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☞ Details: Public Hearing: Audit Report 7-10: An Evaluation: State of Wisconsin Investment Board

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2007-08

(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)

Record of Committee Proceedings

Joint Legislative Audit Committee

Audit Report 07-10

State of Wisconsin Investment Board

October 31, 2007 **PUBLIC HEARING HELD**

Present: (7) Senators Sullivan, Lassa and Cowles;
Representatives Jeskewitz, Kerkman, Cullen
and Parisi.
Absent: (3) Senators Decker and A. Lasee; Representative
Rhoades.

Appearances For

- None.

Appearances Against

- None.

Appearances for Information Only

- Janice Mueller, Madison — State Auditor, Legislative Audit Bureau
- Diann Allsen, Madison — Legislative Audit Bureau
- Keith Bozarth, Madison — Executive Director, State of Wisconsin Investment Board
- Ken Johnson, Madison — Chief Operating Officer, State of Wisconsin Investment Board

Registrations For

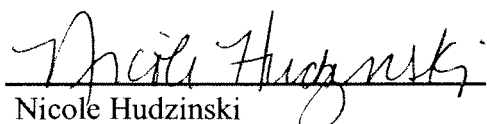
- None.

Registrations Against

- None.

Registrations for Information Only

- None.


Nicole Hudzinski
Committee Clerk



STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

CORRECTED

February 5, 2007

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have completed our fiscal year (FY) 2005-06 financial audit of the State of Wisconsin Investment Board, as requested by the Investment Board and to fulfill our audit requirements under s. 13.94(1)(df), Wis. Stats. The Investment Board's financial statements present the investments and investment activity for the State Investment Fund, the Wisconsin Retirement System funds, and five other smaller insurance and trust funds. The statements and our unqualified opinions on them are included in the Investment Board's FY 2006 Annual Report, which can be found on the Investment Board's Web site.

The State Investment Fund invests the excess operating funds of State of Wisconsin agencies, the retirement funds, and the Wisconsin Local Government Investment Pool. Net investment income earned by the State Investment Fund increased 96.3 percent, from \$111.5 million in FY 2004-05 to \$218.9 million in FY 2005-06 because of higher interest rates in the markets. After factoring in net investment income and net deposits and withdrawals, the State Investment Fund had a net asset balance of \$4.7 billion as of June 30, 2006.

The retirement funds, which include the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund, experienced positive investment returns in FY 2005-06. The Core Fund reported net investment income of \$7.6 billion, and the Variable Fund reported net investment income of \$755.6 million. After factoring in net investment income, net contribution receipts, and benefit disbursements in FY 2005-06, the net investment assets of the retirement funds as of June 30, 2006 were \$70.0 billion for the Core Fund and \$6.4 billion for the Variable Fund.

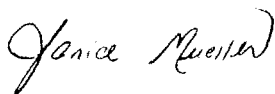
The Investment Board is also responsible for investing the assets of five insurance and trust funds: the Injured Patients and Families Compensation Fund, the State Life Insurance Fund, the Local Government Property Insurance Fund, the EdVest Tuition Trust Fund, and the Historical Society Trust Fund. Each of these funds has different investment policies, as established by the agency responsible for the fund and the Investment Board. The largest of these funds, the Injured Patients

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Page 2
February 5, 2007

and Families Compensation Fund, had net investment assets totaling \$746.0 million as of June 30, 2006.

Government Auditing Standards require us to provide an auditor's report on internal control over financial reporting and on compliance and other matters, which accompanies this letter. As noted in the report, we did not identify any control or compliance concerns that are required to be reported under these standards.

