanley All Country World Index ex US

2. A return ranking of median or above median versus SWIB's peers' (large public pension funds) equity portfolio returns over five-year periods, with a volatility of equity return ranking of median or below median.

INVESTMENT GUIDELINES - INTRODUCTION

Each portfolio will be assigned "hard" (compulsory) guidelines and may be assigned "soft" (expected) parameters intended to trigger supervisory and Risk Committee attention. Compulsory guidelines refer to issues that require correction and/or the receipt of dispensation from the appropriate authority. Expected parameters refer to desired characteristics and/or risk exposures. Managers, however, are allowed to deviate from expected parameters in pursuit of excess return, subject to potential supervisory and/or Risk Committee inquiry and discussion. The compulsory guidelines are included in the body of this document. Expected parameters for each portfolio are detailed in *Appendix 3*.

GENERAL COMPULSORY GUIDELINES

The following compulsory guidelines are applicable to all portfolios. Individual portfolio guidelines appear subsequently.

1. All investment decisions are subject to all applicable federal and state statutes and are to be held to the prudent expert fiduciary standard as set forth in the state statutes.

2. Each portfolio will maintain a prudent level of diversification within its area of specialization.

3. All securities trades are subject to a best execution standard that maximizes, to the extent practical within legal constraints, overall earnings.

4. Exposure limits are to be applied at the time of purchase. Unless otherwise indicated, "value" shall mean market value including uninvested cash.

5. Eligible securities must be issued by entities incorporated in or organized under the laws of any sovereign state or territory listed as "Free" or "Partly Free" in the most recent version of the Freedom House Index.

6. All holdings may be sold.

7. Credit quality rating requirements refer to an entire rating level, e.g., "A or better" includes "A-" and better ratings. Investment grade securities are those rated "BBB-" or better (or the equivalent rating agency rating).

8. SWIB may not initiate improvement or development of real property owned or controlled by SWIB without making provisions for compliance with applicable Federal, state and local codes and ordinances.

9. Developed and emerging market designations are those defined by the International Finance Corporation (IFC), though all countries included in a portfolio's benchmark shall be eligible for investment regardless of the IFC designation, provided other requirements of these guidelines are met.

10. Any derivative issuer or counter-party used must be a recognized exchange or a bank or broker dealer with an actual credit rating of at least: (1) 'B/C' or better from Thomson Bankwatch (Keefe); (2) 'A1/P1' or better on short-term debt from S&P or Moody's; or (3) 'A' or better on long-term debt from S&P or Moody's.

11. Follow-on investments, and modifications to or waivers of investment terms, may be made on existing investments that were originally acquired with Investment Board or Board Committee approval outside the delegated authority of these Guidelines. However, follow-on investments and modifications or waivers that would result in a "material change" to a Board or Board Committee-approved investment term may not be

made without prior approval of the Board or appropriate Committee. Nevertheless, material changes need not be approved by the Board or Board Committee if, under the Investment Guidelines in effect at the time of the change, the original investment could have been made under authority delegated to the portfolio manager. Asset and property management or leasing activities done in the normal course of business for assets in which SWIB has an interest shall also not be considered changes to initially approved investment terms under this paragraph. Changes (other than property and asset management and leasing activities) made under this paragraph that do not require Board or Board Committee approval shall be reported to the Board or appropriate Committee at or before its next meeting. Changes made to investments originally reviewed by the Staff Risk Committee shall be reported to the Risk Committee at or before its next meeting. A "material change" shall be interpreted to include the following, whenever the additional investment or action involves the lesser of $5 million or 20% of the amount originally approved for investment:

a. Forgiveness of debt;

b. Extension of a maturity or payment date by more than two years, or an extension of 6 months if interest does not accrue on the full amount during the deferral;

c. Conversion of debt to equity;

d. Release of co-obligors or guarantors;

e. Reduction of an interest rate;

f. Release of collateral;

g. Subordination or other lowering of SWIB's position in the capital structure; or

h. Investment of additional SWIB monies in the entity.

[This provision was expanded from Private Placements to cover all non-public portfolios and modified to reflect delegation changes.]

12. The Executive Director or, in his or her absence, the Assistant Executive Director may suspend any of the guideline limits in an emergency after an attempt has been made to reach a majority of the Board. The members of the Board shall be notified by the end of the following business day of the reason for the suspension of the limits.

13. Dollar limitations for commitments to funds or other investments do not apply to incidental and customary contractual reinvestment, indemnity, reserve or similar obligations incorporated into the terms of an investment, provided such obligations are not expected to amount to more than 10% of the base commitment.

PORTFOLIO COMPULSORY GUIDELINES

A. Active U.S. Equity Portfolio Guidelines

The U.S. Equity Portfolios are invested in publicly traded equity securities, primarily using U.S. common stocks and convertible bonds, as well as partnership interests.

1. When aggregated with other SWIB portfolios, 20% represents the maximum allowable ownership of outstanding shares of any single class of equity securities of any one issuer.

2. When aggregated with other SWIB portfolios, no single issuer may represent more than 7% **[was 5%]** of the total market value of all SWIB U.S. equity portfolios.

3. Purchases of privately placed securities are permitted, provided that the issuer agrees to assist in a public sale upon reasonable request by SWIB.

4. When aggregated with other SWIB portfolios, issues subject to restricted trading shall not constitute more than 5% of the market value of all SWIB U.S. equity portfolios. **[Was any portfolio]**

5. Up to 10% of each portfolio's market value may be invested in developed market ADRs (or similar securities) and Canadian securities.

6. Subject to review by the SWIB Risk Committee, the stock equivalent value of index futures, index options, and options on index futures may represent up to 20% of the aggregate value of all SWIB U.S. equity portfolios.

7. Put options may be purchased and call options may be sold only in connection with existing portfolio positions, *i.e.*, all such individual security options must be covered at all times.

