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☞ Details: Audit Report 04-13, An Evaluation: State of Wisconsin Investment Board

(FORM UPDATED: 08/11/2010)

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**

* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)



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

August 15, 2005

HAND DELIVERED

Representative Suzanne E. Jeskewitz
Room 314 N
State Capitol

Dear Representative Jeskewitz:

On behalf of the State of Wisconsin Investment Board (SWIB), I want to thank you for your support during the recently concluded budget process. As you know, 2005 Wisconsin Act 25 provides important flexibility to SWIB to meet the challenges of a rapidly changing investment marketplace. Among these provisions are adjustments to our budget "floor" to protect our core investment enterprise in the event of a market downturn, and increased flexibility to hire outside managers when we need special expertise. The work of State Auditor Janice Mueller and her staff in the recent SWIB audit and the support from you and Co-Chair Roessler were crucial to the enactment of these important budget provisions.

Our trustees and staff appreciate your support, and look forward to working with you so that SWIB can provide the best investment returns for the funds we have been entrusted to manage.

Again, thank you very much.

Sincerely,

David C. Mills
Executive Director

c. Janice Mueller, State Auditor





State of Wisconsin Investment Board

MAILING ADDRESS
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FAX: (608) 266-2436

September 28, 2005

Honorable Carol Roessler, Co-chair
Joint Legislative Audit Committee
8 South, State Capitol
Madison WI 53707

Honorable Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee
314 North, State Capitol
Madison WI 53707

Subject: Management Audit Issued November 2004


Dear Senator Roessler and Representative Jeskewitz:

I have enclosed a status report showing actions that SWIB has taken on recommendations made by the Legislative Audit Bureau in the management audit report it issued last year. I am pleased to report that we have completed action on all of the recommendations. We achieved this by securing legislative changes and making several internal policy changes. I appreciate the constructive way in which you and the Audit Bureau worked with us in this process.

As we go forward, the Trustees and staff continue to review current policies to assure that SWIB earns the best net return for fund participants while still pursuing best practices in everything we do.

Please contact me if you have any questions.

Sincerely,


David C. Mills
Executive Director

cc: Members, SWIB Audit Committee
Janice Mueller, Legislative Audit Bureau

**Legislative Audit Bureau Management Audit (November 2004)
Status of Recommendations**

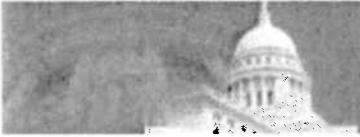
LAB Recommendations	SWIB Response	Current Status (September 2005)
<p>1. SWIB should evaluate and, in its annual report to the Legislature, report on the cost and added value provided through its quantitative funds compared to other options, such as index funds or fixed-fee arrangements.</p>	<p>“Our next annual goals and performance report to the Legislature in March 2005 will address the value added by quantitative funds in comparison to other investment options.</p> <p>The larger issue in the audit is that current statutory limitations can make it difficult for SWIB to make the most cost effective management choices. At the request of the Board, staff is conducting a comprehensive review to determine the optimal mix of internal and external management, active and passive management, and quantitative funds.</p> <p>This effort will consider the resources, fee arrangements and statutory authority needed to achieve the optimal mix. Staff will make recommendations to the Trustees in the spring of 2005, including legislation that may be required. We recognize that accountability will continue to be essential. We will comment further on this work in our March 2005 report.”</p>	<p>Completed. SWIB reviewed the value added by quantitative (enhanced) management and other styles and found that: (1) SWIB’s quantitative portfolios have added significant value since inception, net of fees; (2) quantitative portfolios tend to exhibit less risk than other forms of active management (as measured by tracking error); and (3) neither SWIB nor its peers are likely to ever be able to secure the resources needed to manage such portfolios internally. These findings were presented in April 2005 to the Board and in our annual report to the Legislature.</p> <p>The 2005-07 biennial budget included additional authority requested by SWIB to assist in making cost effective portfolio management choices.</p> <p>SWIB’s Trustees have authorized contracting with additional quantitative portfolios managers with the goal of further diversifying current strategies and reducing fees.</p>
<p>2. SWIB should continually reevaluate its contracting procedures to ensure that it is diligently analyzing and justifying the need for consulting services.</p>	<p>“SWIB is committed to ensuring that all consultant services are necessary and cost effective. We are now providing monthly reports to the Board which describe new consultant and service contracts, their purpose, the selection process and expected cost. Staff is conducting a review of consultant expenses for SWIB as a whole and within organizational units. The goal is to identify any steps that could improve oversight and ensure cost effectiveness. We will be making recommendations to the Board in the spring of 2005.”</p>	<p>Completed. Staff reviewed the process for procuring consultant services and expense trends over the last five years. Benchmarking data suggests SWIB costs are similar to our peers. This information was presented to the Board in August 2005.</p> <p>SWIB will be implementing several process improvements, including greater automation of procurement and contracting procedures.</p>

**Legislative Audit Bureau Management Audit (November 2004)
Status of Recommendations**

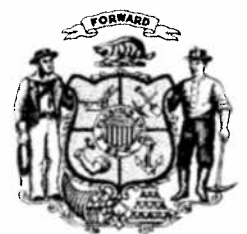
LAB Recommendations	SWIB Response	Current Status (September 2005)
<p>3. SWIB should include in its quarterly reports to the Legislature all costs directly charged against investment income and provide more descriptive information regarding the nature of these costs.</p>	<p>“We agree that expanding the quarterly report to include all directly charged costs would be more informative. We will do that in future reports regardless of whether the statutory reporting requirement is changed to include all such expenses. We will also include more descriptive information about these costs.”</p>	<p>Completed. The statutory reporting requirement was expanded to include: (1) all direct charges; (2) a breakdown of the amount and percent of assets managed under each type of dedicated or commingled account or partnership and the change from the previous quarter; and (3) the Joint Legislative Audit Committee as recipients of the report.</p> <p>SWIB submitted its first quarterly report under this new requirement in August 2005.</p>
<p>4. SWIB should reconsider its use of performance recognition payments to provide financial awards to staff independent of its larger bonus program or, at a minimum, ensure that performance recognition payments are also considered when awarding bonuses.</p>	<p>“We will take additional care to ensure that the same activity is not considered for both a bonus and performance recognition payment (PRP). We use PRPs for immediate recognition of accomplishments and use the bonus to reward performance over a longer period. Written justifications are required for PRPs and bonuses. We consider the amounts awarded under both programs when determining an individual's PRP or bonus. In 2004, no PRPs have been awarded to date because of this consideration. However, the continued ability to draw on both programs is important as circumstances change.”</p>	<p>Completed. SWIB is using PRPs very sparingly and in the manner described in the audit response.</p>

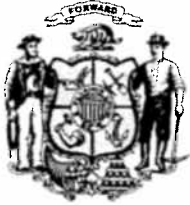
**Legislative Audit Bureau Management Audit (November 2004)
Status of Recommendations**

LAB Recommendations	SWIB Response	Current Status (September 2005)
<p>5. SWIB should discontinue its practice of paying additional retirement contributions for staff not designated as executive participating employees, and pursue statutory changes if it believes additional executive positions are warranted.</p>	<p>“We plan to make this year’s additional contributions for these non-designated employees at the normal time in December of 2004 because the affected staff have worked with the expectation that this benefit will be provided. We will propose a solution to the Legislature in 2005 to address the concern raised in the audit. SWIB has been making additional contributions for portfolio managers because they have responsibilities similar or, in some cases, identical to those of “investment directors” who are statutorily designated as executive participating employees. The Human Resources Director was also included in order to treat members of senior management equitably. These contributions were made under the authority of SWIB’s compensation plan.”</p>	<p>Completed. SWIB made the contributions for these non-designated employees for 2004 for the reasons described in the audit response. Beginning with 2005, SWIB discontinued additional contributions for non-designated employees. SWIB has informed the Joint Legislative Audit Committee of this change in practice.</p>
<p>6. SWIB should remain diligent in using the bonus program to reward only meritorious performance and report the Joint Legislative Audit Committee, upon completion, on changes it makes to its bonus program.</p>	<p>“We agree with the recommendation. We believe that the current bonus program carefully measures and rewards meritorious performance. However, staff is in the process of preparing recommendations to the Trustees to reduce the complexity of the program while ensuring that it rewards meritorious performance. This work will be completed in early 2005. We will report those changes to the Joint Legislative Audit Committee, as requested.”</p>	<p>Completed. The incentive compensation program was reviewed and modified in January 2005 to reduce complexity and improve equity. Changes were reported to the Joint Legislative Audit Committee. In August 2005, the Board made further changes in the incentive compensation program to enhance focus on merit. The Board also agreed to seek a consultant to review the program, focusing on fairness, simplicity, defensibility and effectiveness.</p>



WISCONSIN STATE LEGISLATURE





State of Wisconsin Investment Board

MAILING ADDRESS
P.O. BOX 7842
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C.1e

November 21, 2005

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

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

Senator Carol Roessler, Co-Chair
Joint Committee on Audit
P.O. Box 7882
Madison WI 53707-7882

Representative Suzanne Jeskewitz, Co-Chair
Joint Committee on Audit
P.O. Box 8952
Madison WI 53708-8952

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

Dear Senator Fitzgerald, Senator Roessler, Representative Kaufert, Representative Jeskewitz and Secretary Bablitch:

Attached is our quarterly report of all expenses that were charged directly to funds managed by the Investment Board. This report includes expenses incurred during the quarter ending September 30, 2005.

Section 25.17 (13m) requires that we provide this report on a quarterly basis. 2005 Wisconsin Act 25 expanded the reporting to include all direct charges and a breakdown of the amount and percent of assets managed under each type of dedicated or commingled account, including changes from the previous quarter. The act also added the Joint Audit Committee as a recipient of the report.

The statutes authorize the Board to employ special legal or investment counsel in any matter arising from the scope of our investment authority and to employ professionals, contractors or agents to evaluate or operate any property in which the Board has an interest. The Board may also contract with external advisers to manage various types of investments. Expenses for these services are charged to the current income of the fund for which the services are furnished.