Sincerely,



Janice Mueller
State Auditor

JM/DA/kc

Enclosure

cc: Senator Julie Lassa
Senator Russell Decker
Senator Alan Lasee
Senator Robert Cowles

Representative Samantha Kerkman
Representative Kitty Rhoades
Representative David Cullen
Representative Joe Parisi



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller
State Auditor

December 6, 2006

Mr. David Mills, Executive Director and
Members of the Investment Board Audit Committee
121 East Wilson Street
Madison, Wisconsin 53703

Dear Mr. Mills and Members of the Investment Board Audit Committee:

We have completed a financial audit of the investment activity of the State Investment Fund, the Retirement Investment Trust Funds, and the Various Funds managed by the State of Wisconsin Investment Board for the year ended June 30, 2006. We issued unqualified auditor's reports on the fair presentation of the financial statements. These financial statements and related opinions are included in the Investment Board's 2006 Annual Report.

As provided for in *Government Auditing Standards*, we are also furnishing you with the auditor's report on internal control over financial reporting and compliance and other matters. We did not identify any compliance or control concerns required to be reported under these standards.

We appreciate the courtesy and cooperation extended to us by Investment Board staff during the audit.

Sincerely,

Janice Mueller
State Auditor

JM/DA/bm

Enclosure

cc: Senator Carol A. Roessler
Representative Suzanne Jeskewitz



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller
State Auditor

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the State Investment Fund, the Retirement Investment Trust Funds, and the Various Funds managed by the State of Wisconsin Investment Board as of and for the years ended June 30, 2006 and 2005, and have issued our reports thereon dated August 23, 2006, and November 21, 2006. The financial statements and related auditor's opinions have been included in the State of Wisconsin Investment Board's annual report for 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Investment Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Investment Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This independent auditor's report is intended for the information and use of the Investment Board's management and audit committee, and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. However, because we do not express an opinion on internal control over financial reporting or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

November 21, 2006

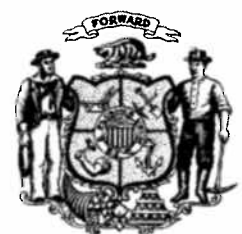
by



Diann Allsen
Audit Director



WISCONSIN STATE LEGISLATURE





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

March 16, 2007

Senator Russ Decker, Co-Chair
Joint Committee on Finance
122 South, State Capitol
Madison, WI 53708-7882

Representative Kitty Rhoades, Co-Chair
Joint Committee on Finance
309 East, State Capitol
Madison, WI 53708-8952

Senator Jim Sullivan, Co-Chair
Joint Committee on Audit
15 South, State Capitol
Madison, WI 53707-7882

Representative Suzanne Jeskewitz, Co-Chair
Joint Committee on Audit
Joint Committee on Retirement Systems
314 North, State Capitol
Madison, WI 53708-8952

Senator Robert Wirch, Co-Chair
Joint Committee on Retirement Systems
317 East, State Capitol
Madison, WI 53707-7882

Subject: 2006 Annual Financial Report and Schedule of Investments

Dear Senators and Representatives:

I have enclosed copies of the FY 2006 Annual Financial Report and the Schedule of Investments for the State of Wisconsin Investment Board. The report contains Independent Auditor's Reports, prepared by the Legislative Audit Bureau, for the funds that we manage. These include the Core and Variable Funds of the Wisconsin Retirement System, the State Investment Fund and various smaller funds. The Schedule of Investments lists all investments that SWIB held as of June 30, 2006.

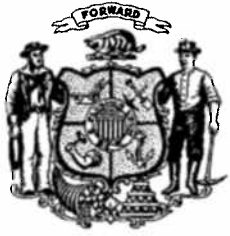
If you'd like additional copies, you may either download the reports from our website, which is www.swib.state.wi.us, or call Sandy Drew (261-0182) for additional hard copies.

Sincerely,

A handwritten signature in black ink, appearing to read "David C. Mills".

David C. Mills
Executive Director

Enclosures

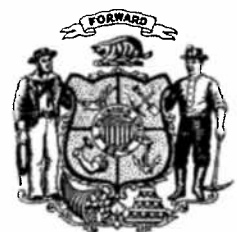


The following document was too large to scan into the committee record. The cover and table of contents, if available, have been scanned for your convenience.

Most large publications have been added to the Theoblad Legislative Library's collections. Search LRBCat (<http://lrbcats.lrb.wisconsin.gov/>) for availability.