B. Internal S&P 500 Index Portfolio

The Internal S&P 500 Index Portfolio approximates as closely as practicable the total rate of return of the market segment for publicly traded U.S. common stocks listed in the Standard and Poor's 500 Composite Stock Index.

1. Funds shall be invested and reinvested in publicly traded equity securities of all companies in the S&P 500 Index.

2. Futures and options on S&P 500 securities or the S&P 500 Index, and short term cash equivalent instruments, may be temporarily made only to the extent necessary to facilitate investment in the ultimate securities.

C. International Equities Portfolio Guidelines

The International Equities Portfolio invests in publicly traded equity securities, including ADR's and equivalent securities, primarily in non-U.S. developed markets.

1. U.S. equity investments shall not exceed 10% of a portfolio's value .

2. Investments in companies domiciled in emerging market countries shall not exceed 15% **[was 10%]** of a portfolio's market value.

3. Investments in a single company shall not exceed 10% of a portfolio's market value .

4. No more than 10% (when aggregated with other SWIB portfolios) of a class of equity securities of any one issuer may be purchased.

5. Currency exposure management is permitted (but not required) through the use of exchange-traded currency instruments, and through the use of spot and forward contracts in foreign currencies. Direct currency hedging is permitted to directly hedge currency exposure back to the U.S. dollar. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. Total effective currency exposure from held securities and currency management activities shall not exceed the aggregate value of security holdings. No derivatives-based currency management of U.S. or non-U.S. cash and cash equivalent positions is permitted. All other derivative investment strategies must be reviewed by the SWIB Risk Committee.

D. U.S. Fixed Income Portfolio Guidelines

The U.S. Fixed Income Portfolios are invested in publicly traded, dollar denominated fixed income instruments, primarily of investment grade, including government, agency, corporate, and Yankee securities.

1. Each portfolio shall maintain an average quality rating of A or better, using the lower of split ratings.

2. Effective duration of each portfolio shall remain within 15% of the assigned benchmark's duration.

3. Non-Investment Grade securities shall not exceed 15% of each portfolio's market value .

4. With the exception of U.S. government and agency securities, issuer concentrations are restricted to 5% (investment grade) and 3% (non-investment grade) of the market value of each portfolio .

5. Issues trading under Rule 144A may not exceed 10% of a portfolio's market value

6. Financial futures, options, and swaps are permitted for the purposes of adjusting durations and to invest anticipated cash flows, subject to review by the SWIB Risk Committee and to the following guidelines:

   (a) Derivatives shall not be used to establish a leveraged position.

   (b) Eligible contracts are:

      (1) 3-Month U.S. Treasury Bills
      (2) 2-Year U.S. Treasury Notes
      (3) 5-Year U.S. Treasury Notes
      (4) 10- Year U.S. Treasury Notes
      (5) U.S. Treasury Bonds
      (6) Options on above contracts
      (7) OTC options

   (c) Each contract must be specific to an explicitly documented transaction. Contracts must be closed when any hedged positions are closed.

E. Global Bond Portfolio Guidelines

The Global Bond Portfolio is invested in fixed income obligations of governments, government-related entities, and corporations around the world, primarily in developed markets, including the United States.

1. Overall portfolio quality must be maintained at an average rating of A or better, using the lower of split ratings. **[Individual security rating requirement deleted]**

2. Corporate securities may not exceed 20% of the portfolio's market value.

3. No single corporate issuer shall represent more than 5% of the portfolio's market value.

4. Emerging market debt shall not exceed 10% of the portfolio's market value.

5. Issues trading under Rule 144A shall not exceed 5% of a portfolio's market value

6. Non-Investment Grade securities shall not exceed 10% of the portfolio's market value. **[New Authority]**

7. Short-term investments must be issued by governmental entities described above or by banks rated at least A or equivalent.

8. Currency and interest rate exposure management is permitted but not required. Interest rate exposure management is permitted only through the use of exchange-traded interest

rate instruments. Currency exposure management is permitted through the use of exchange-traded currency instruments, and through the use of spot and forward contracts in foreign currencies. Direct currency hedging is permitted to directly hedge currency exposure back to the U.S. dollar. Cross-currency exposure management to transfer out of an exposed currency and into a benchmark currency is permitted. Total effective currency exposure from held securities and currency management activities shall not exceed the aggregate value of security holdings. No derivatives-based currency management of U.S. or non-U.S. cash and cash equivalent positions is permitted. All other derivative investment strategies must be reviewed by the SWIB Risk Committee.

F. General Guidelines For Non-Public Portfolios

[These provisions are new]

The Private Placement, Private Equity, Real Estate, Commercial Mortgage and Opportunity Portfolios shall be subject to the following general requirements:

1. Each portfolio manager shall provide the Board or appropriate Board committee with an update on potential investments under consideration, portfolio developments, investments on the watch list or in workout status, and portfolio strategy at least three times a year. All portfolio commitments to investments in non-public instruments (including those eligible to trade under Rule 144A) shall be reported to the Board at the next Board meeting.

2. Each portfolio manager shall be responsible for including in the above reports to the Board, disclosure of any referrals or significant contacts (other than status requests) by or on behalf of SWIB Trustees regarding consideration of the investment.

3. Each portfolio manager shall obtain confirmation in writing that documentation has been satisfactorily completed from legal counsel prior to closing of any investment in their portfolio that involves negotiated SWIB documentation.

4. Each portfolio manager shall provide to the staff Risk Committee a written summary of any proposed investment of $10 million or more in an asset or instrument that does not have an investment grade or higher rating from a national rating agency or the NAIC, including such investments that are made in a series when they aggregate $10 million or more within any 12 months, prior to commitment. The Committee may establish procedures for reviewing such investments. Its review shall be limited to whether the investment falls within the portfolio's investment guidelines and is consistent with the portfolio's established strategy, though the Committee may otherwise discuss an investment and its risk profile and suspend a portfolio manager's authority to close a particular investment until it is approved by the Board or appropriate Board Committee. Despite review or discussion by the Risk Committee, the portfolio manager shall retain sole responsibility for each investment decision.