The expenses in this report are reflected on an accrual basis, which lists costs when they are incurred rather than paid. Providing the information on an accrual basis provides a better picture of quarter to quarter trends in our use of services that are directly charged to the funds. (A negative charge typically indicates a downward adjustment to expenses accrued in a prior quarter or a refund of expenses that were prepaid and subsequently adjusted.) Attachment A provides an explanation of each category of charges.

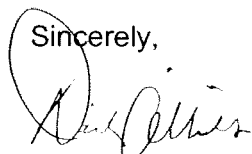
Attachment B provides further explanation about the various expenditure categories. Attachment C includes expenses that are capitalized at the time of acquisition or are directly associated with the

ongoing activity of an asset, such as appraisals or bankruptcy costs. Unlike other expenses listed in this report, these expenses are reflected in the value of the asset or are netted from gross returns of the asset, consistent with standard industry practices.

In response to provisions in Act 25, we expanded our quarterly report to include Attachment D, which shows the amount and share of Wisconsin Retirement System (WRS) assets managed internally compared to various forms of external management. This information should make it easier for policy makers and fund participants to understand changes in how investments are managed over time and the reasons for such changes. We used the quarter ending December 31, 2004, as the starting point as that was the period discussed in our annual goals and performance report to the Legislature earlier this year. WRS Trust Fund asset shifts for the third quarter were primarily due to market movements, rather than changes in allocations to managers.

We hope this report will give you a clearer picture of expenditures and how funds are managed. Please contact me, however, if you have any questions or comments about the report.

Sincerely,



David C. Mills
Executive Director

Attachments

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

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending September 30, 2005

Custodial and Banking Fees		
Bank of New York	State Investment Fund Custodial Services	\$41,250
Bankers' Bank	Wisconsin CD Program	2,500
Mellon Financial Services	Retirement System Custodial & Cash Management	1,130,008
US Bank	State Banking Services	1,754
Total Custodial and Banking Fees		\$1,175,512
Legal Fees, Services and Expenses		
Foley & Lardner	Private Markets Investment Transactions	\$65
Quarles & Brady	Litigation & Private Markets Investment Transactions	507
Solheim, Billing & Grimker SC	Private Markets Investment Transactions	(782)
Stafford Rosenbaum, LLP	Securities Litigation	7,038
Total Legal Fees, Services and Expenses		\$6,828
Investment Counsel		
American Stock Exchange	American Stock Exchange Data	\$3,262
AT Keamey, Inc.	International Equities Portfolio Manager Search	93,000
BCA Publications	Global & Domestic Fixed Income Strategy Research	9,999
Bloomberg, LP	Market, Company, Industry & Benchmark Information	199,889
Bridge Information Services	Analytical News and Pricing Service	47,444
Call Street, LLC	Credit Analysis	1,583
Charles River	Portfolio Management Software	43,193
Cost Effectiveness Measurement	Comparative Cost Analysis	18,500
Courtland Partners	Performance Monitor Reporting	60,000
Credit Sights	Credit Assessments	20,282
Data Broadcasting Corporation	Pricing Service	10,125
Dominion Bond Rating Service	Credit Ratings & Research Reports for Corporate Bond Issuers	964
Dow Jones & Co	Company and Industry News Service	8,505
Factset Data Systems	Financial & Economic Database	64,575
Fitch Info., Inc.	Credit Rating Service	1,241
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	1,295
Gimme Credit	Credit Research	4,500
Global Investment Research Inc.	Technology and Telecom Research	4,165
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	362,500
iMoneyNet, Inc	Money Market Fund Database	7,436
Instinet	Equity Trading Service	600
KMV, LLC	Moody's Credit Information	57,249
Lombard Street Research	Global Economic Analysis	2,601
London Stock Exchange PLC	License to Use Foreign Security Numbers	249
MacGregor Group, Inc.	Electronic Trading Services	47,465
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axess Corporation	Bond and Yield Pricing	900
McLagan Partners	Compensation Comparison	5,327
Moody's Investor Service	Corporate Bond Credit Quality Screening	15,525

Morgan Stanley Capital International	Developed Markets Security Data	16,085
Nancy A. Williams	Board Education - Governance	7,969
NASDAQ Stock Market	NASDAQ Stock Exchange Data	877
New York Stock Exchange	New York Stock Exchange Data	3,494
Options Price Reporting Authority	Quote System for Options Market	1,980
PCS Research Technology	Market Data, Research & Analysis	3,289
Property & Portfolio Research	Real Estate Consulting & Electronic Services	55,000
Reuters America Inc.	News, Economic & Company Research & Analytics	97,224
RiskMetrics	Volatility and Correlation Data for Value	6,877
Russell/Mellon Analytical Services	Fundamental and Quantitative Risk & Performance Analysis	7,500
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
SNL Financial	Customized Analysis of Bank Investments	6,499
Standard & Poor's	Industry & Corporate Research	35,463
Strategic Economic Decisions	Research Reports	6,249
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	67,846
Thomson Financial	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	58,277
Toronto Stock Exchange	Market Data/Traders	1,492
Trade Web	On-Line Fixed Income Trading Service	4,800
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	86,501

Total Investment Counsel

\$1,575,998

Real Estate Investment Management Services

AEW	Real Estate Management Services	\$24,190
Apollo Advisors II & LP	Real Estate Management Services	99,165
Bristol Group, Inc.	Real Estate Management Services	119,736
Capital Trust	Real Estate Management Services	150,753
Cornerstone Real Estate Advisors	Real Estate Management Services	246,440
Essex VFGP	Real Estate Management Services	138,777
Fortress Investment Corp	Real Estate Management Services	561,491
Goldman Sachs & Co.	Real Estate Management Services	698,853
Guggenheim Structured Real Estate Fund	Real Estate Management Services	187,500
Heitman Capital Management Corp.	Real Estate Management Services	221,428
Hudson Advisors	Real Estate Management Services	539,012
JP Morgan Investment Management Inc.	Real Estate Management Services	254,387
Kensington Realty Advisors	Real Estate Management Services	102,272
Koll Bren Realty Advisors	Real Estate Management Services	176,847
Landmark Realty Advisors	Real Estate Management Services	34,237
Lazard Freres	Real Estate Management Services	116,045
MMA Realty Capital	Real Estate Management Services	96,750
Morgan Stanley	Real Estate Management Services	284,615
Northwestern Mutual Life	Real Estate Management Services	51,031
Prudential	Real Estate Management Services	21,115
Rockpoint Group LLC	Real Estate Management Services	71,834
Rockspring Property Investment Managers	Real Estate Management Services	58,356
RREEF	Real Estate Management Services	219,979
Security Capital	Real Estate Management Services	846,868
Sentinel Realty Advisors Corp.	Real Estate Management Services	30,070
UBS Realty Investors	Real Estate Management Services	51,200
Westbrook Real Estate	Real Estate Management Services	285,520

Total Real Estate Investment Management Services

\$5,688,472

Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Private Equity Management		
3I Europe	Private Equity Management	\$261,700
Alchemy Partners	Private Equity Management	137,300
Alta Communications IX LP	Private Equity Management	166,300
Ampersand	Private Equity Management	266,800
Apollo Investment Fund IV LP	Private Equity Management	59,300
Apollo Investment Fund V LLP	Private Equity Management	5,500
Apollo Invt Fd III LP	Private Equity Management	38,800
Ares Management	Private Equity Management	167,600
Ashmore Asian Opp Fund	Private Equity Management	114,300
Asia Recovery	Private Equity Management	205,700
Baird Capital Partners II	Private Equity Management	7,500
Baird Venture Partners	Private Equity Management	123,800
BC European Capital	Private Equity Management	203,500
Bear Stearns	Private Equity Management	105,200
Boston Millennia	Private Equity Management	125,000
Bridgepoint Europe III A LP	Private Equity Management	289,900
Capital International Global	Private Equity Management	47,100
Capital Res Partners IV LP	Private Equity Management	101,800
Capital Resource Lenders III	Private Equity Management	28,500
Carlisle Asia Ltd.	Private Equity Management	125,000
Carlisle Partners IV, L.P.	Private Equity Management	183,300
Charterhouse	Private Equity Management	423,800
Coller International	Private Equity Management	153,400
Cornerstone Equity IV LP	Private Equity Management	71,600
Cypress Advisors, LP	Private Equity Management	108,600
Davis Tuttle Venture Prtns LP	Private Equity Management	31,800
East Europe Frontiers Fd Plc	Private Equity Management	300
EI Dorado Ventures	Private Equity Management	387,500
Energy Income Fd	Private Equity Management	52,000
Essex VFGP	Private Equity Management	112,500
Facilitator Fund LP	Private Equity Management	60,200
FFC Partners II, L.P.	Private Equity Management	145,900
First NIS Regional Fd Shs	Private Equity Management	6,400
Fortress Invest Fund II LLC	Private Equity Management	62,500
Frazier	Private Equity Management	294,800
Frontenac	Private Equity Management	292,700
Graphite	Private Equity Management	363,700
GS Special Opptys Asia Fd LP	Private Equity Management	23,600
Harbourvest International	Private Equity Management	422,000
Horizon Partners, Ltd	Private Equity Management	8,000
IGP II	Private Equity Management	165,200
Industrial Growth Partners	Private Equity Management	1,300
IT 2000 Invt Enterprise LLP	Private Equity Management	19,900
Joseph, Little, John & Levy, Inc.	Private Equity Management	3,400
Kelso Investment Assoc VI, LP	Private Equity Management	31,800
Kelso Investment Association V, LP	Private Equity Management	19,300
Kelso Investment VII LP	Private Equity Management	101,700
KKR Associates 1996, LP	Private Equity Management	97,600
Kohlberg Kravis Roberts & CO	Private Equity Management	176,900
Lake Pacific Partners, LLC	Private Equity Management	297,500
Latin America Ent Fund Manager	Private Equity Management	93,700