For further assistance, contact the reference desk at (608) 266-0341 or lrb.reference@legis.wisconsin.gov.

State of Wisconsin - Legislative Reference Bureau
1 East Main Street, Suite 200
Madison, WI 53703





***State of Wisconsin
Investment Board***

FY 2006 Annual Report

A circular graphic element consisting of a white ring with a black center, positioned at the bottom right corner of the title block.

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This document includes a brief overview of the assets under management by the Investment Board and the comparative financial statements and related notes for the fiscal years ending June 30, 2006, and June 30, 2005. A complete listing of the Board's investments held as of June 30, 2006, is available on the Internet at www.swib.state.wi.us or by contacting the State of Wisconsin Investment Board.



***State of Wisconsin
Investment Board***
FY 2006 Schedule of Investments



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The State of Wisconsin Investment Board (SWIB) is a state agency responsible for investing the assets of the Wisconsin Retirement System (WRS), the State Investment Fund (SIF) and five smaller trust funds established by the State. Investments are made according to the purpose and risk profile of each trust. This document includes a complete listing of the investments as of June 30, 2006. The Annual Report for fiscal year ending June 30, 2006, which provides additional financial information, is available on the Internet or by contacting the Investment Board.

Mailing Address: PO Box 7842, Madison WI 53707
Office Location: 121 E. Wilson Street, Madison WI 53703
General Telephone: (608) 266-2381
Beneficiary Hotline: (800) 424-7942
Email: info@swib.state.wi.us
Website: www.swib.state.wi.us





State of Wisconsin Investment Board

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August 15, 2007

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

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

Senator Jim Sullivan, 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. Michael Morgan, Secretary
Department of Administration
101 East Wilson Street
P.O. Box 7864
Madison, WI 53707-7864

Dear Senator Decker, Senator Sullivan, Representative Rhoades, Representative Jeskewitz and Secretary Morgan:

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 June 30, 2007. Wisconsin statute sec. 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 A lists all expenses by category. The most significant change from the prior quarter's report was that "Total Private Equity Management" expenses decreased from \$15,375,700 to \$748,100. Each quarter, our process has been to estimate the management fees for each of the limited partnerships in which SWIB invests. Annually, we have adjusted the estimated amounts based on the associated fees as reported to us by the general partner. During the fourth quarter of fiscal year 2007, SWIB enhanced its procedures to more accurately categorize the management fees as an expense or a reduction in the asset value. With the enhanced system, SWIB recalculated all private equity limited partnership management fee expense related to fiscal year 2007 and made all adjustments in the fourth quarter. They included downward adjustments in previously reported expenses but did not change the value of the investment or the net returns of the investment. Under the enhanced system, we will be able to adjust fee estimates more frequently.

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.

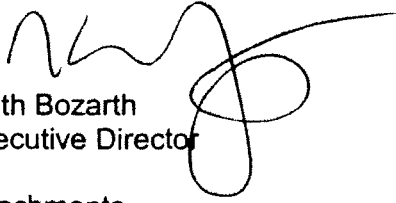
Attachment D shows the amount and share of Wisconsin Retirement System (WRS) assets managed internally and under various forms of external management over the last four quarters. In the last quarter, the overall share of assets managed externally was relatively the same as the prior quarter. However, the percent of assets passively managed increased while the percent in commingled enhanced funds decreased as the result of rebalancing to keep within the asset allocation targets. Slightly over \$2.5 billion was moved from the BGI Russell 3000 alpha tilts and the BGI international equity alpha tilts portfolios to the Russell Lehman Index portfolio, the two internally managed small company portfolios and the liquidity funds to pay benefits to WRS retirees. This should result in a reduction in the fees paid to external managers, which will be reflected during the first quarter of fiscal year 2008.

External investment fees, which apply to active and index portfolios in the public markets, increased approximately \$900,000 from the prior quarter. This was due primarily to a \$5.4 billion increase in assets under management. The quarterly custodial fees decreased approximately \$400,000 primarily due to lower custodial consulting fees and accruals were adjusted downward during the quarter. Fees should decrease significantly in the next quarter as the agency renegotiated its contract with the custodian bank.