5. The Executive Director, Chief Legal Counsel, a Chief Investment Officer, or any portfolio manager of a non-public portfolio may convene a meeting of the staff Risk Committee to discuss an investment in the non-public portfolios at any time that one is needed outside of regularly scheduled meetings. The Risk Committee shall be appointed by the Executive Director and shall establish its own procedures for calling meetings, reviewing investments and taking action.

G. Private Placement Portfolio Guidelines

The Private Placement Portfolio is primarily invested in fixed income instruments that are generally issued in the Rule 144A market or negotiated directly by SWIB and/or a co-lender. Investments are intended to be intermediate to long term in maturity.

1. Investments may be made in fixed income instruments that carry an investment grade rating or are issued by, or credit supported or leased by a entity that has an investment grade rating from a national rating agency, the NAIC or SWIB's internal rating system. **[SWIB rating added]**

2. Investments may be made in below investment grade private fixed income instruments, provided that such investments do not in the aggregate constitute more than 10% of portfolio par value. **[New]**

3. Investments that carry only an internal SWIB rating may not in the aggregate constitute more than 20% of portfolio par value. **[New]**

4. Aggregate portfolio issuer limits as a percentage of portfolio par value shall be scaled by quality and a purchase may not cause the portfolio to exceed the following limits: **[Limits proposed by 1994 Price Waterhouse review]**

Rating	**Maximum Position**	
US Gov't/Agency	No Limit	**[Was percentage of US fixed income on each purchase with no portfolio limit:**
		AAA: 3%
AA or higher	7.5%	**AA: 2%**
A	5%	**A: 1%**
BBB or less	3.5%	**BBB: .5%]**

5. Investments in instruments issued outside of the U.S. may be made in the developed markets, provided that the aggregate value of such investments does not constitute more than 15% **[was 10%]** of portfolio par value and they are denominated and paid in U.S. dollars.

[Industry concentration limits were moved to soft parameters and increased from 15% to 20%]

H. Private Equity Portfolio

The Private Equity Portfolio consists of investments in limited partnership or other fund vehicles, as well as direct equity positions in privately-owned U.S. companies.

1. No more than 33% **[was 20%]** of the portfolio may be invested in funds that are authorized to invest over 50% of their capital outside the U.S. Funds that are authorized to invest more than 50% of their capital in emerging markets do not qualify for investment.

2. All portfolio commitments that would exceed the lesser of $100 million or 25% of an individual fund (excluding co-investments) must be approved by the Board of Trustees prior to commitment. **[New delegated authority up to $100 million or 25%]**

3. Aggregate commitments (both called and undrawn and including co-investments) to any fund manager or sponsor may not exceed 25% of the portfolio. **[New]**

4. Equity investments may be made directly in privately-owned U.S. companies, provided the total of all direct investments may not exceed 25% of the market value of the portfolio and portfolio investments in any one company may not exceed 3% of the market value of the portfolio. **[New limits]**

5. SWIB's direct equity ownership position in any portfolio company may not exceed 50% of the company's outstanding voting equity without advance approval by the Board or appropriate Board committee. **[New limit]**

6. By State statute, no more than 2% of the Fixed Trust Fund may be invested in venture capital.

I. Real Estate Portfolio

The Real Estate and Mortgage Portfolio contains investments in mortgages, commingled real estate investment pools, funds, various types of direct equity ownership in real estate assets, and debt instruments with a real estate equity participation component, either solely, or through REITs, public or private real estate company securities, limited partnerships, joint ventures or co-investment vehicles. The portfolio is intended to have relatively stable and predictable returns over a longer, strategic time frame. Certain investments with relatively higher expected returns, and higher risk, may be used on a more tactical basis.

1. Each real estate investment must be processed and closed in accordance with any applicable provisions of the Real Estate Procedures Manual.

2. All portfolio commitments to an individual fund or commingled pool that would exceed the lesser of $100 million or 25% of the fund or commingled pool (excluding co-investments)

must be approved by the Board or appropriate Board committee prior to commitment. **[New delegated authority up to $100 million or 25%]**

3. Aggregate commitments (both called and undrawn and including co-investments) to any commingled pool or fund manager or sponsor may not exceed 20% of the portfolio. **[New]**

4. Aggregate direct public REIT and real estate company stock holdings (excluding underlying fund and commingled pool holdings) may not exceed 15% of the market value of the portfolio and portfolio investments in any one public REIT or company may not exceed 3% of the market value of the portfolio. SWIB's direct ownership position in any public REIT or company may not exceed 20% of outstanding voting equity. **[New]**

5. No more than 33% **[was 10%]** of the portfolio may be invested outside the U.S. Commingled pools and funds that are authorized to invest more than 50% of the capital outside the U.S. shall be considered non-U.S. investments. Commingled pools and funds that are authorized to invest more than 50% of their capital in emerging markets do not qualify for investment.

6. Other guideline limitations notwithstanding, staff may make modifications of mortgages or leases; enter into new leases; execute deeds and bills of sale; make expenditures for maintenance and improvements; grant easements; hire consultants, service providers, real estate advisors and property managers; and, in general, take all necessary action to manage, maintain and enhance investment value of the real estate and mortgage portfolio.

7. Prior to funding a direct investment where real property is a material component, the property shall be evaluated for the presence of environmental and code compliance issues. If environmental issues that require action by governmental authorities exist, then funding shall not occur until an adequate remediation program is in place. If code compliance issues exist, then an adequate plan to bring the property into compliance shall be in place.

[Core/non-core distinction eliminated and 10% soft parameter limit placed on development risk]

J. Real Estate Commercial Mortgage Portfolio

This portfolio will invest in commercial real estate mortgage whole loans on a participation basis only. Investments will typically have a fixed interest rate, some amortization of principal and call protection.