Lone Star Fund IV LP	Private Equity Management	109,700
Mason Wells Partners I, LLC	Private Equity Management	188,900
Mayfield XI LP	Private Equity Management	35,800
Pennisula Fund	Private Equity Management	242,700
Pioneer Poland US LP SWIB	Private Equity Management	5,700
Pomona Capital	Private Equity Management	187,500
Providence V	Private Equity Management	109,400
Prudential	Private Equity Management	6,400
Recovery Equity	Private Equity Management	13,200
Seaport Capital Partners II	Private Equity Management	92,000
SKM Equity Fund III, LP	Private Equity Management	96,500
Sprout	Private Equity Management	31,300
Stonington Partners	Private Equity Management	7,000
SUN Capital Partners LP	Private Equity Management	15,900
TCW Special Placement III SWIB	Private Equity Management	1,200
TD Capital	Private Equity Management	161,600
Venture Investors	Private Equity Management	113,600
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	562,500
Windpoint Partners II	Private Equity Management	400
Windpoint Partners III LP	Private Equity Management	1,500
Windpoint Partners IV LP	Private Equity Management	173,400
Windpoint Partners V LP	Private Equity Management	134,800
Windward Capital Partners II LP	Private Equity Management	49,700
WLR Recovery Fund L P	Private Equity Management	13,100
Xylem II L P	Private Equity Management	16,900
Total Private Equity Management		\$9,164,200
<p><i>Expenses for private equity management fees are estimated and adjusted annually based upon committed capital or assets under management, determined by management contract terms. Total committed capital includes management fees. All capital contributions to the limited partnership must first be returned to the limited partners before any incentive fees are paid to the general partner.</i></p>		
Index, Enhanced and Commingled Fund Fees		
Barclays Global Investors	Quantitative/Enhanced & Index Fund Management	\$9,695,325
Boston Company, The	Equity Emerging Market Management	669,882
Capital Guardian Trust Co.	Global High Yield Fixed Income Management	390,421
Grantham Mayo Van Otterloo	Equity and Fixed Income Emerging Market Management	837,919
T. Rowe Price International, Inc.	International Emerging Market Management	976,009
UBS Global Asset Management	Multi-Asset Management	761,818
Total Index, Enhanced and Commingled Fund Fees		\$13,431,375
Public Market Active Management Fees		
Acadian Asset Management Inc.	International Equity Active Management	\$624,165
Alliance Bernstein	International Equity Active Management	1,301,807
American Century Investment	International Equity Active Management	98,565
Baillie Gifford Overseas, Ltd.	International Equity Active Management	(14,116)
Brandywine Asset Management	Global Fixed Income Active Management	283,942
Bridgewater Associates	Global Fixed Income Active Management	591,052
Capital Guardian Trust Co.	International Equity Active Management	4,137
Fidelity Management Trust Co.	International Equity Active Management	762,032
Grantham Mayo Van Otterloo	Large Cap Quantitative Management	54,728
Loomis, Sayles & Co., L.P.	High Yield Fixed Income Active Management	429,638
LSV Asset Management	International Equity Active Management	1,289,199
Morgan Grenfell Asset Management	Global Fixed Income Active Management	418,782

Morgan Stanley Asset Management, Ltd.	International Equity Active Management	951,067
Salomon Brothers	Emerging Market Fixed Income Active Management	404,065
Standish Mellon Asset Mgmt LLC	Cash Management Service	63,655
UBS Global Asset Management	Global Fixed Income Management	241,403
Total Public Market Active Management Fees		\$7,504,121
Total Quarterly Charges to Funds		<u>\$38,446,505</u>

Explanations of Direct Charges

Custodial & Banking Fees

Bank of New York: Provides custody of assets (safekeeping, income collection and pricing of securities) in the State Investment Fund (SIF). Charges are based on a flat fee.

Wisconsin Certificate of Deposit Program: Under a contract with SWIB, Bankers' Bank administers the program under which SIF purchases certificates of deposit from Wisconsin-based banks and thrifts. Most administrative costs are paid by the participating banks. SWIB's expenses are \$2,500 per quarter to help underwrite other administrative costs, such as insurance that SWIB requires to be purchased.

Mellon Financial Services: Provides master custody services (safekeeping of assets, income collection, valuations and accounting) for public and private domestic and foreign securities in the Wisconsin Retirement System (WRS) and smaller funds. In addition, SWIB receives performance measurement and analytical services from Russell/Mellon through its custodial contract with Mellon. Mellon serves as the official book of record for SWIB's accounting and performance measurement functions. Mellon provides the data and analytical tools used by SWIB for compliance and risk management. The fees are calculated and are detailed in the negotiated fee schedule based on the different countries in which SWIB invests, the amount of assets in custody, and the analytical tools that SWIB uses.

US Bank: The State of Wisconsin has contracted with US Bank to be the state's working bank. The fees paid to US Bank by SIF reflect bank service charges that are not directly applicable to the fund participants. These fees are distributed to the fund participants through the monthly SIF earnings process.

Legal Fees, Services and Expenses

Under authority delegated by the Attorney General, pursuant to s. 25.18 (1) (a) Statutes, SWIB may employ legal counsel for any matters arising out of the scope of its investment authority. This includes legal services relating to bankruptcies, class actions, private markets transactions, fiduciary advice, securities law, investment litigation, and other similar matters. Capitalized fees incurred during the asset acquisition process are reported separately as a charge against the value of the asset. The Attorney General annually reviews and approves a list of law firms to provide investment legal services for SWIB and reviews related legal fees.

Investment Counsel

Current law gives SWIB the authority to employ investment counsel in any matters arising out of the scope of its investment authority. Investment research and services provided include global market, industry, economic and company information, financial and performance analytics, news information, pricing and exchange data, credit ratings, financial modeling, economic forecasting, trading services and a variety of Board consultations. These services enable SWIB to perform due diligence on current and future holdings and assist in monitoring investments.

Real Estate Investment Management Services

SWIB hires real estate advisors to assist with sourcing analysis, due diligence and management of real estate investments. SWIB also invests in funds, typically limited partnerships. Each fund either has a general partner or engages a fund manager with delegated authority to make real estate investments for the fund. Real estate advisory fees are usually based on a percentage of assets under management. Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Private Equity Management Fees

SWIB invests in private equity funds, typically limited partnerships that in turn make individual private equity investments. Each fund is managed by its general partner or fund manager with delegated authority. Fees are established as a percentage of the capital committed to each fund or partnership. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Public Market Active Management Fees

Within broad guidelines established by SWIB, these managers have been delegated authority to determine strategy and purchase securities in SWIB's name under a separate and distinct account. This relationship is used primarily in the management of international equity and fixed income investments. Fees are typically assessed as a percentage of the market value of assets under management and may include other factors.

Standish Mellon invests the cash from the externally managed portfolios and internally managed international equity portfolios that have yet to be invested in stocks or bonds. Due to settlement times around the globe, these funds cannot be effectively managed in the State Investment Fund. The fees are negotiated as part of the custodial contract.

Indexed, Enhanced and Commingled Fees

SWIB has investments in a number of externally managed funds that seek to replicate the returns of a particular public market index (such as the Russell 3000) or seek to enhance the return from a particular public market index through the use of quantitative models or other strategies. SWIB's investments are commingled with other investors, and the underlying securities are owned in the name of the fund manager. Fees are typically based on a percentage of assets under management and may include other factors, such as performance.

Asset Specific Charges

Asset specific charges include expenses that are directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are netted in gross returns of the asset, consistent with standard industry practices.

STATE OF WISCONSIN INVESTMENT BOARD
Report of Asset Specific Charges and Capitalized Legal Fees - Accrual Basis
Quarter Ending September 30, 2005

Legal Fees, Services and Expenses

Axley Brynelson	Private Placements and General Legal Advice	(\$305)
Chapman & Cutler	Private Markets Investment Transactions	23,545
Jones, Day, Reavis & Pogue	Private Markets Investment Transactions	74,165
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	408
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	1,393
Total Legal Fees, Services and Expenses		<u>\$99,205</u>

Investment Counsel

Kirk M. Warshaw LLC	Amigo Closing & Escrow Calculations	403
Total Investment Counsel		<u>\$403</u>

Internal Management

Bit Consultants	Audit Services for Asian Investment	1,725
Citco (Mauritus Limited)	Audit & Other Services for Asian Investments	8,618
Ernst & Young LLP	Audit & Accounting	8,875
Mayer, Brown, Rowe & Maw	Research on Sale of Real Estate Property	9,166
Total Internal Management		<u>\$28,384</u>

Total Asset Specific Charges **\$127,992**

Capitalized Legal Fees

Cox, Castle & Nicholson	Real Estate Investment Transactions	\$13,744
Michael Best & Friedrich	Private Markets Investment Transactions	23,623
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	4,344
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	<u>28,086</u>

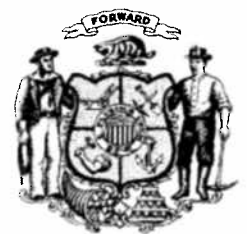
Total Capitalized Legal Fees **\$69,798**

Management of WRS Trust Fund Assets								
	December 31, 2004		March 31, 2005		June 30, 2005		September 30, 2005	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$20,855	29.8%	\$19,234	27.8%	\$19,392	27.7%	\$19,493	26.8%
Externally Managed Dedicated Accounts	9,316	13.3	9,601	13.9%	9,775	14.0%	10,408	14.3%
Externally Managed Commingled Accounts	39,835	56.9	40,229	58.3%	40,847	58.3%	42,850	59.0%
1. Passive Index Funds	19,598	28.0	19,629	28.4	19,546	27.9	20,336	28.0
2. Enhanced Index Commingled Funds	15,660	22.4	15,846	23.0	16,131	23.0	16,944	23.3
3. Limited Partnerships	2,706	3.9	2,877	4.2	2,886	4.1	3,055	4.2
4. Actively Managed Commingled Accounts	1,871	2.7	1,877	2.7	2,284	3.3	2,515	3.5
TOTAL WRS Assets	\$70,006	100.0%	\$69,064	100.0%	\$70,014	100.0%	\$72,751	100.0%

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WISCONSIN STATE LEGISLATURE





State of Wisconsin Investment Board

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MADISON, WI 53707-7842

121 EAST WILSON ST
MADISON, WI 53703
(608) 266-2381
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February 15, 2006

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

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

Senator Carol Roessler, Co-Chair
Joint Committee on Audit
P.O. Box 7882
Madison WI 53707-7882

Representative Suzanne Jeskewitz, Co-Chair
Joint Committee on Audit
P.O. Box 8952
Madison WI 53708-8952

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

Dear Senator Fitzgerald, Senator Roessler, Representative Kaufert, Representative Jeskewitz and Secretary Bablitch:

Attached is our quarterly report of all expenses that were charged directly to funds managed by the Investment Board (Attachment A). This report includes expenses incurred during the quarter ending December 31, 2005. Section 25.17 (13m) requires that we provide this report on a quarterly basis.