SWIB submitted a budget request to increase its basis point operating budget so that it can begin to bring more assets in-house, which will reduce the costs of external management. Governor Doyle included SWIB's request in the biennial budget, and the Joint Committee on Finance adopted the Governor's recommendation with one modification. Both the Senate and the Assembly accepted the Joint Committee on Finance's recommendation. The Legislature's final approval of the Joint Finance recommendation will allow SWIB to fully implement strategies to manage more assets internally.

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,

A handwritten signature in black ink, appearing to read 'Keith Bozarth', with a long horizontal stroke extending to the right.

Keith Bozarth
Executive Director

Attachments

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

ATTACHMENT A

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management – Accrual Basis
Quarter Ending June 30, 2007

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	1,114,535
US Bank	State Banking Services	1,064

Total Custodial and Banking Fees		\$1,159,349
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Legal Fees, Services and Expenses

Cox, Castle & Nicholson	Real Estate Investment Transactions	\$5,056
Foley & Lardner	Private Markets Investment Transactions	42,293

Total Legal Fees, Services and Expenses		\$47,349
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Investment Counsel

Abel/Noser Corp.	Trade Analysis	\$100,000
Alvin Stroyny	Quantitative Analysis Consulting	5,700
American Stock Exchange	American Stock Exchange Data	3,080
BCA Publications	Global & Domestic Fixed Income Strategy Research	11,007
Bloomberg, LP	Market, Company, Industry & Benchmark Information	149,941
Call Street Transcript Service	Credit Analysis	900
Callan Associates Inc.	Global Custodian Search	50,000
CanDeal.ca Inc.	Canadian Government Bond Trading Service	900
Charles River Systems, Inc.	Portfolio Management Software	77,493
Council of Institutional Investors	Corporate Governance	7,500
Courtland Partners	Performance Monitor Reporting	66,250
Credit Sights	Credit Assessments	17,250
Data Broadcasting Corporation - CMS Bond Edge	Pricing Service	10,725
Davis Mendel & Regenstein, Inc.	Online Investment Reports	6,250
Dominion Bond Rating Service (DBRS)	Credit Ratings & Research Reports for Corporate Bond Issuers	1,326
Dow Jones & Co	Company and Industry News Service	10,695
Economy.com	Economic, Currency & Bond Analysis	348
EFL Associates, Inc.	Executive Search - Executive Director	67,698
Ennis, Knupp & Associates	Fiduciary & Governance Consulting	82,540
Factset Data Systems	Financial & Economic Database	75,150
Fitch Info., Inc.	Credit Rating Service	1,600
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	3,045
Gimme Credit	Credit Research	4,666
Global Investment Research Inc.	Technology and Telecom Research	2,500
Groom Law Group, Chartered	Fiduciary Counsel	1,190
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	362,500
iMoneyNet, Inc	Money Market Fund Database	10,001
Instinet	Equity Trading Service	810
Institutional Investor	Global Fixed Income Institute Membership	7,337
institutional Shareholder Services, Inc	Proxy Voting Analysis	29,892

Lombard Street Research	Global Economic Analysis	11,100
London Stock Exchange PLC	License to Use Foreign Security Numbers	9,715
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axess Corporation	Bond and Yield Pricing	900
McLagan Partners	Compensation Comparison	24,895
Moody's Investor Service	Corporate Bond Credit Quality Screening	34,100
Morgan Stanley Capital International	Developed Markets Security Data	19,835
NASDAQ Stock Market	NASDAQ Stock Exchange Data	550
New York Stock Exchange	New York Stock Exchange Data	3,909
Options Price Reporting Authority (OPRA)	Quote System for Options Market	1,440
Peter L. Bernstein	Economic & Portfolio Strategy	462
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,500
Reuters America Inc.	News, Economic & Company Research & Analytics	138,050
RiskMetrics	Volatility and Correlation Data for Value	6,876
Russell/Mellon Analytical Services	Fundamental and Quantitative Risk & Performance Analysis	9,166
S.R. Batliboi & Company	Tax Compliance Services Required by Government of India	15,187
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
Sheshunoff Info. Services	Government Financial Management Report	40
SNL Financial	Customized Analysis of Bank Investments	8,625
Standard & Poor's	Industry & Corporate Research	47,788
Strategic Economic Decisions	Research Reports	6,251
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	70,000
The Corporate Library	Proxy Voting Research Data	18,500
Thomson Financial Services	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	84,204
Toronto Stock Exchange	Market Data/Traders	1,134
Trade Web	On-Line Fixed Income Trading Service	7,600
William O'Neil & Co.	Equity & Analytics Technical Research	21,250
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	89,625
Total Investment Counsel		\$1,843,196