1. SWIB may only invest in participations of whole mortgage loans sponsored by, and jointly invested in, firms previously approved by the Board or appropriate Board committee.

2. The Real Estate Division shall be responsible for review of the mortgage loan underwriting done by the lead investor. This underwriting includes the secured property, the borrower, and transaction terms. The Real Estate Division shall have complete staff discretion to concur with this underwriting.

3. The Private Placement Division shall be responsible for reviewing the risk adjusted return anticipated by the loan originator, relying on the risk assessment provided by the underwriter and reviewed by the Real Estate Division. The Private Placement Division shall have complete staff discretion to make the decision. Real Estate and Private Placements will jointly collaborate on any loan modifications requested by the lead investor, as each individual case may warrant.

K. Opportunity Portfolio

The portfolio is intended to seek out investments on a global basis and consists of predominately equity-oriented holdings. It will focus on investments with higher return expectations and generally include a mix of public and private, equity and debt, partnership fund and structured/derivative investments. It is anticipated that the portfolio will include investments with higher levels of risk in order to achieve higher returns over the long term. The portfolio should be viewed in the context of its fit in the Fixed Fund's overall asset allocation structure and is primarily constrained as to risk by its limited relative size.

1. Other than the Compulsory Guidelines that apply to all portfolios, the portfolio is not constrained as to particular investment instruments or vehicles, though limitations may be specifically imposed by action of the Board in connection with strategies presented for investment of the portfolio from time to time. **[New]**

2. When aggregated with any other SWIB portfolios, up to 20% **[was 10%]** of outstanding shares of any single class of publicly traded equity of any one issuer may be purchased. **[Formerly additionally constrained single non-sovereign issuers to 10% of Opportunity Portfolio]**

3. At least 65% of the portfolio shall be invested in equity or equity-related investments. **[Formerly "equity focus"]**

4. No more than 50% of the portfolio may be invested in publicly traded securities. **[Formerly <u>at least</u> 50% in marketable securities]**

5. Up to 75% **[was 60%]** of the portfolio may be invested in emerging markets, though investments where the return is guaranteed or otherwise ensured outside of the emerging markets shall be excluded from this limitation.

6. Subject to advance review of the staff Risk Committee, futures or options may be purchased or sold, on a fully margined basis, and interest rate, index, currency or other SWAPS by be used (to create a synthetic security or otherwise replicate or hedge the

return of a security or group of securities), provided the aggregate of underlying equivalent value of futures, options premiums at risk and total SWAP exposures may not exceed 20% of the portfolio. Futures may be used on a non-fully margined basis only for specified arbitrage purposes or hedging transactions.

7. SWIB's direct equity ownership position in any portfolio company may not exceed 50% of the company's outstanding voting equity without advance approval by the Board or appropriate Board committee. **[New]**

8. All portfolio investments that would exceed $100 million must be approved by the Board of Trustees prior to commitment. **[New]**

[New delegated authority for private fund and company investments created and soft parameters added on maximum sector (25%), fund manager (25%) and non-U.S. country (30%) exposure added. Risk Committee would review below investment grade or unrated private investments.]

STATE INVESTMENT FUND

Description:	The State Investment Fund (SIF) is the investment vehicle for cash and short-term investments of various state and local government funds, including the Fixed Retirement Investment Trust and the Variable Retirement Investment Trust.
Investment Objectives:	In order or importance:

1. Safety of principal
2. Liquidity
3. Competitive money market returns as defined by a benchmark of 70% 3-month T-Bills/30% One-Month CD yield.

Investment Guidelines (exposure limits are to be applied at the time of purchase):

<u>ASSET ALLOCATION</u>
(Percent of Portfolio at Par Value)

Treasuries, Agencies & Repurchase Agreements	50-100%
Commercial Paper and Notes	0-30%
CD's and BA's	0-30%
Asset Backed	0-30%
Mortgage Backed	0-30%
Canadian (fully hedged)	0-20%
Yankee/Euro (fully hedged)	0-10%

<u>MATURITY GUIDELINES</u>
(maximum)

The portfolio weighted average maturity will not exceed one year, consistent with portfolio purpose and objectives. Maturity of floating rate securities shall be based on interest rate reset dates except as specified below.

The following maturity limits shall apply to each instrument.

Repurchase Agreement Gov't/Agency Collateral	10 years
Treasuries and Agencies	5 years
Commercial Paper	270 days
Commercial Notes	3 years
Certificates of Deposit	3 years

Bankers Acceptances	1 year
Asset Backed - fixed rate	3 years or less average life
- floating rate	4 years or less average life
Mortgage Backed - fixed rate	3 years or less average life
- floating rate	4 years or less average life
Canadian	2 years
Yankee/Euro	2 years
Reverse Repurchase Agreements	1 day

<u>CREDIT QUALITY / ISSUER EXPOSURE</u>
(Maximum Size at Par Value)

The maximum exposure for each issuer/guarantor shall be in the aggregate (unless specified as per issue) as follows.

Repurchase Agreements (Gov't/Agency Collateral)	No limit
U.S. Treasury Bills and U.S. Agency Discount Notes	No limit
U.S. Treasury Notes (per issue)	$500 million
US. Agency Notes (per issue)	$250 million
A1+, P1 Rated Commercial Paper and AAA Long Term Rating	$100 million
A1+, P1 Rated Commercial Paper and AA Long Term Rating	$75 million
A1+ or P1 or F1+ Rated Commercial Paper	$ 50 million
A1 or P1 or F1+ Rated Commercial Paper	$ 25 million
AAA Rated Corporate Note	$100 million
AAA Asset Backed Rating (per issuer)	$ 50 million
AAA Mortgage Backed Rating (per issuer)	$ 50 million
AA Rated Corporate Note	$ 25 million
AA Asset Backed Rating (per issuer)	$ 15 million
AA Mortgage Backed Rating (per issuer)	$ 15 million
A Bank Instrument Rating by Thompson BankWatch or 1 by Cates or AAA by S&P or Aaa by Moody's	$100 million
A/B Bank Instrument Rating by Thompson BankWatch or 1.5 by Cates or AA+ by S&P or Aa1 by Moody's	$ 50 million
B Bank Instrument Rating by Thompson BankWatch or 2 by Cates or AA by S&P or Aa by Moody's	$ 25 million
Wisconsin Certificate of Deposit Program (unless a higher limit from another category applies)	$ 10 million or 3% of assets, whichever is less
Canadian Government Bills and Notes	$250 million

Reverse Repurchase Agreements	$200 million

Make any other legal investment that is specifically approved by the Board.

