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WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Joint

(Assembly, Senate or Joint)

Committee on Audit...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
(**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
(**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

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INVESTMENT POLICY, OBJECTIVES, AND GUIDELINES

STATE OF WISCONSIN INVESTMENT BOARD

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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 duty. 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 other legally allowable 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.

FUNDS UNDER MANAGEMENT

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 invested 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 stocks, bonds, mortgages, non-public securities, real estate and other holdings. The Variable Trust Fund is primarily invested in stocks and other equity holdings.

A. Fixed Retirement Investment Trust

The Fixed Trust Fund is a pooled fund consisting 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. (Wisconsin State Statute 25.17(3))

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. (Wisconsin State Statute 25.17(5))

The State Investment Fund

The State Investment Fund (SIF) is a short term investment 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 in order of priority are to provide safety of principal, liquidity, and competitive 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. (Wisconsin State Statute 25.14)

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. (Wisconsin State Statutes 25.14(1)(a) and 25.17(1))

IMPLEMENTATION POLICIES

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 under management. 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 pension fund 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 asset mix will mitigate the impact of negative market environments.
3. A core of passive investments within major asset classes is a relatively efficient way to provide 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. Better opportunities exist to actively manage inefficient asset types than with efficient asset types.
5. Risk management and performance benchmarking 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. Performance benchmarking

compares actual investment results to expected results. Cost control is a component of investment results and 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 generally used as secondary comparisons. Results are evaluated on the basis of investment return as well as return for the level of assumed risk.

RESPONSIBILITIES

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 a review of its strategic asset allocation plan every other year, including asset/liability modeling, 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 the "off year" of the two-year cycle, structural asset allocation adjustments and other funding initiatives are considered.

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%
International Equities	20%
Fixed Income	29%
Real Estate	5%
Private Equity/Debt.....	5%
Multi-Asset	2%

Based on the assumptions used in the review, this portfolio has a return expectation of approximately 8.1% (5.6% real return). However, in one out of three years, the return is expected to be higher than 20.4% or lower than -4.1.

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

U.S. Equities	79%
International Equities	20%
Equity Multi-Asset.....	1%

Based on the assumptions used in the review, this portfolio has a return expectation of approximately 8.8%. However, in one out of three years, the return is expected to be higher than 24.8% or lower than -7.2%.

ASSET CLASS STRUCTURE

Portfolios within each of the approved asset classes will be structured in a manner that attempts to effectively cover the universe represented by appropriate benchmarks, and provide adequate flexibility to position the portfolios as desired relative to respective 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. (Wisconsin State Statute 25.18(2)(e)) In structuring asset class portfolios in light of this limitation, external allocations will be rationed to investment advisors operating in asset classes which provide the best opportunities for value added returns 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 opportunity and trading 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.*, Total Public Equities, Total Public Fixed Income) exceeds $\pm 10\%$ 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. Comprehensive reports will be assembled and presented to SWIB’s Investment Committee and the Board of Trustees at least quarterly.

SWIB’S Compliance Officer will review portfolios and asset classes monthly for compliance with investment guideline as well as softer risk parameter positioning. Portfolios out of compliance with guideline are brought into compliance immediately, or a plan for doing so is discussed and approved by the Compliance 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 fund, portfolio, and benchmark returns at least monthly. 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 and 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 3.7% 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
20%	Morgan Stanley World Index ex US plus emerging markets
29%	Fixed Income Composite
5%	NCREIF (National Council of Real Estate Investment Fiduciaries)
5%	Private Equity/Debt Composite
2%	Total Fixed Fund Benchmark

3. A nominal return in excess of the Fund's actuarial earnings assumption (currently 7.8%) over a long-term period (5 to 10 year periods).
4. An aggregate 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. An aggregate 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:

79% Russell 3000
20% Morgan Stanley World Index ex US plus emerging markets
1% Total Variable Fund Benchmark

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

External managers operate under contractual guidelines established by SWIB.

GENERAL GUIDELINES

The following compulsory guidelines are applicable to internally managed 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 asset class will maintain a prudent level of diversification within its area of specialization.
3. All securities trades are subject to a best execution standard in an effort to maximize, to the extent practical within legal constraints, overall returns.
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. Funds or commingled investment pools authorized to invest more than 50% of their capital outside the U.S. shall be considered non-U.S. investments.
7. All holdings may be sold.
8. Credit quality rating requirements refer to an entire rating level, e.g., "A or better" includes "A-" and better ratings. The lower of split ratings is used. Investment grade securities are those rated "BBB-" or better (or the equivalent rating agency rating).
9. 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.
10. 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. Investments where a significant level of return is derived or otherwise ensured outside the emerging markets shall not be considered emerging market investments.
11. 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 Fitch; (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.