Real Estate Investment Management Services

Apollo Advisors II & LP	Real Estate Management Services	\$30,334
Archstone - Smith Trust	Real Estate Management Service	430,149
Berkshire Property Advisors, LLC	Real Estate Management Services	88,325
Bristol Group, Inc.	Real Estate Management Services	126,825
BVP Managers, LLC	Real Estate Management Services	375,000
Capital Trust	Real Estate Management Services	196,478
Cornerstone Real Estate Advisors	Real Estate Management Services	157,273
Essex VFGP	Real Estate Management Services	83,805
Fortress Investment Corp.	Real Estate Management Services	1,174,878
Goldman Sachs & Co.	Real Estate Management Services	215,855
Guggenheim Structured Real Estate Advisors, LLC	Real Estate Management Services	249,203
Hawkeye Partners LP	Real Estate Management Services	125,000
Heitman Capital Management, LLC	Real Estate Management Services	1,552
Henderson Global Investors (North America) Inc.	Real Estate Management Services	229,731
Hudson Advisors	Real Estate Management Services	392,004
invesco Realty Advisors, Inc.	Real Estate Management Services	328,889
JP Morgan Investment Management	Real Estate Management Services	871,655

Kensington Realty Advisors	Real Estate Management Services	70,720
Koll Bren Realty Advisors	Real Estate Management Services	162,831
KTR Capital Partners	Real Estate Management Services	187,500
Landmark Realty Advisors	Real Estate Management Services	19,296
Lazard Freres	Real Estate Management Services	100,383
Mesa West Capital LLC	Real Estate Management Services	243,750
MMA Realty Capital	Real Estate Management Services	9,179
Morgan Stanley	Real Estate Management Services	110,931
Northwestern Mutual Life	Real Estate Management Services	26,345
Prudential (senior housing)	Real Estate Management Services	158,248
Rockpoint Group LLC	Real Estate Management Services	161,124
Rockspring Property Investment Managers	Real Estate Management Services	49,761
RREEF	Real Estate Management Services	413,124
Security Capital	Real Estate Management Services	1,126,100
Sentinel Realty Advisors Corp.	Real Estate Management Services	28,837
UBS Realty Investors	Real Estate Management Services	60,694
Westbrook Real Estate	Real Estate Management Services	923,032
Total Real Estate Investment Management Services		\$8,928,810

Private Equity Management

3I Europe Investment Partners	Private Equity Management	\$47,700
ACI Capital Investors II	Private Equity Management	250,000
Alchemy Partners	Private Equity Management	(137,800)
Alta Communications IX, LP	Private Equity Management	340,400
Ampersand Ltd Partnership	Private Equity Management	(201,800)
Apollo Investment Fund IV LP	Private Equity Management	103,800
Apollo Investment Fund V LLP	Private Equity Management	(30,200)
Apollo Investment Fund VI	Private Equity Management	188,800
Apollo Invt Fd III LP	Private Equity Management	(35,100)
Ares Corporate Opportunities Fund II	Private Equity Management	209,000
Ares Management	Private Equity Management	(317,800)
Asia Recovery Fund	Private Equity Management	(144,700)
Baird Capital Partners II	Private Equity Management	(25,700)
Baird Venture Partners	Private Equity Management	123,800
BC European Capital	Private Equity Management	(44,700)
Bear Stearns	Private Equity Management	(148,700)
Bear Stearns Merchant Capital	Private Equity Management	25,300
Blackstone Management Partners V LLC	Private Equity Management	(804,800)
Boston Millennia	Private Equity Management	431,600
Bridgepoint Europe III A LP	Private Equity Management	(229,700)
Capital International Global	Private Equity Management	(50,900)
Capital Res Partners IV LP	Private Equity Management	(140,100)
Capital Resource Lenders III	Private Equity Management	(25,200)
Carlyle Asia Ltd.	Private Equity Management	53,600
Carlyle Partners IV, L.P.	Private Equity Management	(417,900)
Carlyle Partners V, L.P.	Private Equity Management	43,100
Charterhouse	Private Equity Management	(812,400)
Charterhouse VIII	Private Equity Management	469,200
Coller International	Private Equity Management	142,500