DERIVATIVES AUTHORITY

Subject to review and approval of the SWIB Risk Management/Derivatives Committee, each derivative transaction must be done within statutory and the following limitations as described below:

Derivative authority is limited to positions in finance futures, options and swaps and only if the purpose is to hedge existing positions, to adjust portfolio duration within statutory guidelines, or otherwise to reduce the interest rate risk to which SWIB is subjected in the normal course of business. Interest only and principal only securities, inverse floaters, and off balance sheet synthetic derivatives are not permitted.

1. Eligible contracts are: 1) U.S. Treasury Bill (IMM); 2) Certificate of Deposit (IMM); 3) Eurodollar Time Deposit (IMM); 4) Two Year Note Contract (CBT); 5) Five Year Note Contract (CBT).

2. Eligible options are those on the contracts listed above and over-the-counter options.

3. Swap counterparties must be rated "B" by Thompson BankWatch, "A-1"/"A" by S&P, or "P-1"/"a" by Moody's. Dealers must be recognized by and report to the Federal Reserve.

4. Futures, options or swaps must be identified with a specific asset or group of assets (the hedged position) at the time the contract is executed. In each case, the purpose of the transaction must be explicitly stated at the time of execution and a written record of purchases and sales of contract maintained.

5. When an underlying asset position (the hedged position) is closed, the corresponding asset swap, futures or options position forming the hedge must also be closed.

WISCONSIN CD PROGRAM

Up to $400 million may be invested in Wisconsin banks or thrifts subject to the following guidelines:

(1) The bank/thrift qualities for "pass-through" insurance by being classified as "well capitalized" by the FDIC or "adequately capitalized" with an FDIC waiver which states the institution qualifies for "pass-through" insurance.

(2) The total dollar amount invested by SWIB in the CD's of any individual bank/thrift shall not exceed the lesser of $10,000,000 or three (3%) percent of reported assets of the individual bank/thrift, providing that the total dollar amount invested by SWIB in any individual holding company (when investing in the CD's of the bank/thrifts of the holding company) shall not exceed $30 **[was mistakenly listed as $35]** million, unless the total dollar amount of CD investment in the program is less than $400 million.

(3) The maturity limit for the program shall be not greater than 3 years.

(4) Make any other legal investment that is specifically approved by the Board.

LOCAL GOVERNMENT PROPERTY INSURANCE FUND

Description: The Local Government Property Insurance Fund was created by ch. 605 of the Wisconsin Statutes and is administered by the State Office of the Commissioner of Insurance (OCI). It provides a vehicle through which any local governmental unit in Wisconsin may insure its property against damage or destruction. The OCI and its contract administrator regularly monitor fiscal activity in the Fund and are responsible for ensuring that an adequate liquidity reserve is maintained to pay claims. OCI funds targeted for near-term liquidity are invested in the State Investment Fund. The remaining assets are invested in a fixed income portfolio, laddered by maturity.

Investment Objective: The OCI is responsible for advising SWIB at least annually of projected cash flow needs of the Fund and the size of the liquidity reserve to be invested through the State Investment Fund. Funds not included in the liquidity reserve are invested by laddering assets into fixed income investments. The following Investment Guidelines, pertaining to the laddered fixed income portion, are intended to ensure safety of principal and maximization of return within liquidity needs established by the OCI.

Investment Guidelines (exposure limits are to be applied at the time of purchase):

1. Quality: Issues rated "A-" or better, using the lower of split ratings.

2. Sector: U.S. Treasury and government agencies – no limit.
   Corporate – no limit.
   AAA rated Mortgage-backed, asset-backed securities – maximum 3% of the market value of the fund.

3. Issuer: 3% maximum per corporate issuer of the market value of the fund.

4. Maturity limit: 10 years.

5. Make any other legal investment that is specifically approved by the Board.

STATE HISTORICAL SOCIETY TRUST FUND

Description: The State Historical Society Trust Fund supports current and anticipated initiatives and operations of the Society through the generation of current income as well as longer-term capital growth. The Society is responsible for administering the operations of the Fund, and the fund's securities are maintained by SWIB.

Investment Objective: To maintain a diversified portfolio of high quality publicly issued equities and fixed income obligations providing long-term growth in capital and income generation.

Investment Guidelines (exposure limits are to be applied at the time of purchase):

1. The bond portfolio shall maintain a minimum quality rating of "A-", using the lower of split ratings.

2. Bond portfolio maturity, including cash, shall be a minimum of 10 years.

3. Non-Investment Grade securities shall not exceed 5% of the fund.

4. No single issuer shall constitute more than 5% of the fund, with the exception of the US Government and its agencies.

5. Equity issues with market capitalization ≤ \$500 million shall not exceed 10% of the market value of the equity portfolio.

6. Make any other legal investment that is specifically approved by the Board.

STATE LIFE INSURANCE FUND

Description: The State Life Insurance Fund offers low cost life insurance protection to Wisconsin residents in amounts not exceeding $10,000 per person. The State Office of the Commissioner of Insurance is responsible for administering the operations of the Life Insurance fund. The fund's securities are maintained by SWIB.

Investment Objective: To maintain a diversified portfolio of high quality publicly or privately issued fixed income obligations that will preserve principle, maximize income while minimizing costs to policyholders, and approximate the expected life of the Fund's insurance contracts. Surplus income from the Fund is used to minimize the cost of insurance to the Fund's policyholders.