12. The Executive Director or, in his or her absence, the Deputy 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.
14. Each portfolio manager shall provide the Board with an update on portfolio strategy at least two times a year. For the Private Market Group, the report to the Board shall include all portfolio commitments to non-public investments. In addition, watch list and workout reports shall be reported through Board distribution of Compliance Committee meeting minutes.

PORTFOLIO GUIDELINES

A. Active U.S. Equity Portfolio

The U.S. Equity Portfolios are invested in publicly traded equity securities, including convertible bonds, preferred stocks, ETFs, ADRs, initial public offerings, and when issued, securities.

1. When aggregated with other SWIB portfolios, 20% represents the maximum allowable ownership of outstanding shares of any single issuer, excluding ETFs.
2. When aggregated with other SWIB portfolios, no single issuer may represent more than 5% of the total market value of all SWIB U.S. equity portfolios.
3. When aggregated with other SWIB portfolios, issues subject to restricted trading shall not constitute more than 1% of the market value of all SWIB U.S. equity portfolios.
4. Up to 10% of each portfolio's market value may be invested in international ADRs, Canadian securities, or country specific ETFs.
5. 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. International Equities Portfolio

The International Equities Portfolio invests in publicly traded equity securities, including convertible bonds, ADRs and ETFs 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% 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 single 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. No currency management of U.S. or non-U.S. cash and cash equivalent positions using derivatives is permitted. All other derivative investment strategies must be reviewed by the SWIB Investment Committee.

C. U.S. Fixed Income Portfolio

The U.S. Fixed Income Portfolios are invested in publicly traded and Rule 144A, 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.
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 40% 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 Investment 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
 - (8) Credit derivatives
 - (c) Each contract must be specific to an explicitly documented transaction. Contracts must be closed when any hedged positions are closed.

D. U.S. TIPS Portfolio

The U.S. TIPS Portfolio is invested in U.S. Treasury inflation protected securities (TIPS).

1. Individual securities must be U.S. TIPS which are included in the Lehman U.S. TIPS benchmark.
2. The portfolios option adjusted duration should be $\pm 10\%$ of the benchmark duration.

E. Global Bond Portfolio

The Global Bond Portfolio is invested in publicly traded fixed income obligations of governments, government-related entities, and corporations around the world including 144A securities, primarily in developed markets, including the United States.

1. Overall portfolio quality must be maintained at an average rating of A or better.
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 40% of a portfolios market value.
6. Non-Investment Grade securities shall not exceed 10% of the portfolio's market value.
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. No currency management of U.S. or non-U.S. cash and cash equivalent positions using derivatives is permitted. All other derivative investment strategies must be reviewed by the SWIB Investment Committee.

F. General Guidelines For Private Markets Portfolios

The private markets portfolios shall be subject to the following general requirements:

1. The 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.
2. 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.
3. Each portfolio manager shall submit to the Chief Investment Officer – Private Markets Group a written summary of any proposed investment. The Chief Investment Officer will review all such investments which shall include whether the investment falls within the portfolio's investment guidelines, including limits on invested capital, and is consistent

with the portfolio's established strategy, as well as whether appropriate due diligence standards are being applied. No such investment may be closed without approval of the Chief Investment Officer – Private Markets Group. Investments that exceed the limits in portfolio investment guidelines must be reviewed, and approved, by the Investment Committee, whose votes and meeting minutes shall be distributed to the Board. Despite review or discussion by the Investment Committee, the portfolio manager shall retain sole responsibility for each investment decision. External managers with delegated investment discretion operate under separate authority.

4. The Executive Director, Chief Legal Counsel, a Chief Investment Officer, or any managing director or portfolio manager of a private markets portfolio may convene a meeting of the staff Investment Committee to discuss an investment in the portfolios at any time that one is needed outside of regularly scheduled meetings. The Investment Committee shall establish its own procedures for calling meetings, approving investments and taking action.