The statutes authorize the Board to employ special legal or investment counsel in any matter arising from the scope of our investment authority and to employ professionals, contractors or agents to evaluate or operate any property in which the Board has an interest. The Board may also contract with external advisers to manage various types of investments. Expenses for these services are directly charged to the current income of the fund for which the services are furnished.

The expenses in this report are reflected on an accrual basis, which lists costs when they are incurred rather than paid. Providing the information on an accrual basis gives a better picture of quarter to quarter trends in our use of services that are directly charged to the funds. (A negative charge typically indicates a downward adjustment to expenses accrued in a prior quarter or a refund of expenses that were prepaid and subsequently adjusted.)

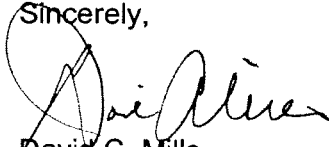
Attachment B provides further explanation about the various expenditure categories. Attachment C includes expenses that are capitalized at the time of acquisition or directly associated with the ongoing activity of an asset, such as appraisals or bankruptcy costs. Unlike other expenses listed in

this report, these expenses are reflected in the value of the asset or are netted from gross returns of the asset, consistent with standard industry practices.

Attachment D shows the amount and share of Wisconsin Retirement System (WRS) assets managed internally and under various forms of external management over the last four quarters. In the fourth quarter of 2005, the share of assets managed internally fell slightly, primarily due to a reduction in the size of our internally managed international equities portfolio. Earlier in the year, the portfolio manager left to pursue an opportunity in the private sector. The reduction in portfolio size occurred as part of a rebalancing of assets from international to domestic equities and is one of the steps SWIB took as we continue the search process for a new internal manager. Reductions were also made in externally managed dedicated accounts and passive index funds in order to fund two new enhanced index commingled funds that invest in the Russell 1000 Index of U.S. stocks. These portfolios seek to outperform the index through the use of quantitative modeling and screening tools, with the goal of taking more constrained risk than other types of active management strategies.

We hope this report will give you a clearer picture of expenditures and how funds are managed. Please contact me, however, if you have any questions or comments about the report.

Sincerely,



David C. Mills
Executive Director

Attachments

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

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending December 31, 2005

Charge Category	Service Provided	Charges
Custodial and Banking Fees		
Bank of New York	State Investment Fund Custodial Services	\$41,250
Bankers' Bank	Wisconsin CD Program	2,500
Mellon Financial Services	Retirement System Custodial & Cash Management	1,317,506
US Bank	State Banking Services	1,711
Total Custodial and Banking Fees		\$1,362,967
Legal Fees, Services and Expenses		
Foley & Lardner	Private Markets Investment Transactions	\$1,918
Groom Law Group, Chartered	Fidiciary Counsel	1,276
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	1,984
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	522
Stafford Rosenbaum, LLP	Securities Litigation	1,622
Wisconsin Department of Justice	Securities Litigation	189
Total Legal Fees, Services and Expenses		\$7,509
Investment Counsel		
American Stock Exchange	American Stock Exchange Data	\$3,200
Analysis Group/Economics	Investment Management Consultant-Equity Exposure Reporting	40,000
BCA Publications	Global & Domestic Fixed Income Strategy Research	9,999
Bloomberg, LP	Market, Company, Industry & Benchmark Information	153,102
Call Street, LLC	Credit Analysis	1,500
Charles River	Portfolio Management Software	52,743
Courtland Partners	Performance Monitor Reporting	60,000
Credit Sights	Credit Assessments	19,218
Data Broadcasting Corporation	Pricing Service	10,025
Dominion Bond Rating Service	Credit Ratings & Research Reports for Corporate Bond Issuers	962
Dow Jones & Co	Company and Industry News Service	8,505
Economy.com	Economic, Currency & Bond Analysis	116
EFL Associates of Colorado Inc.	Executive Search - Internal Audit Director	15,000
Factset Data Systems	Financial & Economic Database	64,575
Fitch Info., Inc.	Credit Rating Service	1,241
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	1,236
Gabriel Roeder Smith & Co.	Actuarial Consulting	48,937
Gimme Credit	Credit Research	4,500
Global Investment Research Inc.	Technology and Telecom Research	2,499
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	362,500
iMoneyNet, Inc	Money Market Fund Database	7,581
Instinet	Equity Trading Service	800
Institutional Shareholder Services, Inc	Proxy Voting Analysis	113,600

Interfaith Center On Corporate Responsibility	Social Investing Research	2,000
IRSS, Inc	Securities Class Action Support	35,000
KMV, LLC	Moody's Credit Information	38,168
Lombard Street Research	Global Economic Analysis	2,703
London Stock Exchange PLC	License to Use Foreign Security Numbers	249
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axess Corporation	Bond and Yield Pricing	900
Moody's Investor Service	Corporate Bond Credit Quality Screening	15,522
Morgan Stanley Capital International	Developed Markets Security Data	19,248
NASDAQ Stock Market	NASDAQ Stock Exchange Data	873
New York Stock Exchange	New York Stock Exchange Data	3,579
Options Price Reporting Authority	Quote System for Options Market	1,980
Research Affiliates LLC	Asset Allocation Research	690
Reuters America Inc.	News, Economic & Company Research & Analytics	120,639
RiskMetrics	Volatility and Correlation Data for Value	6,873
Russell/Mellon Analytical Services	Fundamental and Quantitative Risk & Performance Analysis	7,500
S.R. Batliboi & Co.	Tax Compliance Services Required by Government of India	12,330
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
SNL Financial	Customized Analysis of Bank Investments	6,495
Standard & Poor's	Industry & Corporate Research	37,107
Strategic Economic Decisions	Research Reports	6,251
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	101,250
Thomson Financial	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	58,325
Toronto Stock Exchange	Market Data/Traders	1,386
Trade Web	On-Line Fixed Income Trading Service	3,900
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	80,500
Total Investment Counsel		\$1,561,506

Real Estate Investment Management Services

AEW	Real Estate Management Services	(\$24,190)
Apollo Advisors II & LP	Real Estate Management Services	50,801
Berkshire Property Advisors, LLC	Real Estate Management Services	225,839
Bristol Group, Inc.	Real Estate Management Services	121,314
Capital Trust	Real Estate Management Services	45,909
Cornerstone Real Estate Advisors	Real Estate Management Services	243,270
Essex VFGP	Real Estate Management Services	149,497
Fortress Investment Corp	Real Estate Management Services	287,816
Goldman Sachs & Co.	Real Estate Management Services	341,006
Guggenheim Structured Real Estate Fund	Real Estate Management Services	187,500
Heitman Capital Management Corp.	Real Estate Management Services	1,994,944
Henderson Global Investors (North America) Inc.	Real Estate Management Services	164,296
Hudson Advisors	Real Estate Management Services	517,768
JP Morgan Investment Management Inc.	Real Estate Management Services	224,565
Kensington Realty Advisors	Real Estate Management Services	88,696
Koill Bren Realty Advisors	Real Estate Management Services	176,678
Landmark Realty Advisors	Real Estate Management Services	32,354
Lazard Freres	Real Estate Management Services	117,323
MMA Realty Capital	Real Estate Management Services	(101,363)
Morgan Stanley	Real Estate Management Services	284,615
Northwestern Mutual Life	Real Estate Management Services	50,783

Prudential	Real Estate Management Services	15,038
Rockpoint Group LLC	Real Estate Management Services	249,731
Rockspring Property Investment Managers	Real Estate Management Services	56,106
RREEF	Real Estate Management Services	228,187
Security Capital	Real Estate Management Services	908,741
Sentinel Realty Advisors Corp.	Real Estate Management Services	30,362
UBS Realty Investors	Real Estate Management Services	51,635
Westbrook Real Estate	Real Estate Management Services	<u>232,743</u>
Total Real Estate Investment Management Services		\$6,951,964

Fees paid to real estate fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Private Equity Management

3I Europe	Private Equity Management	\$250,400
Alchemy Partners	Private Equity Management	129,200
Alta Communications IX LP	Private Equity Management	166,300
Ampersand	Private Equity Management	266,800
Apollo Investment Fund IV LP	Private Equity Management	59,300
Apollo Investment Fund V LLP	Private Equity Management	5,500
Apollo Invt Fd III LP	Private Equity Management	38,800
Ares Management	Private Equity Management	167,600
Ashmore Asian Opp Fund	Private Equity Management	114,300
Asia Recovery	Private Equity Management	205,700
Baird Capital Partners II	Private Equity Management	7,500
Baird Venture Partners	Private Equity Management	123,800
BC European Capital	Private Equity Management	194,600
Bear Steams	Private Equity Management	105,200
Boston Millennia	Private Equity Management	125,000
Bridgepoint Europe III A LP	Private Equity Management	286,100
Capital International Global	Private Equity Management	47,100
Capital Res Partners IV LP	Private Equity Management	101,800
Capital Resource Lenders III	Private Equity Management	28,500
Carlyle Asia Ltd.	Private Equity Management	125,000
Carlyle Partners IV, L.P.	Private Equity Management	183,300
Charterhouse	Private Equity Management	403,500
Coller International	Private Equity Management	153,400
Cornerstone Equity IV LP	Private Equity Management	71,600
Cypress Advisors, LP	Private Equity Management	108,600
Davis Tuttle Venture Prtns LP	Private Equity Management	31,800
East Europe Frontiers Fd Plc	Private Equity Management	300
EI Dorado Ventures	Private Equity Management	387,500
Energy Income Fd	Private Equity Management	52,000
Essex VFGP	Private Equity Management	112,500
Facilitator Fund LP	Private Equity Management	60,200
FFC Partners II, L.P.	Private Equity Management	145,900
First NIS Regional Fd Shs	Private Equity Management	6,400
Fortress Invest Fund II LLC	Private Equity Management	62,500
Frazier	Private Equity Management	294,800
Frontenac	Private Equity Management	292,700
Graphite	Private Equity Management	342,200