Investment Guidelines (exposure limits are to be applied at the time of purchase):

1. The portfolio shall maintain a minimum quality rating of "A-", using the lower of split ratings.
2. Portfolio maturity, including cash, shall be a minimum of 10 years.
3. Non-Investment Grade securities shall not exceed 5% of the fund.
4. No single issuer shall constitute more than 5% of the fund, with the exception of the US Government and its agencies.
5. Make any other legal investment that is specifically approved by the Board.

PATIENTS COMPENSATION FUND

Description: The Patients Compensation Fund (PCF) was created by Chapter 655 of the Wisconsin statutes in 1975 to provide excess medical malpractice coverage for Wisconsin health care providers and to compensate injured claimants. Health care providers obtain primary medical malpractice insurance from private insurance companies in an amount required by statute, and coverage for damages in excess of the primary insurance is provided by the PCF.

Investment Objectives: *Overall Portfolio:*

1. Produce sufficient returns to meet liability payments on behalf of PCF participants and claimants.

2. Preserve capital and produce current income.

3. Seek capital appreciation for surplus funds to minimize participant fees.

4. Over a complete market cycle, achieve an average annual rate of return meeting or exceeding the actuarial requirement of 7% and a total return of 8%.

Cash Equivalents: Sufficient cash balances, invested in the State Investment Fund, will be maintained to satisfy projected short term cash outflows as estimated by the PCF Board of Governors.

Bond Portfolio: Publicly-traded fixed income investments, managed by the State of Wisconsin Investment Board (SWIB), will employ an immunization strategy for liabilities beyond the projected short term cash outflows. Return enhancement will also be sought where possible.

Equity Portfolio: Equity funds, managed by SWIB, will employ an indexing strategy. Outside managers are expected to earn a return consistent with the appropriate market indices.

Investment Guidelines (exposure limits are to be applied at the time of purchase):

1. A minimum of 30% of the bond portfolio must be invested in U.S. Treasury or Agency securities. **[New]**

2. A minimum of 80% of the bond portfolio must be rated "A3/A-" or better, using the lower of split ratings. **[Investment grade minimum rating dropped]**

3. The securities of any issuer shall not exceed 5% of the bond portfolio, with the exception of US Government and agency securities.

4. Cash equivalents may be held in the bond portfolio at the manager's discretion. **[New]**

5. The average duration of the aggregate bond portfolio shall be less than 10 years. **[New]**

6. Surplus funds, as determined by the Board of Governors, may be invested in funds indexed to the S&P 500 and/or the Russell 3000 and their related subset indices.

7. Make any other legal investment that is specifically approved by the Board.

[Corporates and mortgage-backed securities limits dropped. All changes have been approved by the PCF Board of Governors.]

TUITION TRUST FUND – EDVEST WISCONSIN PROGRAM

Description: Edvest Wisconsin is a State of Wisconsin prepaid college tuition program. SWIB's investment responsibility is to maintain sufficient cash balances to meet current liabilities and to horizon match the remaining assets in fixed income instruments to the estimated liabilities.

Investment Objectives:

1. To maintain current market values of the Trust Assets in excess of the present value of the estimated liabilities.

2. To maintain cash balances and estimated annual income sufficient to meet current requirements.

Investment Guidelines (exposure limits are to be applied at the time of purchase):

1. All issues shall be rated "A-" or better, using the lower of split ratings.

2. Individual corporate bond sector weightings shall not exceed two times the relevant weighting in the Lehman Corporate Bond Index.

3. No issuer shall represent more than 5% of the fund, with the exception of the US Government and its agencies.

4. Make any other legal investment that is specifically approved by the Board.

Appendix 1

HISTORICAL STRATEGIC ASSET ALLOCATION TARGETS FIXED TRUST FUND

Beginning Calendar Year	Domestic Equities	International Equities	Fixed Income	International Fixed Income	Real Estate	Alternative	Cash
1982	30%	0%	60%	0%	10%	0%	0%
1983	30%	0%	60%	0%	10%	0%	0%
1984	30%	0%	60%	0%	10%	0%	0%
1985	30%	0%	60%	0%	10%	0%	0%
1986	30%	0%	60%	0%	10%	0%	0%
1987	40%	0%	40%	0%	20%	0%	0%
1988	50%	0%	40%	0%	10%	0%	0%
1989	50%	0%	40%	0%	10%	0%	0%
1990	50%	6%	32%	4%	10%	0%	0%
1991	50%	6%	32%	4%	10%	0%	0%
1992	47%	8%	30%	5%	10%	0%	0%
1993	45%	10%	30%	5%	10%	0%	0%
1994	40%	15%	28%	7%	10%	0%	0%
1995	40%	15%	28%	7%	5%	5%	0%
1996	40%	15%	28%	7%	7%	3%	0%
1997	40%	15%	30%	5%	7%	3%	0%
1998	40%	15%	30%	5%	5%	3%	2%
1999	42%	15%	35%	0%	5%	3%	0%
2000	39%	18%	34%	0%	4%	5%	0%
2001	39%	18%	34%	0%	4%	5%	0%

Notes: For calendar 1998, cash is explicitly targeted. For all other calendar years, cash is targeted at 0%, and a 2% cash allowance is provided for in the fund benchmark.

Prior to calendar 1999, domestic and international fixed income were targeted separately. Since calendar 1999, total fixed income is targeted as a single asset class.

Prior to calendar 2000, private equity was considered part of U.S. equities. Since calendar 2000, private equity is considered part of Alternative assets.

VARIABLE TRUST FUND

Beginning Calendar Year	Domestic Equities	International Equities
2000	75%	25%
2001	80%	20%

Notes:

Prior to calendar 2000, the relative domestic/international split from the Fixed Trust Fund was also adopted for the Variable Trust Fund.