G. Wisconsin Private Debt Portfolio

The Wisconsin Private Debt Portfolio's objective is to invest funds of the Wisconsin Retirement System in business activities that provide market-rate returns consistent with SWIB's fiduciary responsibilities and also contribute to Wisconsin's economy. The investments will be focused on fixed-income instruments issued by corporations that are headquartered in Wisconsin, have existing operations in Wisconsin, or that intend to apply the proceeds to new business operations in Wisconsin. Investments will be primarily private loans negotiated by SWIB directly or as part of an investor group that includes banks or other institutional investors, but may also be securities originated in the Rule 144(a) market or public fixed income markets. Investments may be made in fixed income instruments or instruments with both fixed income and equity features.

1. Investments may carry a rating from a national rating agency, the NAIC or SWIB. Notwithstanding the provisions of section F.3. above, the Portfolio Manager may make investments that carry a BBB or better rating from a national rating agency or the NAIC, provided that if the investment carries only a SWIB rating, it shall be approved by the Chief Investment Officer – Private Markets Group, regardless of size.
2. Investments may be made in below investment grade instruments provided that such investments do not in the aggregate constitute more than 25% portfolio par value. Any investment below investment grade requires approval from the Chief Investment Officer – Private Markets Group.
3. Aggregate portfolio issuer limits shall be scaled by quality and a purchase may not cause the portfolio's exposure to a borrower or issues to exceed the following limits (at par value):

Rating	Maximum Position
U.S. Gov't/Agency	No Limit
AA or higher	\$100 MILLION
A	\$75 MILLION
BBB	\$50 MILLION
BB or less	\$25 MILLION

4. The portfolio shall maintain at minimum a weighted average rating of BBB, where AAA=4, AA=3, A=2, BBB=1, and BB or less =0.
5. Up to 15% of the portfolio may be invested in companies headquartered in, or doing a significant amount of business in, Illinois, Iowa, Minnesota or Michigan.
6. Other guideline limitations notwithstanding, portfolio managers or other staff authorized by the Chief Investment Officer – Private Markets Group may modify or waive terms of investments in the Portfolio and generally take any and all other actions that are necessary and reasonable to protect, maintain or enhance the value of SWIB's position in the investments.

H. Wisconsin Private Equity Portfolio

The Wisconsin Private Equity Portfolio operates pursuant to separate Board of Trustee approvals but shall be monitored and managed in conjunction with the Wisconsin Private Debt Portfolio.

Portfolio venture capital holdings will be aggregated with other venture capital holdings for purposes of applying the 2% venture capital Fixed Trust Fund limit.

I. Private Equity Portfolio

The Private Equity Portfolio consists of private equity or equity-related investments made on a global basis in limited partnership or other fund vehicles and direct investments in operating or holding companies (through strategic partnerships or as co-investments alongside funds in which SWIB is an investor). Investment guidelines and soft parameters shall be applied to the aggregate composition of the Private Equity and Legacy portfolios. SWIB's private equity consultant will review prospective investments, except for follow-on funds and secondary fund purchases, and confirm that new investments meet a prudent investor standard. Direct investments where SWIB is the lead investor may not be made.

1. Any other guidelines notwithstanding, all portfolio commitments that would exceed the lesser of \$200 million for buyout funds, \$75 million for venture capital funds, \$100 million for strategic partnerships and co-investments, or 33% of an individual fund (excluding co-investments) must be approved by the Board of Trustees prior to commitment. SWIB may not own more than 50% of a company's outstanding equity.
2. Venture capital investments may only be made through funds in the U.S. or developed markets. No more than 2% of the Fixed Trust Fund may be invested in venture capital.
3. Non-venture capital investments may be made through funds, strategic partnerships, or co-investments. Commitments for non-venture capital co-investments alongside a strategic partner that has a written agreement to co-invest in a number of transactions with SWIB and be responsible for due diligence may be made without Board of Trustee approval, only in the U.S. or Canada. Non-venture capital co-investments alongside a fund may only be made in the U.S. or developed international markets without prior Board of Trustee approval.

4. Aggregate commitments (both called and undrawn and including co-investments) to any fund manager or sponsor, or investments with any company or strategic partner, may not exceed 20% of the portfolio without Board of Trustees approval.
5. No more than 33% of the portfolio may be invested outside of the U.S. Funds authorized to invest more than 50% of their capital in emerging markets require prior approval of the Board of Trustees.
6. Other guideline limitations notwithstanding, portfolio managers or other staff authorized by the Chief Investment Officer – Private Markets group may modify or waive terms of investments in the Portfolio and generally take any and all other actions that are necessary and reasonable to protect, maintain or enhance the value of SWIB's position in the investments.