GS Special Oppty Asia Fd LP	Private Equity Management	23,600
Harbourvest International	Private Equity Management	419,800
Horizon Partners, Ltd	Private Equity Management	8,000
IGP II	Private Equity Management	165,200
Industrial Growth Partners	Private Equity Management	1,300
IT 2000 Invt Enterprise LLP	Private Equity Management	18,300
Joseph, Little, John & Levy, Inc.	Private Equity Management	3,400
Kelso Investment Assoc VI, LP	Private Equity Management	31,800
Kelso Investment Association V, LP	Private Equity Management	19,300
Kelso Investment VII LP	Private Equity Management	101,700
KKR European II	Private Equity Management	530,500
Kohlberg Kravis Roberts & CO	Private Equity Management	274,500
Lake Pacific I Gladson, LLC	Private Equity Management	125,000
Lake Pacific Partners, LLC	Private Equity Management	327,500
Latin America Ent Fund Manager	Private Equity Management	93,700
Lone Star Fund IV LP	Private Equity Management	109,700
Mason Wells Partners I, LLC	Private Equity Management	188,900
Mayfield XI LP	Private Equity Management	35,800
Peninsula Fund IV LP	Private Equity Management	250,000
Penninsula Fund	Private Equity Management	242,700
Pioneer Poland US LP SWIB	Private Equity Management	5,700
Pomona Capital	Private Equity Management	187,500
Providence V	Private Equity Management	109,400
Prudential	Private Equity Management	6,400
Recovery Equity	Private Equity Management	13,200
Seaport Capital Partners II	Private Equity Management	92,000
SKM Equity Fund III, LP	Private Equity Management	96,500
Sprout	Private Equity Management	31,300
Stonington Partners	Private Equity Management	7,000
SUN Capital Partners LP	Private Equity Management	15,900
TCW Special Placement III SWIB	Private Equity Management	1,200
TD Capital	Private Equity Management	159,500
Venture Investors	Private Equity Management	113,600
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	562,500
Windpoint Partners II	Private Equity Management	400
Windpoint Partners III LP	Private Equity Management	1,500
Windpoint Partners IV LP	Private Equity Management	173,400
Windpoint Partners V LP	Private Equity Management	134,800
Windward Capital Partners II LP	Private Equity Management	49,700
WLR Recovery Fund L P	Private Equity Management	13,100
Xylem II L P	Private Equity Management	<u>16,900</u>
Total Private Equity Management		\$10,019,900

Expenses for private equity management fees are estimated and adjusted annually based upon committed capital or assets under management, determined by management contract terms. Total committed capital includes management fees. All capital contributions to the limited partnership must first be returned to the limited partners before any incentive fees are paid to the general partner.

Index, Enhanced and Commingled Fund Fees

Barclays Global Investors	Quantitative/Enhanced & Index Fund Management	\$11,320,480
Boston Company, The	Equity Emerging Market Management	447,421
Capital Guardian Trust Co.	Global High Yield Fixed Income Management	396,306
Goldman Sachs & Co.	Quantitative/Enhanced & Index Fund Management	96,191
Grantham Mayo Van Otterloo	Equity and Fixed Income Emerging Market Management	978,768
LSV Asset Management	Quantitative/Enhanced & Index Fund Management	101,191
T. Rowe Price International, Inc.	International Emerging Market Management	1,041,852
UBS Global Asset Management	Multi-Asset Management	<u>799,535</u>
Total Index, Enhanced and Commingled Fund Fees		\$15,181,744

Public Market Active Management Fees

Acadian Asset Management Inc.	International Equity Active Management	\$651,719
AEW	Real Estate Investment Trusts	85,268
Alliance Bernstein	International Equity Active Management	1,347,034
American Century Investment	International Equity Active Management	417,753
Brandywine Asset Management	Global Fixed Income Active Management	284,381
Bridgewater Associates	Global Fixed Income Active Management	590,158
Fidelity Management Trust Co.	International Equity Active Management	768,333
Grantham Mayo Van Otterloo	Large Cap Quantitative Management	55,542
Heitman Capital Management Corp.	Real Estate Investment Trusts	84,564
Loomis, Sayles & Co., L.P.	High Yield Fixed Income Active Management	436,515
LSV Asset Management	International Equity Active Management	1,320,033
Morgan Grenfell Asset Management	Global Fixed Income Active Management	500,445
Morgan Stanley Asset Management, Ltd.	International Equity Active Management	831,315
Salomon Brothers	Emerging Market Fixed Income Active Management	413,006
Standish Mellon Asset Mgmt LLC	Cash Management Service	70,293
UBS Global Asset Management	Global Fixed Income Management	196,138
Total Public Market Active Management Fees		<u>\$8,052,499</u>

Total Quarterly Charges to Funds**\$43,138,089**

Explanations of Direct Charges

Custodial & Banking Fees

Bank of New York: Provides custody of assets (safekeeping, income collection and pricing of securities) in the State Investment Fund (SIF). Charges are based on a flat fee.

Wisconsin Certificate of Deposit Program: Under a contract with SWIB, Bankers' Bank administers the program under which SIF purchases certificates of deposit from Wisconsin-based banks and thrifts. Most administrative costs are paid by the participating banks. SWIB's expenses are \$2,500 per quarter to help underwrite other administrative costs, such as insurance that SWIB requires to be purchased.

Mellon Financial Services: Provides master custody services (safekeeping of assets, income collection, valuations and accounting) for public and private domestic and foreign securities in the Wisconsin Retirement System (WRS) and smaller funds. In addition, SWIB receives performance measurement and analytical services from Russell/Mellon through its custodial contract with Mellon. Mellon serves as the official book of record for SWIB's accounting and performance measurement functions. Mellon provides the data and analytical tools used by SWIB for compliance and risk management. The fees are calculated and are detailed in the negotiated fee schedule based on the different countries in which SWIB invests, the amount of assets in custody, and the analytical tools that SWIB uses.

US Bank: The State of Wisconsin has contracted with US Bank to be the state's working bank. The fees paid to US Bank by SIF reflect bank service charges that are not directly applicable to the fund participants. These fees are distributed to the fund participants through the monthly SIF earnings process.

Legal Fees, Services and Expenses

Under authority delegated by the Attorney General, pursuant to s. 25.18 (1) (a) Statutes, SWIB may employ legal counsel for any matters arising out of the scope of its investment authority. This includes legal services relating to bankruptcies, class actions, private markets transactions, fiduciary advice, securities law, investment litigation, and other similar matters. Capitalized fees incurred during the asset acquisition process are reported separately as a charge against the value of the asset. The Attorney General annually reviews and approves a list of law firms to provide investment legal services for SWIB and reviews related legal fees.

Investment Counsel

Current law gives SWIB the authority to employ investment counsel in any matters arising out of the scope of its investment authority. Investment research and services provided include global market, industry, economic and company information, financial and performance analytics, news information, pricing and exchange data, credit ratings, financial modeling, economic forecasting, trading services and a variety of Board consultations. These services enable SWIB to perform due diligence on current and future holdings and assist in monitoring investments.

Real Estate Investment Management Services

SWIB hires real estate advisors to assist with sourcing analysis, due diligence and management of real estate investments. SWIB also invests in funds, typically limited partnerships. Each fund either has a general partner or engages a fund manager with delegated authority to make real estate investments for the fund. Real estate advisory fees are usually based on a percentage of assets under management. Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Private Equity Management Fees

SWIB invests in private equity funds, typically limited partnerships that in turn make individual private equity investments. Each fund is managed by its general partner or fund manager with delegated authority. Fees are established as a percentage of the capital committed to each fund or partnership. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Public Market Active Management Fees

Within broad guidelines established by SWIB, these managers have been delegated authority to determine strategy and purchase securities in SWIB's name under a separate and distinct account. This relationship is used primarily in the management of international equity and fixed income investments. Fees are typically assessed as a percentage of the market value of assets under management and may include other factors.

Standish Mellon invests the cash from the externally managed portfolios and internally managed international equity portfolios that have yet to be invested in stocks or bonds. Due to settlement times around the globe, these funds cannot be effectively managed in the State Investment Fund. The fees are negotiated as part of the custodial contract.

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Asset specific charges include expenses that are directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are netted in gross returns of the asset, consistent with standard industry practices.

STATE OF WISCONSIN INVESTMENT BOARD
 Report of Asset Specific Charges and Capitalized Legal Fees - Accrual Basis
 Quarter Ending December 31, 2005

Charge Category	Service Provided	Charges
Legal Fees, Services and Expenses		
Axley Brynelson	Private Placements and General Legal Advice	\$9,152
Chapman & Cutler	Private Markets Investment Transactions	56,446
Gonzalez Saggio & Harlan LLP	Real Estate Investment Transactions	1,291
Jones, Day, Reavis & Pogue	Private Markets Investment Transactions	70,448
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	136
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	2,637
Stafford Rosenbaum, LLP	Securities Litigation	151
Whyte Hirschboek	Private Markets Investment Transactions	9,522
Total Legal Fees, Services and Expenses		<u>\$149,783</u>
Total Asset Specific Charges		<u>\$149,783</u>
Capitalized Legal Fees		
Cox, Castle & Nicholson	Real Estate Investment Transactions	4,959
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	2,748
Ornick, Herrington & Sutcliffe	Real Estate Investment Transactions	21,783
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	1,963
Solheim, Billing & Grimker SC	Private Markets Investment Transactions	10,381
Total Capitalized Legal Fees		<u>\$41,834</u>

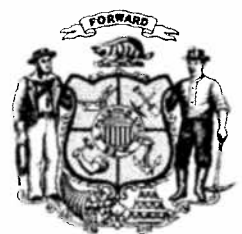
This table includes expenses that are capitalized at the time of acquisition or directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are reflected in the value of the asset or netted in gross returns of the asset, consistent with standard industry practices.