A 2% cash allowance is provided for in the fund benchmark.

Appendix 2

Specific Investment Performance Objectives

U.S. EQUITY

PORTFOLIO	BENCHMARK	UNIVERSE RANK OBJECTIVE
Total U.S. Equity	Russell 3000	Above Median
Large Cap	S&P 500	Above Median
Mid Cap	S&P Mid Cap	Above Median
Small Cap	Russell 2000	Above Median
Internal S&P 500 Index	S&P 500	N/A

INTERNATIONAL EQUITY

PORTFOLIO	BENCHMARK	UNIVERSE RANK OBJECTIVE
Total Portfolio	ACWI ex US	Above Median
Developed Markets Portfolios	MSCI World ex US	Above Median
Emerging Markets Portfolios	MSCI EMF	Above Median

FIXED INCOME

PORTFOLIO	BENCHMARK	UNIVERSE RANK OBJECTIVE
Total Fixed Income	"Roll Up"	Above Median
U.S. Public FI	Lehman Govt/Credit	Above Median
Intermediate Govt/Corp	Lehman Intermediate Govt/Corp	Above Median

Long Govt/Corp	Lehman Long Govt/Corp	Above Median
Private Placement	Lehman Duration Adjusted Corporate + 10 Bps	N/A
CMBS	Lehman Duration Adjusted BAA	N/A
Global FI	Salomon World Govt Bond	Above Median
Emerging Debt	JP Morgan Emerging Markets Plus	Above Median

OTHER ASSET CLASSES

Real Estate Objective: A return in excess of NCREIF

Alternatives Objective: A net absolute return in excess of 15% per year for the combined portfolio and each sub-portfolio, Private Equity and Opportunity E

Appendix 3

SOFT PARAMETERS – ASSET CLASS AND PORTFOLIO

ASSET CLASS CHARACTERISTIC	ASSET CLASS	Discussion Trigger
Maximum Small Cap Exposure	U.S. Equities	2.5 x Benchmark
Maximum Volatility	U.S. Equities	120% of Benchmark Over 5 Years
Maximum Volatility	Int'l Equities	120% of Benchmark Over 5 Years
Duration	U.S. Fixed	± 15% of Benchmark
Maximum Volatility	U.S. Fixed	120% of Benchmark Over 5 Years
Duration	Global Fixed	± 15% of Benchmark
Maximum Volatility	Global Fixed	120% of Benchmark Over 5 Years

PORTFOLIO CHARACTERISTIC	PORTFOLIO	Discussion Trigger
ACTIVE U.S. EQUITIES		
Number of Holdings	Large	30-100
	Mid	30-250
	Small	30-500
Maximum Position Size	Large	10%
	Mid	10%
	Small	10%
Median Position Size	Large	2-3%
P/E Ratio	Large	50%-150% of Benchmark
	Mid	50%-150% of Benchmark
	Small	50%-150% of Benchmark
Maximum Industry Sector Exposure	Large	Greater of 10% or 3 x Benchmark
	Mid	Greater of 10% or 3 x Benchmark
	Small	Greater of 10% or 3 x Benchmark
Maximum Volatility	Large	133% of Benchmark Over 5 Years
	Mid	133% of Benchmark Over 5 Years
	Small	133% of Benchmark Over 5 Years
Maximum Cash	Large	10%
	Mid	10%
	Small	10%

PORTFOLIO CHARACTERISTIC	PORTFOLIO	Discussion Trigger
INTERNAL S&P 500 INDEX PORTFOLIO		
Maximum Tracking Error	S&P 500	10 basis points
INTERNATIONAL EQUITIES		
Number of Holdings	Int'l Developed	30-100
Minimum Number of Countries	Int'l Developed	10
Maximum Country Exposure	Int'l Developed	Greater of 10% or 3 x Benchmark
Maximum Industry Sector Exposure	Int'l Developed	Greater of 10% or 3 x Benchmark
Maximum Volatility	Int'l Developed	133% of Benchmark Over 5 Years
Maximum Cash	Int'l Developed	10%
U.S. FIXED INCOME		
Number of Issuers	Intermediate	20-100
	Long	20-100
Maximum Industry Sector Exposure	Intermediate	Greater of 10% or 3 x Benchmark
	Long	Greater of 10% or 3 x Benchmark
Maximum Volatility	Intermediate	133% of Benchmark Over 5 Years
	Long	133% of Benchmark Over 5 Years
Maximum Cash	Intermediate	20%
	Long	20%
GLOBAL FIXED INCOME		
Duration	Global Fixed	± 15% of Benchmark
Minimum Number of Countries	Global Fixed	5
Maximum Exposure to Individual Sovereign Issuer	Global Fixed	40%
Maximum Volatility	Global Fixed	133% of Benchmark Over 5 Years
Maximum Cash	Global Fixed	20%
PRIVATE PORTFOLIOS		
Maximum Industry Exposure	Private Placement	20%
Venture Capital	Private Equity	30%
Mezzanine plus funds other than Venture, International, and LBO	Private Equity	30%

Maximum Development Risk (Direct holdings only)	Real Estate	10%
Maximum Single Property Type Exposure – Quarterly	Real Estate	40%

OPPORTUNITY EQUITY

Maximum Industry Sector Exposure	Opportunity Portfolio	25%
Single Fund, Manager, or Sponsor	Opportunity Portfolio	25%
Maximum Non-US Country Exposure	Opportunity Portfolio	30%

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SWIB RISK COMMITTEE CHARTER

March 7, 2001

The SWIB Risk Committee (the "Committee"), in conjunction with SWIB management and the Board of Trustees, has developed the following policies and procedures relating to risk management and oversight of various investments.