J. Active Real Estate Equity Portfolio Guidelines

The Real Estate Equity Portfolios contain 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 Real Estate Investment Trusts (REITs), public or private real estate company securities, limited partnerships, joint ventures, separate accounts or co-investment vehicles. Investment guidelines and soft parameters for Real Estate shall be applied to the aggregate composition of the Funds, Separate Accounts, and Transition portfolios. The portfolios are 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 that would exceed the lesser of \$150 million of capital or 33% of an individual fund or commingled pool (excluding co-investments) must be approved by the Board prior to commitment.
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. This shall not apply to real estate separate account investments.
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 portfolios and portfolio investments in any one public REIT or company may not exceed 3% of the market value of the portfolios. SWIB's direct ownership position in any public REIT or company may not exceed 20% of outstanding voting equity, without Board approval. The externally managed REIT portfolio(s) will be managed under separate authority, with guidelines set out in the management agreements between SWIB and the selected manager(s).

5. No more than 33% of the aggregate portfolios may be invested outside the U.S. Commingled pools and funds that are authorized to invest more than 50% of their capital in emerging markets require prior approval of the Board of Trustees.
6. Other guideline limitations notwithstanding, portfolio managers or other staff authorized by the Chief Investment Officer – Private Markets Group 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.
8. Staff may select up to five real estate advisers with delegated investment discretion. These advisers shall have investment discretion of up to \$100 million of capital for each discretionary investment, with guidelines set out in the management agreements between SWIB and the selected manager(s).

K. 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.
2. The portfolio manager shall be responsible for review of the mortgage loan underwriting done by the lead investor, including the secured property, the borrower, and transaction terms.
3. The portfolio manager shall also be responsible for reviewing the risk adjusted return anticipated by the loan originator. The portfolio manager shall have discretion to approve participations in loans sponsored by Firms approved by the Board, as well as approve any loan modifications requested by the lead investor, as each individual case may warrant.

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 of 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):

ASSET ALLOCATION (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%

MATURITY GUIDELINES (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

CREDIT QUALITY / ISSUER EXPOSURE
(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 Fitch or AAA by S&P or Aaa by Moody's	\$100 million
A/B Bank Instrument Rating by Fitch or AA+ by S&P or Aa1 by Moody's	\$ 50 million
B Bank Instrument Rating by Fitch or AA by S&P or Aa by Moody's	\$ 25 million
Wisconsin Certificate of Deposit Program – individual bank (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 Investment 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 Fitch, "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 CERTIFICATE OF DEPOSIT (CD) PROGRAM

Up to \$500 million may be invested in Wisconsin banks or thrifts subject to the following guidelines:

1. The bank/thrift qualifies 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 million, unless the total dollar amount of CD investment in the program is less than \$500 million.
3. The maturity limit for the program shall be not greater than 3 years.

LOCAL GOVERNMENT PROPERTY INSURANCE FUND (State Statutes 604.05)

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. Notwithstanding the above requirements, investments may be made in the Lehman Intermediate Government Index, the Lehman Intermediate Credit Index, the Lehman Long Government Index and the Lehman Long Credit Index.
6. Make any other legal investment that is specifically approved by the Board.

STATE HISTORICAL SOCIETY TRUST FUND
(State Statutes 25.17(3)(c))

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. Non-Investment Grade securities shall not exceed 5% of the fund.
3. No single issuer shall constitute more than 5% of the fund, with the exception of the US Government and its agencies.
4. Equity issues with market capitalization \leq \$500 million shall not exceed 10% of the market value of the equity portfolio.
5. Notwithstanding the above requirements, investments may be made in the Russell 3000 Index, the Russell 2000 Index, the Russell 1000 Index, the Lehman Intermediate Government Index, the Lehman Intermediate Credit Index, the Lehman Long Government Index and the Lehman Long Credit Index.
6. Make any other legal investment that is specifically approved by the Board.

STATE LIFE INSURANCE FUND
(State Statutes 604.05)

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 issued fixed income obligations that will preserve principal, 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. Portfolio is to be invested in publicly traded U.S. dollar denominated instruments, including government, agency, corporate and yankee securities. (Private placements purchased prior to January 01, 2003 may remain in the portfolio.)
2. The portfolio shall maintain a minimum quality rating from a national rating agency of "A-," using the lower of split ratings.
3. Portfolio weighted average maturity, including cash, shall be a minimum of 10 years.
4. Non-Investment Grade securities shall not exceed 5% of the fund.
5. No single issuer shall constitute more than 5% of the fund, with the exception of the U.S. Government and its agencies.
6. Notwithstanding the above requirements, investments may be made in the Lehman Intermediate Government Index, the Lehman Intermediate Credit Index, the Lehman Long Government Index and the Lehman Long Credit Index.
7. Make any other legal investment that is specifically approved by the Board.