Coller International V LP	Private Equity Management	35,500
Comerstone Equity IV LP	Private Equity Management	(103,900)
CVC European Equity Partners IV	Private Equity Management	(620,900)
CVC European Equity Partners Tandem Fund	Private Equity Management	66,600
Cypress Advisors, LP	Private Equity Management	152,900
Davis Tuttle Venture Prtns LP	Private Equity Management	(29,200)
Doll Technology Invt Fd II LP	Private Equity Management	(95,000)
El Dorado Ventures	Private Equity Management	(88,100)
EQT V, L.P.	Private Equity Management	168,100
Essex Woodlands Hlth Venture V	Private Equity Management	68,600
Facilitator Fund LP	Private Equity Management	23,400
FFC Partners II, LP	Private Equity Management	58,200
Fortress Invest Fund II LLC	Private Equity Management	(52,400)
Fortress Invest Fund IV (Coinvestment Fund A) LP	Private Equity Management	18,200
Fortress Invest Fund IV (Fund A) LP	Private Equity Management	144,100
Fortress RIC	Private Equity Management	188,100
Fortress V	Private Equity Management	117,800
Fortress V Coinvestment	Private Equity Management	25,000
Frazier	Private Equity Management	321,000
Frontenac	Private Equity Management	565,900
Gores Capital Partners II, LP	Private Equity Management	454,200
Graphite	Private Equity Management	569,200
GS Special Opptys Asia Fd LP	Private Equity Management	(7,100)
GTCR	Private Equity Management	68,200
Harbourvest International	Private Equity Management	243,600
Hellman & Friedman Capital VI	Private Equity Management	10,200
IGP II	Private Equity Management	312,700
Industrial Growth Partners	Private Equity Management	5,700
IT 2000 Invt Enterprise LLP	Private Equity Management	(12,800)
Joseph, Little, John & Levy, Inc.	Private Equity Management	(8,600)
Kelso Investment Association V, LP	Private Equity Management	(28,500)
Kelso Investment VII LP	Private Equity Management	262,400
Kelso VIII	Private Equity Management	45,800
KKR 2006 Fund LP	Private Equity Management	(79,300)
KKR European II	Private Equity Management	(298,700)
Kohlberg Investors VI, LP	Private Equity Management	58,800
Kohlberg Kravis Roberts & CO	Private Equity Management	(139,800)
Lake Pacific I Gladson, LLC	Private Equity Management	437,500
Lake Pacific Partners, LLC	Private Equity Management	(777,500)
Latin America Ent Fund Manager	Private Equity Management	(34,500)
Lindsay Goldberg and Bessemer II	Private Equity Management	539,300
Lone Star Fund IV LP	Private Equity Management	(25,400)
Mason Wells Partners I, LLC	Private Equity Management	(138,500)
Mayfield XI LP	Private Equity Management	(126,800)
New Mountain III	Private Equite Management	205,600
Oak Investment Partners XII, LP	Private Equity Management	(65,800)
OCM Opportunities Fund VII	Private Equity Management	97,400
Old Lane India Opportunities Fund-T, LP	Private Equity Management	155,500