Committee Membership:
Executive Director (Chair): Patricia Lipton
Chief Investment Officer - Public Fixed Income: Jon Traver
Chief Investment Officer - Public Equity: Joe Gorman
Investment Director - Private Placements: Jim Gannon
Chief Legal Officer: Keith Johnson
Chief Operating Officer: Ken Johnson
Quantitative Analytics Director: Ron Mensink
Internal Auditor (ex-officio): Jim Kaellner

I. **Committee Purpose and Charter**

The Committee is created for the purpose of providing risk management oversight of SWIB Operations from a financial, investment, operational and organizational viewpoint. In general, the Committee will focus on various policies and procedures of the agency to ensure they are consistent with industry standards and that they continue to keep pace with a convention of prudent investment theory and practice. The Committee will also review portfolio strategies and, for non-public portfolios, consistency of major investments with Board-authorized guidelines and strategy.

II. **Duties and Responsibilities**

A. The Committee may examine methodology, staffing, technology needs, reporting processes, back-office operational needs, and such other matters as the Committee deems appropriate for the purpose of understanding, measuring, controlling, monitoring and reporting SWIB risk exposure.

B. The Committee will oversee the use of derivative investments in all SWIB portfolios, pursuant to specific policies and procedures set forth below.

C. The Committee will oversee the review and implementation of any other new investment programs or initiatives in all SWIB portfolios, and will coordinate any necessary Trustee approvals of same.

D. For purposes of fulfilling its risk management and oversight responsibilities, the Committee will act as liaison between the SWIB investment staff and

SWIB Trustees on issues concerning investment and operational risk management.

E. Prior to Trustee review, the Committee will review each SWIB division's strategy report to assess established risk limits and review strategy progress against such risk limits.

F. The Committee may review and analyze such other compliance, risk or derivative related matters directed to the attention of the Committee by the Trustees, Internal Auditor, SWIB Operations, Legislative Audit Bureau, Compliance Officer, or others and report as appropriate.

G The Committee may review all compliance related issues associated with the Compliance Officer or SWIB Operations including compliance with statutes, administrative rules, internal and external manager Investment Guidelines and such other compliance matters as the Committee deems appropriate or as otherwise requested.

H. The Committee will review annual asset allocation plans and strategies from a risk perspective. The Committee will provide consultation and assistance to the Trustees, Executive Director and staff concerning allocation changes or rebalancings, as needed.

I. The Committee will review all investments that are referred to it by the Trustees or where Committee review is required pursuant to provisions of Investment Guidelines established by the Trustees. (Note: the Portfolio Manager remains solely responsible for investments in the portfolio regardless of Trustee or Committee review.)

III. General Committee Procedures

A. A majority of the members of the Committee constitute a quorum and a majority of a quorum is required to take Committee action. Nevertheless, any action taken by the Committee to approve or object to an investment requires the affirmative vote of the Committee chair and at least one Committee member who is either an Investment Director or Chief Investment Officer, excluding any such member proposing the investment. The Committee shall establish a regular weekly meeting schedule, with meetings subject to cancellation when a meeting is not necessary. Otherwise, meetings may be called on two hours' notice by any member or any SWIB internal Portfolio Manager. The Risk Committee Charter shall be approved by the Board of Trustees

B. The Committee may establish a standard reporting format and procedures for performing reviews of investments in the non-public portfolios to implement provisions for Committee review under the Investment Guidelines.

Procedures for review, processing and monitoring of derivative investments may also be established by the Committee. Minutes of Committee meetings shall be kept and be provided to Trustees.

IV. **Compliance Review Procedures**

A. The Compliance Officer (CO) shall regularly review compliance of SWIB's portfolios with their Investment Guidelines. Significant violations shall be reported to the Committee at its next meeting. The CO shall also meet with the Committee at least quarterly to report and comment on all portfolio compliance and related issues.

B. External managers shall be required to appear before the Committee at its request and at least annually to review portfolio performance, investment process/strategy, compliance and management controls, and risk management practices and systems. The manager shall identify and affirm any guideline compliance issue at that time. The CO shall report any significant external manager compliance issues otherwise identified to the Committee at its next meeting.

V. **Derivative Investments**

A. Specific investment policies regarding the use of derivative instruments are determined for each portfolio by the Board of Trustees. Such policies, as amended from time to time, are officially contained in the Investment Guidelines.

B. Derivative strategies are developed by Portfolio Managers or Investment Directors and submitted for review to the Committee, using the report format established by the Committee. The Portfolio Manager or Investment Director must determine that the strategies are in compliance with all SWIB investment policies. When required under Investment Guidelines, the Committee will deliberate and review policy compliance and that the proposed derivative investment is consistent with the Investment Director's stated objectives and strategy. A majority vote of the Committee, including the Committee chair and at least one Investment Director or Chief Investment Officer, shall be required to object to a derivative investment. Once a particular strategy or instrument is reviewed by the Committee, it need not be resubmitted for each identical use within the approved parameters, unless so directed by the Committee. (Note: The Investment Director or Portfolio Manager shall be solely responsible for the investment judgments made in submitting the derivatives transaction for approval and the financial outcome of any such transaction.)

C. The CO shall review at least monthly all derivative investment activity. Significant compliance breaches shall be reported to the Committee at its next meeting. The CO shall also meet with the Committee quarterly to report on all derivatives compliance problems and related issues.

D. The Committee and the Executive Director will review and refer to the Board of Trustees:

a. any identified situations where Investment Guideline policy limits have been exceeded;
b. any suggested changes to standing policies or limits.

E. Derivative positions can be closed out by the Investment Director or Portfolio Manager without Committee review.

F. All modifications to approved transactions must be reported to the Committee at its next meeting. Any modifications which materially alter the structure, risk exposure, or purpose of the original trade must be reviewed by the Committee.

G. The Chief Operating Officer will, at least annually, review with the Committee, the accounting treatment and required note disclosures for external reporting purposes used for derivative instruments based on the applicable fund, the characteristics of the instrument, and any underlying assets or liabilities.

H. The Investment Director or Portfolio Manager and SWIB Operations will regularly review and, at least quarterly, the Committee will review, the source and methods of any new derivative instrument valuations.