INJURED PATIENTS AND FAMILIES COMPENSATION FUND (State Statutes 655.27(4)(e))

Description: The Injured Patients and Families Compensation Fund (IPFCF) 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 IPFCF.

Investment Objectives: *Overall Portfolio:*

1. Produce sufficient returns to meet liability payments on behalf of IPFCF 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 IPFCF 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.
2. A minimum of 80% of the bond portfolio must be rated "A3/A-" or better, using the lower of split ratings.

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.
5. The average duration of the aggregate bond portfolio shall be less than 10 years.
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, the Lehman Intermediate Government Index, the Lehman Intermediate Credit Index, the Lehman Long Government Index, and the Lehman Long Credit Index.
7. Make any other legal investment that is specifically approved by the Board.

TUITION TRUST FUND – EDVEST WISCONSIN PROGRAM
(State Statutes 14.63 (10)(b))

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.

Note: SWIB internal EdVest investment guidelines were superceded by transfer of operational management of the Tuition Trust Fund to Wells Fargo Asset Management. The Wells Fargo Heritage Money Market Fund account was authorized by the Trustees on January 15, 2003.

Appendix 1

HISTORICAL STRATEGIC ASSET ALLOCATION TARGETS FIXED TRUST FUND

Beginning Calendar Year	U.S. Equities	International Equities	Fixed Income	International Fixed Income	Real Estate	Private Equity/Debt	Multi- Asset	Cash
1982	30%		60%		10%			0%
1983	30%		60%		10%			0%
1984	30%		60%		10%			0%
1985	30%		60%		10%			0%
1986	30%		60%		10%			0%
1987	40%		40%		20%			0%
1988	50%		40%		10%			0%
1989	50%		40%		10%			0%
1990	50%	6%	32%	4%	10%			0%
1991	50%	6%	32%	4%	10%			0%
1992	47%	8%	30%	5%	10%			0%
1993	45%	10%	30%	5%	10%			0%
1994	40%	15%	28%	7%	10%			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%	N/A	5%	3%		0%
2000	39%	18%	34%	N/A	4%	5%		0%
2001	39%	18%	34%	N/A	4%	5%		0%
2002	39%	18%	34%	N/A	4%	5%		0%
2003	40%	19%	31%	N/A	4%	6%		0%
2004	39%	20%	31%	N/A	4%	6%		0%
2005	39%	20%	29%	N/A	5%	5%	2%	0%

Notes: For calendar 1998, cash was explicitly targeted. For all other calendar years, cash is targeted at 0%, and a 2% cash position 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 Alternatives, renamed Private Equity/Debt in 2005.

VARIABLE TRUST FUND

Beginning Calendar Year	U.S. Equities	International Equities	Multi-Asset
2000	75%	25%	
2001	80%	20%	
2002	80%	20%	
2003	80%	20%	
2004	80%	20%	
2005	79%	20%	1%

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 position is provided for in the fund benchmark.

Appendix 2

SPECIFIC INVESTMENT PERFORMANCE OBJECTIVES (Including Universe Where Available)

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

INTERNATIONAL EQUITY		
PORTFOLIO	BENCHMARK	UNIVERSE RANK OBJECTIVE
Total International Equity	MSCI World ex US plus emerging markets	Above Median
Developed Markets Portfolios	MSCI World ex US	Above Median
Developed Small Cap	MSCI World ex US, Small Cap	N/A
Emerging Markets	MSCI Emerging Markets	Above Median

PUBLIC FIXED INCOME		
PORTFOLIO	BENCHMARK	UNIVERSE RANK OBJECTIVE
Total Public Fixed Income	Composite	Above Median
U.S. Investment Grade FI	Lehman Govt/Credit	Above Median
Govt/Credit	Lehman Govt/Credit	Above Median

PUBLIC FIXED INCOME (Continued)

PORTFOLIO	BENCHMARK	UNIVERSE RANK OBJECTIVE
TIPS	Lehman U.S. TIPS	N/A
Global FI	Salomon World Govt Bond	Above Median
High Yield	CSFB High Yield	Above Median
Emerging Debt	JP Morgan Emerging Markets Global Diversified	Above Median