ATTACHMENT D

	March 31, 2005		June 30, 2005		September 30, 2005		December 31, 2005	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$19,234	27.8%	\$19,234	27.8%	\$19,493	26.8%	\$19,347	26.2%
Externally Managed Dedicated Accounts	9,601	13.9%	9,601	13.9%	10,408	14.0%	10,383	14.0%
Externally Managed Commingled Accounts	40,229	58.3%	40,229	58.3%	42,850	59.0%	44,177	59.8%
1. Passive Index Funds	19,629	28.4	19,629	28.4	20,336	28.0	20,218	27.4
2. Enhanced Index Commingled Funds	15,846	23.0	15,846	23.0	16,944	23.3	18,189	24.6
3. Limited Partnerships	2,877	4.2	2,877	4.2	3,055	4.2	3,149	4.3
4. Actively Managed Commingled Accounts	1,877	2.7	1,877	42.7	2,515	3.5	2,621	3.5
TOTAL WRS Assets	\$69,064	100.0%	\$69,064	100.0%	\$72,751	100.0%	\$73,907	100.0%



WISCONSIN STATE LEGISLATURE





State of Wisconsin Investment Board

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MADISON, WI 53703
(608) 266-2381
FAX: (608) 266-2436

August 15, 2006

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

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

Senator Carol Roessler, Co-Chair
Joint Committee on Audit
P.O. Box 7882
Madison WI 53707-7882

Representative Suzanne Jeskewitz, Co-Chair
Joint Committee on Audit
P.O. Box 8952
Madison WI 53708-8952

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

Dear Senator Fitzgerald, Senator Roessler, Representative Kaufert, Representative Jeskewitz and Secretary Bablitch:

Attached is our quarterly report of all expenses that were charged directly to funds managed by the Investment Board (Attachment A). This report includes expenses incurred during the quarter ending June 30, 2006. Section 25.17 (13m), Stats., requires that we provide this report on a quarterly basis.

The statutes authorize the Board to employ special legal or investment counsel in any matter arising from the scope of our investment authority and to employ professionals, contractors or agents to evaluate or operate any property in which the Board has an interest. The Board may also contract with external advisers to manage various types of investments. Expenses for these services are directly charged to the current income of the fund for which the services are furnished.

The expenses in this report are reflected on an accrual basis, which lists costs when they are incurred rather than paid. Providing the information on an accrual basis gives a better picture of quarter to quarter trends in our use of services that are directly charged to the funds. A negative charge typically indicates a downward adjustment to expenses accrued in a prior quarter or a refund of expenses that were prepaid and subsequently adjusted.

Attachment B provides further explanation about the various expenditure categories. Attachment C includes legal expenses that are capitalized at the time of acquisition or directly associated with the ongoing activity of an asset, such as appraisals or bankruptcy costs. Unlike other expenses listed in this report, these expenses are reflected in the value of the asset or are netted from gross returns of the asset, consistent with standard industry practices.

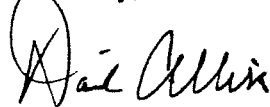
Attachment D shows the amount and share of Wisconsin Retirement System (WRS) assets managed internally and under various forms of external management over the last four quarters. In the second quarter of 2006, the share of assets managed internally decreased due to fund rebalancing to adhere to asset allocation targets. During May, it was necessary to shift assets out of equities as that asset class had exceeded its upper target. The funds were moved from one internal large cap equity portfolio. Of the total \$1.7 billion shifted, \$1.2 was moved to externally managed domestic and international fixed income portfolios. The remainder was deposited with the internal TIPS (treasury inflation protection securities) portfolio and an external domestic equities portfolio.

Negative domestic equity markets resulted in nearly an \$800 million decrease in assets during the second quarter. Positive international equities markets and a flat fixed income market softened the effects of negative returns for domestic equities.

SWIB recently hired a chief investment officer to oversee all asset classes. He is currently reviewing the use of internal and external management of funds and will make recommendations to the Board in November for possible changes.

We hope this report will give you a clearer picture of expenditures and how funds are managed. Please contact me, however, if you have any questions or comments about the report.

Sincerely,



David C. Mills
Executive Director

Attachments

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

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending June 30, 2006

Charge Category	Service Provided	Charges
Custodial and Banking Fees		
Bank of New York	State Investment Fund Custodial Services	\$41,250
Bankers' Bank	Wisconsin CD Program	2,500
Mellon Financial Services	Retirement System Custodial Services	1,121,076
US Bank	State Banking Services	1,492
Total Custodial and Banking Fees		\$1,166,318
Legal Fees, Services and Expenses		
Cox, Castle & Nicholson	Real Estate Investment Transactions	\$425
Jones, Day, Reavis & Pogue	Private Markets Investment Transactions	1,550
Quarles & Brady	Litigation & Private Markets Investment Transactions	4,895
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	1,483
Stafford Rosenbaum, LLP	Securities Litigation	(2,016)
Total Legal Fees, Services and Expenses		\$6,336
Investment Counsel		
AEI Speakers Bureau	Investigative Reporting of Enron	\$3,750
American Stock Exchange	American Stock Exchange Data	3,171
Analysis Group Economics	Investment Management Consultant-Equity Exposure Reporting	20,000
BCA Publications	Global & Domestic Fixed Income Strategy Research	10,334
Bloomberg, LP	Market, Company, Industry & Benchmark Information	21,382
Call Street Transcript Service	Credit Analysis	1,450
Charles River Systems, Inc.	Portfolio Management Software	52,403
Council of Institutional Investors	Corporate Governance	7,500
Courtland Partners	Performance Monitor Reporting	60,000
Credit Sights	Credit Assessments	21,000
Data Broadcasting Corporation - CMS Bond Edge	Pricing Service	10,525
Dominion Bond Rating Service (DBRS)	Credit Ratings & Research Reports for Corporate Bond Issuers	1,512
Dow Jones & Co	Company and Industry News Service	9,750
Economy.com	Economic, Currency & Bond Analysis	348
EFL Associates, Inc.	Executive Search - Chief Investment Officer	613
Factset Data Systems	Financial & Economic Database	66,825
Fitch Info., Inc.	Credit Rating Service	1,500
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	3,429
Gimme Credit	Credit Research	4,500
Global Investment Research Inc.	Technology and Telecom Research	2,500
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	362,500
iMoneyNet, Inc	Money Market Fund Database	7,581
Instinet	Equity Trading Service	600
KPMG Peat Marwick, LLP	Tax Compliance Overseas	2,926
Lombard Street Research	Global Economic Analysis	2,703
London Stock Exchange PLC	License to Use Foreign Security Numbers	243
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axxess Corporation	Bond and Yield Pricing	900
McLagan Partners	Compensation Comparison	43,632
Moody's Investor Service	Corporate Bond Credit Quality Screening	26,550
Morgan Stanley Capital International	Developed Markets Security Data	19,334
NASDAQ Stock Market	NASDAQ Stock Exchange Data	750
New York Stock Exchange	New York Stock Exchange Data	3,524
Options Price Reporting Authority (OPRA)	Quote System for Options Market	1,980
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,500

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending June 30, 2006

Reuters America Inc.	News, Economic & Company Research & Analytics	120,514
RiskMetrics	Volatility and Correlation Data for Value	6,876
Russell/Mellon Analytical Services	Fundamental and Quantitative Risk & Performance Analysis	7,500
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
SNL Financial	Customized Analysis of Bank Investments	7,488
Standard & Poor's	Industry & Corporate Research	37,531
Strategic Economic Decisions	Research Reports	6,251
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	66,250
Thomson Financial Services	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	76,652
Toronto Stock Exchange	Market Data/Traders	1,386
Trade Web	On-Line Fixed Income Trading Service	5,550
William O'Neil & Co.	Equity & Analytics Technical Research	21,112
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	86,500
Wisconsin Department of Justice	Analysis of Director/Officer Liabilities	218
Total Investment Counsel		\$1,263,242

Real Estate Investment Management Services

Apollo Advisors II & LP	Real Estate Management Services	\$48,725
Berkshire Property Advisors, LLC	Real Estate Management Services	(66,372)
Bristol Group, Inc.	Real Estate Management Services	89,458
Capital Trust	Real Estate Management Services	33,940
Cornerstone Real Estate Advisors	Real Estate Management Services	231,851
Essex VFGP	Real Estate Management Services	50,552
Fortress Investment Corp.	Real Estate Management Services	702,341
Goldman Sachs & Co.	Real Estate Management Services	290,784
Guggenheim Structured Real Estate Advisors, LLC	Real Estate Management Services	175,520
Heitman Capital Management, LLC	Real Estate Management Services	132,922
Henderson Global Investors (North America) Inc.	Real Estate Management Services	108,300
Hudson Advisors	Real Estate Management Services	463,971
JP Morgan Investment Management	Real Estate Management Services	431,232
Kensington Realty Advisors	Real Estate Management Services	76,519
Koll Bren Realty Advisors	Real Estate Management Services	174,013
KTR Capital Partners	Real Estate Management Services	187,500
Landmark Realty Advisors	Real Estate Management Services	27,434
Lazard Freres	Real Estate Management Services	114,771
MMA Realty Capital	Real Estate Management Services	92,247
Morgan Stanley	Real Estate Management Services	111,977
Northwestern Mutual Life	Real Estate Management Services	50,244
Prudential (senior housing)	Real Estate Management Services	15,691
Rockpoint Group LLC	Real Estate Management Services	172,670
Rockspring Property Investment Managers	Real Estate Management Services	56,980
RREEF	Real Estate Management Services	356,080
Security Capital	Real Estate Management Services	830,258
Sentinel Realty Advisors Corp.	Real Estate Management Services	30,367
UBS Realty Investors	Real Estate Management Services	53,114
Westbrook Real Estate	Real Estate Management Services	828,821
Total Real Estate Investment Management Services		\$5,871,910

Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending June 30, 2006

Private Equity Management

3I Europe Investment Partners	Private Equity Management	\$135,600
ACI Capital Investors II	Private Equity Management	302,700
Alchemy Partners	Private Equity Management	145,700
Alta Communications IX, LP	Private Equity Management	204,200
Ampersand Ltd Partnership	Private Equity Management	222,900
Apollo Investment Fund VI	Private Equity Management	711,900
Apollo Invt Fd III LP	Private Equity Management	29,100
Ares Corporate Opportunities Fund II	Private Equity Management	324,200
Ares Management	Private Equity Management	(51,200)
Asia Recovery Fund	Private Equity Management	134,100
Baird Capital Partners II	Private Equity Management	8,900
Baird Venture Partners	Private Equity Management	123,800
BC European Capital	Private Equity Management	217,600
Bear Stearns	Private Equity Management	140,000
Blackstone Management Partners V LLC	Private Equity Management	241,200
Boston Millennia	Private Equity Management	118,800
Bridgepoint Europe III A LP	Private Equity Management	417,400
Capital International Global	Private Equity Management	37,000
Capital Res Partners IV LP	Private Equity Management	98,400
Capital Resource Lenders III	Private Equity Management	23,900
Carlyle Asia Ltd.	Private Equity Management	24,100
Carlyle Partners IV, L.P.	Private Equity Management	183,300
Charterhouse	Private Equity Management	211,700
Charterhouse VIII	Private Equity Management	224,200
Coller International	Private Equity Management	149,000
Cornerstone Equity IV LP	Private Equity Management	43,200
CVC European Equity Partners IV	Private Equity Management	420,800
Cypress Advisors, LP	Private Equity Management	30,000
Davis Tuttle Venture Prtns LP	Private Equity Management	29,300
Doll Technology Invt Fd II LP	Private Equity Management	55,000
EI Dorado Ventures	Private Equity Management	312,300
Essex VFGP	Private Equity Management	75,000
Essex Woodlands Hlth Venture V	Private Equity Management	37,500
Facilitator Fund LP	Private Equity Management	59,900
FFC Partners II, L.P.	Private Equity Management	87,600
Fortress Invest Fund II LLC	Private Equity Management	48,300
Frazier	Private Equity Management	327,300
Frontenac	Private Equity Management	189,600
Graphite	Private Equity Management	418,700
GS Special Opptys Asia Fd LP	Private Equity Management	13,100
Harbourvest International	Private Equity Management	417,100
Horizon Partners, Ltd	Private Equity Management	7,800
IGP II	Private Equity Management	115,800
Industrial Growth Partners	Private Equity Management	3,000
IT 2000 Invt Enterprise LLP	Private Equity Management	21,500
Joseph, Little, John & Levy, Inc.	Private Equity Management	3,300
Kelso Investment Association V, LP	Private Equity Management	9,500
Kelso Investment VII LP	Private Equity Management	162,500
KKR Associates Millennium	Private Equity Management	(11,600)
KKR European II	Private Equity Management	265,300
Kohlberg Kravis Roberts & CO	Private Equity Management	58,200
Lake Pacific I Gladson, LLC	Private Equity Management	125,000

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending June 30, 2006

Lake Pacific Partners, LLC	Private Equity Management	250,000
Latin America Ent Fund Manager	Private Equity Management	51,800
Lone Star Fund IV LP	Private Equity Management	49,200
Mason Wells Partners I, LLC	Private Equity Management	159,700
Mayfield XI LP	Private Equity Management	42,300
Peninsula Fund IV LP	Private Equity Management	187,500
Pennisula Fund	Private Equity Management	219,800
Pioneer Poland US LP SWIB	Private Equity Management	5,600
Pomona Capital	Private Equity Management	187,500
Providence V	Private Equity Management	164,100
Recovery Equity	Private Equity Management	12,100
Seaport Capital Partners II	Private Equity Management	61,400
SKM Equity Fund III, LP	Private Equity Management	86,500
Sprout	Private Equity Management	28,500
Stonington Partners	Private Equity Management	24,400
SUN Capital Partners LP	Private Equity Management	8,200
TD Capital	Private Equity Management	115,300
Venture Investors	Private Equity Management	106,700
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	562,500
Windpoint Partners IV LP	Private Equity Management	120,000
Windpoint Partners V LP	Private Equity Management	36,000
Windpoint Partners VI LP	Private Equity Management	88,200
Windward Capital Partners II LP	Private Equity Management	1,900
WLR Recovery Fund L P	Private Equity Management	10,100
Xylem II L P	Private Equity Management	16,900
Total Private Equity Management		\$10,299,700

Expenses for private equity management fees are estimated and adjusted annually based upon committed capital or assets under management, determined by management contract terms. Total committed capital includes management fees. All capital contributions to the limited partnership must first be returned to the limited partners before any incentive fees are paid to the general partner.

Index, Enhanced and Commingled Fund Fees

Barclays Global Investors (BGI)	Quantitative/Enhanced & Index Fund Management	\$11,796,136
Boston Company, The	Equity Emerging Market Management	756,538
Capital Guardian Trust Company	Global High Yield Fixed Income Management	400,057
Goldman Sachs Asset Management	Quantitative/Enhanced & Index Fund Management	150,427
Grantham, Mayo, Van Otterloo	Equity and Fixed Income Emerging Market Management	907,365
Janus Institutional Asset Management	Quantitative/Enhanced & Index Fund Management	77,222
LSV Asset Management	Quantitative/Enhanced & Index Fund Management	196,508
T. Rowe Price Trust Company	International Emerging Market Management	1,186,427
UBS Global Asset Management	Multi-Asset Management	691,463
Total Index, Enhanced and Commingled Fund Fees		\$16,162,143

Public Market Active Management Fees

Aberdeen Asset Management	Global Fixed Income Active Management	\$418,247
Acadian Asset Management	International Equity Active Management	732,213
AEW	Real Estate Investment Trusts	99,298
Alliance Bernstein	International Equity Active Management	1,525,810
American Century Investments	International Equity Active Management	304,227
Brandywine Asset Management	Global Fixed Income Active Management	424,091
Bridgewater Associates	Global Fixed Income Active Management	593,605
Fidelity Management Trust Co.	International Equity Active Management	326,713
Grantham, Mayo, Van Otterloo	Large Cap Quantitative Management	56,723
Heitman Real Estate Securities, LLC	Real Estate Investment Trusts	87,529

STATE OF WISCONSIN INVESTMENT BOARD
 Direct Charges to All Funds Under Management - Accrual Basis
 Quarter Ending June 30, 2006

Loomis, Sayles & Co.	High Yield Fixed Income Active Management	450,112
LSV Asset Management	International Equity Active Management	1,455,685
Morgan Stanley Asset Management	International Equity Active Management	816,316
Salomon Brothers Asset Management	Emerging Market Fixed Income Active Management	417,682
Standish Mellon Asset Management LLC	Cash Management Service	78,513
UBS Global Asset Management	Global Fixed Income Management	224,371
Total Public Market Active Management Fees		<u>\$8,511,135</u>

Total Quarterly Charges to Funds **\$43,280,784**

Explanations of Direct Charges

Custodial & Banking Fees

Bank of New York: Provides custody of assets (safekeeping, income collection and pricing of securities) in the State Investment Fund (SIF). Charges are based on a flat fee.

Wisconsin Certificate of Deposit Program: Under a contract with SWIB, Bankers' Bank administers the program under which SIF purchases certificates of deposit from Wisconsin-based banks and thrifts. Most administrative costs are paid by the participating banks. SWIB's expenses are \$2,500 per quarter to help underwrite other administrative costs, such as insurance that SWIB requires to be purchased.

Mellon Financial Services: Provides master custody services (safekeeping of assets, income collection, valuations and accounting) for public and private domestic and foreign securities in the Wisconsin Retirement System (WRS) and smaller funds. In addition, SWIB receives performance measurement and analytical services from Mellon Analytical Solutions through its custodial contract with Mellon. Mellon serves as the official book of record for SWIB's accounting and performance measurement functions. Mellon provides the data and analytical tools used by SWIB for compliance and risk management. The fees are calculated and are detailed in the negotiated fee schedule based on the different countries in which SWIB invests, the amount of assets in custody, and the analytical tools that SWIB uses.

US Bank: The State of Wisconsin has contracted with US Bank to be the state's working bank. The fees paid to US Bank by SIF reflect bank service charges that are not directly applicable to the fund participants. These fees are distributed to the fund participants through the monthly SIF earnings process.

Legal Fees, Services and Expenses

Under authority delegated by the Attorney General, pursuant to s. 25.18 (1) (a) Statutes, SWIB may employ legal counsel for any matters arising out of the scope of its investment authority. This includes legal services relating to bankruptcies, class actions, private markets transactions, fiduciary advice, securities law, investment litigation, and other similar matters. Capitalized fees incurred during the asset acquisition process are reported separately as a charge against the value of the asset. The Attorney General annually reviews and approves a list of law firms to provide investment legal services for SWIB and reviews related legal fees.

Investment Counsel

Current law gives SWIB the authority to employ investment counsel in any matters arising out of the scope of its investment authority. Investment research and services provided include global market, industry, economic and company information, financial and performance analytics, news information, pricing and exchange data, credit ratings, financial modeling, economic forecasting, trading services and a variety of Board consultations. These services enable SWIB to perform due diligence on current and future holdings and assist in monitoring investments.

Real Estate Investment Management Services

SWIB hires real estate advisors to assist with sourcing analysis, due diligence and management of real estate investments. SWIB also invests in funds, typically limited partnerships. Each fund either has a general partner or engages a fund manager with delegated authority to make real estate investments for the fund. Real estate advisory fees are usually based on a percentage of assets under management. Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Private Equity Management Fees

SWIB invests in private equity funds, typically limited partnerships that in turn make individual private equity investments. Each fund is managed by its general partner or fund manager with delegated authority. Fees are established as a percentage of the capital committed to each fund or partnership. As assets in a fund are sold, the management fees paid are typically reimbursed from the profits of the fund.