PRIVATE MARKETS

PORTFOLIO	BENCHMARK	UNIVERSE RANK OBJECTIVE
Real Estate	National Council of Real Estate Investment Fiduciaries (NCREIF)	N/A
Total Private Equity	Venture Economics 95% Buyout/5% Venture	N/A
Private Equity	Venture Economics Buyouts weighted by vintage year	N/A
Wisconsin Private Equity	Venture Economics Venture Funds year 2000 and forward	N/A
Private Equity Transition	Venture Economics 95% Buyout/5% Venture	N/A
Wisconsin Private Debt	Lehman Duration Adjusted BAA Credit plus 20 bps	N/A
Commercial Mortgages	Lehman Duration Adjusted BAA Credit	N/A

Appendix 3

SOFT PARAMETERS – ASSET CLASS AND PORTFOLIO

PORTFOLIO ASSET CLASS CHARACTERISTIC	ASSET CLASS	DISCUSSION TRIGGER
Maximum Small Cap Exposure	U.S. Equities	2.75 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 EQUITIES		
Minimum Number of Holdings	Large	30
	Large Cap Diversified	30
	Mid	30
	Small Cap Diversified	30
	Small	30
	Healthcare Sector	30
	International	30
Maximum Volatility	Large	133% of Benchmark over 5 years
	Large Cap Diversified	133% of Benchmark over 5 years
	Mid	150% of Benchmark over 5 years
	Small Cap Diversified	200% of Benchmark over 5 years
	Small	200% of Benchmark over 5 years
	Healthcare Sector	133% of Benchmark over 5 years
	International	150% of Benchmark over 5 years
Maximum Position Size	Large	10%
	Large Cap Diversified	10%
	Mid	10%
	Small Cap Diversified	10%
	Small	10%
	Healthcare Sector	10% or 1.5 the index weighting
	International	10%
Minimum Number of Countries	International	10

PORTFOLIO CHARACTERISTIC	PORTFOLIO	DISCUSSION TRIGGER
P/E Ratio	Large	50%-150% of Benchmark
	Large Cap Diversified	50%-150% of Benchmark
	Mid	50%-150% of Benchmark
	Small Cap Diversified	50%-150% of Benchmark
	Small	50%-150% of Benchmark
	Healthcare Sector	50%-150% of Benchmark
	International	50%-150% of Benchmark
Maximum Sector Exposure	Large	Greater of 10% or 3 x Benchmark; Not to exceed 35% of the portfolio
	Large Cap Diversified	Greater of 10% or 3 x Benchmark; Not to exceed 35% of the portfolio
	Mid	Greater of 10% or 3 x Benchmark; Not to exceed 35% of the portfolio
	Small Cap Diversified	Greater of 10% or 3 x Benchmark; Not to exceed 35% of the portfolio
	Small	Greater of 10% or 3 x Benchmark; Not to exceed 35% of the portfolio
	International	Greater of 10% or 3 x Benchmark; Not to exceed 35% of the portfolio
Maximum Cash	Large	5%
	Large Cap Diversified	5%
	Mid	5%
	Small Cap Diversified	5%
	Small	5%
	Healthcare Sector	5%
	International	5%

U.S. FIXED INCOME

Number of Issuers	Gov't/Credit	20-200
Maximum Industry Sector Exposure	Gov't/Credit	Greater of 10% or 3 x Benchmark
Maximum Volatility	Gov't/Credit	133% of Benchmark Over 5 Years
Maximum Cash	Gov't/Credit	20%

PORTFOLIO CHARACTERISTIC	PORTFOLIO	DISCUSSION TRIGGER
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 Outside Developed Markets	Private Equity	15% of Buyouts
Maximum Venture Capital	Private Equity	15%
Minimum Buyouts (corporate finance, special situation, mezzanine)	Private Equity	85%
Maximum Direct Investments (including coinvestments)	Private Equity	20% of Buyouts
Minimum Funds	Private Equity	80%
Maximum Development Risk (Direct Holdings Only)	Real Estate	10%
Maximum Single Property Type Exposure - Quarterly	Real Estate	50%
Minimum Core Holdings	Real Estate	40%
Maximum Non-Core Holdings	Real Estate	60%
Maximum Core Portfolio Leverage	Real Estate	50%
Maximum Core Fund/Deal Leverage (Must be non-recourse to SWIB)	Real Estate	75%

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