Public Market Active Management Fees

Within broad guidelines established by SWIB, these managers have been delegated authority to determine strategy and purchase securities in SWIB's name under a separate and distinct account. This relationship is used primarily in the management of international equity and fixed income investments. Fees are typically assessed as a percentage of the market value of assets under management and may include other factors.

Standish Mellon invests the cash from the externally managed portfolios and internally managed international equity portfolios that have yet to be invested in stocks or bonds. Due to settlement times around the globe, these funds cannot be effectively managed in the State Investment Fund. The fees are negotiated as part of the custodial contract.

Indexed, Enhanced and Commingled Fees

SWIB has investments in a number of externally managed funds that seek to replicate the returns of a particular public market index (such as the Russell 3000) or seek to enhance the return from a particular public market index through the use of quantitative models or other strategies. SWIB's investments are commingled with other investors, and the underlying securities are owned in the name of the fund manager. Fees are typically based on a percentage of assets under management and may include other factors, such as performance.

Asset Specific Charges

Asset specific charges include expenses that are directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are netted in gross returns of the asset, consistent with standard industry practices.

STATE OF WISCONSIN INVESTMENT BOARD
 Report of Asset Specific Charges and Capitalized Legal Fees - Accrual Basis
 Quarter Ending June 30, 2006

Charge Category	Service Provided	Charges
Legal Fees, Services and Expenses		
Axley Brynelson	Private Placements and General Legal Advice	\$6,927
C T Corporation System	Out-of-State Legal Advice	432
Chapman & Cutler	Private Markets Investment Transactions	6,802
Jones, Day, Reavis & Pogue	Private Markets Investment Transactions	7,281
Law Office of Walter S. Cowger	Private Markets Investment Transactions	83
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	34,604
Nowell, George W.	Private Markets Investment Transactions	6,194
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	3,822
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	4,460
Total Legal Fees, Services and Expenses		\$70,604
Internal Management		
Ernst & Young LLP	Audit & Accounting	227,679
Total Internal Management		\$227,679
Total Asset Specific Charges		\$298,283
Capitalized Legal Fees		
Cox, Castle & Nicholson	Real Estate Investment Transactions	23,813
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	22,406
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	24,349
Total Capitalized Legal Fees		\$70,568

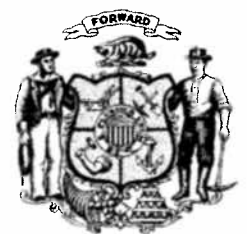
This table includes expenses that are capitalized at the time of acquisition or directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are reflected in the value of the asset or netted in gross returns of the asset, consistent with standard industry practices.

Internal and External Management
Quarterly Totals

	9/30/2005		12/31/2005		3/31/2006		6/30/2006	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$19,493	26.8%	\$19,347	26.2%	\$17,760	23.0%	\$16,067	21.0%
Externally Managed Dedicated Accounts	10,408	14.0%	10,383	14.0%	11,414	14.8%	11,583	15.2%
Externally Managed Commingled Accounts	42,850	59.0%	44,177	59.8%	47,992	62.2%	48,765	63.8%
1. Passive Index Funds	20,336	28	20,218	27.4	22,120	28.6	22,794	29.8%
2. Enhanced Index Commingled Funds	16,944	23.3	18,189	24.6	19,621	25.4	19,799	25.9%
3. Limited Partnerships	3,055	4.2	3,149	4.3	3,434	4.5	3,650	4.8%
4. Actively Managed Commingled Accounts	2,515	3.5	2,621	3.5	2,817	3.7	2,522	3.3%
TOTAL WRS Assets	\$72,751	100.0%	\$73,907	100.0%	\$77,166	100.0%	\$76,415	100.0%



WISCONSIN STATE LEGISLATURE





State of Wisconsin Investment Board

MAILING ADDRESS
PO BOX 7842
MADISON, WI 53707-7842

121 EAST WILSON ST
MADISON, WI 53703
(608) 266-2381
FAX: (608) 266-2436

October 10, 2006

Honorable Scott Fitzgerald, Co-Chair
Joint Committee on Finance
PO Box 7882
Madison WI 53708-7882

Honorable Dean Kaufert, Co-Chair
Joint Committee of Finance
PO Box 8952
Madison WI 53708-8952

Honorable Carol A. Roessler, Co-Chair
Joint Committee on Audit
PO Box 7882
Madison WI 53708-7882

Honorable Suzanne Jeskewitz, Co-Chair
Joint Committee on Audit
PO Box 8952
Madison WI 53708-8952

Mr. Robert Marchant
Senate Chief Clerk
PO Box 7882
Madison WI 53708-7882

Mr. Patrick Fuller
Assembly Chief Clerk
PO Box 8952
Madison WI 53708-8952

Dear Senator Fitzgerald, Senator Roessler, Representative Kaufert, Representative Jeskewitz, Mr. Marchant and Mr. Fuller:

Since the enactment of s. 25.17 (14r), Stats., as a part of 1995 Wisconsin Act 274, the Investment Board has provided you with a copy of all changes the Trustees adopt to investment policies and guidelines. The guidelines we have filed have dealt with assets invested by internal investment managers.

When the law was enacted, most assets under the Investment Board's management were invested by our internal staff. However, as funds have grown and markets have changed, the Board has further diversified how assets are managed and invested. This was done to take advantage of market changes and to achieve optimum returns while still controlling the risk. Today, the majority of assets in the Wisconsin Retirement System are invested externally. This includes both active external management, where the investments are held in SWIB's name, and commingled funds (e.g., index funds), where SWIB's assets are combined with other investors' assets and invested in the name of the commingled fund.

The Investment Board's direct investments managed by external managers are governed by a contract between the investment manager and the Investment Board. Each of these contracts includes investment guidelines established by SWIB's internal Investment Committee within investment limits set by applicable laws. These guidelines are tailored for a specific external manager to take advantage of the manager's unique skills.

The statute requires SWIB to file changes in the Board's investment policies or guidelines. While it does not appear to require the filing of guidelines included in contracts with external

managers, in the interest of full disclosure and because the number of external managers has grown, we decided to file the contractual procedures and guidelines for the external managers, as well as the Board's policies and procedures for internal managers. I have enclosed the part of each contract with an external manager that includes the current procedures and guidelines for the specific external manager. When future amendments are made, I will provide you with both a red-lined copy and clean copy to show the amendments.

Please call either Jane Hamblen (266-8824), Chief Legal Counsel, or Sandy Drew (261-0182), Legislative Liaison, if you have questions.

Sincerely,

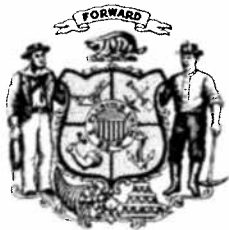
A handwritten signature in black ink, appearing to read "David C. Mills". The signature is written in a cursive style with a large initial "D".

David C. Mills
Executive Director

Enclosures



WISCONSIN STATE LEGISLATURE



State of Wisconsin Investment Board
Adopted by the Investment Committee 5/23/06

Procedures for Waivers on Emerging Market Investments
Stocks and Corporate Bonds

At its meeting on February 8, 2006, the Board of Trustees approved a change in how emerging market countries are screened for investability of companies domiciled there. The Freedom House screen previously used for stock and corporate bond investments was augmented by an economic screen, the Index of Economic Freedom.

1. Countries rated above "Not Free" by Freedom House and above "Repressed" by the Index of Economic Freedom are investable.
2. Countries rated both "Not Free" by Freedom House and "Repressed" by the Index of Economic Freedom are not eligible for investment.
3. Countries rated either "Not Free" by Freedom House or "Repressed" by the Index of Economic Freedom (Split Rated Countries) must receive Investment Committee authorization.

Implementation

A portfolio manager of a dedicated SWIB portfolio may make a business case to the Investment Committee to hold stocks or corporate bonds in Split Rated Countries. The business case should be made in writing. The Board approved the following review criteria.

- Review of the business case by the portfolio manager should include consideration of the following risk factors, other country rating tools (e.g. Transparency International, Fraser Institute, eStandards Forum) , and other relevant information:

Risk Factors:

Monetary Transparency	Data Dissemination
Accounting	Payment System Central Bank
Securities Regulation	Auditing
Fiscal transparency	Corporate Governance
Banking Supervision	Payment System
Insolvency Framework	Money Laundering
Insurance Supervision	Respect for Human Rights
Respect for Civil Liberties	Respect for Political Rights
Worker Rights	Respect for U.S. Trade Sanctions
War/Conflicts of Terrorism	
Discrimination Based on Race, Sex, Disability, Language, or Social Status	

The portfolio manager should present a written recommendation to the Investment Committee which contains a discussion of the factors relevant to the investment decision being considered.

Additionally, the portfolio manager should indicate the latitude being requested (e.g., hold a benchmark weight in the country, holding not to exceed x% of the portfolio) and what circumstances would trigger reconsideration (e.g., a waiver for a period of time, reconsideration if there is a change in credit rating or a change in the political stability of the government of the country).

The Head of the Asset Class / CIO responsible for the portfolio will be asked to provide his/her recommendation on the portfolio manager's request.

The Investment Committee will:

- Approve investments in a particular country as proposed by the portfolio manager,
- Approve investments in the particular country with modification to the latitude and/or triggers, or
- Disapprove the holding of investments in a particular country. If an investment is currently held in the portfolio, the Investment Committee will work with the portfolio manager and the Head of Class in establishing a transition plan.

Investments in a country that was investable at the time the investment was made, but that becomes a Split Rated Country as a result of a change in either Freedom House or the Index of Economic Freedom rating must receive Investment Committee authorization within 90 days of the rating change.

Investments in Split Rated Countries that were held in the portfolio when the policy was changed on February 8, 2006 must receive Investment Committee authorization by Monday, August 7, 2006.

Decisions by the Investment Committee will be communicated to the Portfolio Manager in writing by the Asset Class Head/CIO.

If an investment in an emerging market entity must be liquidated, consideration shall be given to protecting the value of SWIB's assets to the maximum extent possible.