Peninsula Fund IV LP	Private Equity Management	250,000
Peninsula Fund	Private Equity Management	(155,400)
Pioneer Poland US LP SWIB	Private Equity Management	(3,600)
Pomona Capital	Private Equity Management	(345,500)
Providence Equity Partners VI, LP	Private Equity Management	55,200
Providence V	Private Equity Management	(656,300)
Providence VI	Private Equity Management	414,300
Recovery Equity	Private Equity Management	(24,200)
Seaport Capital Partners II	Private Equity Management	61,300
SKM Equity Fund III, LP	Private Equity Management	(98,900)
Sprout	Private Equity Management	(26,700)
Stonington Partners	Private Equity Management	(73,000)
SUN Capital Partners LP	Private Equity Management	(5,400)
TA X	Private Equity Management	(52,600)
TD Capital	Private Equity Management	15,900
Thomas Lee VI	Private Equity Management	(865,700)
TPG Partners V, LP	Private Equity Management	1,198,700
Venture Investors	Private Equity Management	27,800
Venture Investors Early Stage Fund IV	Private Equity Management	53,400
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	(381,700)
Windpoint Partners II	Private Equity Management	14,400
Windpoint Partners IV LP	Private Equity Management	(188,500)
Windpoint Partners V LP	Private Equity Management	127,700
Windpoint Partners VI LP	Private Equity Management	(131,300)
Windward Capital Partners II LP	Private Equity Management	15,600
WLR Recovery Fund L P	Private Equity Management	25,300
Xylem II L P	Private Equity Management	(50,600)
Total Private Equity Management		\$748,200

Index, Enhanced and Commingled Fund Fees

Barclays Global Investors (BGI)	Quantitative/Enhanced & Index Fund Management	\$10,772,584
Boston Company, The	Equity Emerging Market Management	1,062,834
Capital Guardian Trust Company	Global High Yield Fixed Income Management	485,661
Goldman Sachs Asset Management	Quantitative/Enhanced & Index Fund Management	430,123
Grantham, Mayo, Van Otterloo	Equity and Fixed Income Emerging Market Management	599,503
Janus Institutional Asset Management	Quantitative/Enhanced & Index Fund Management	360,136
LSV Asset Management	Quantitative/Enhanced & Index Fund Management	350,117
T. Rowe Price Trust Company	International Emerging Market Management	1,606,278
UBS Global Asset Management	Multi-Asset Management	845,628
Total Index, Enhanced and Commingled Fund Fees		\$16,512,863

Public Market Active Management Fees

Aberdeen Asset Management	Global Fixed Income/Emerging Active Management	\$502,321
Acadian Asset Management	International Equity Active Management	1,113,171
AEW	Real Estate Investment Trusts	103,197
Alliance Bernstein	International Equity Active Management	2,001,315
American Century Investments	International Equity Active Management	411,969
Brandywine Asset Management	Global Fixed Income Active Management	447,738
Bridgewater Associates	Global Fixed Income Active Management	613,183

MANAGER	ASSET CLASS	AMOUNT
Grantham, Mayo, Van Otterloo	Large Cap Quantitative Management	63,522
Heitman Real Estate Securities, LLC	Real Estate Investment Trusts	98,727
Loomis, Sayles & Co.	High Yield Fixed Income Active Management	515,230
LSV Asset Management	International Equity Active Management	1,903,919
Morgan Stanley Asset Management	International Equity Active Management	964,193
Pyramis Global Advisors Trust Company	International Equity Active Management	971,319
Standish Mellon Asset Management LLC	Cash Management Service	38,299
Stone Harbor Asset Management	Emerging Market Fixed Income Active Management	465,083
UBS Global Asset Management	Global Fixed Income Management	241,541
Total Real Estate Active Management Fees		\$10,454,726

Total Quarterly Charges to Funds: \$39,694,493

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

***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.*

EXPLANATION 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 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 & Capitalized Legal Fees – Accrual Basis
Quarter Ending June 30, 2007

Legal Fees, Services and Expenses

Chapman & Cutler	Private Markets Investment Transactions	\$694
Cox, Castle & Nicholson	Real Estate Investment Transactions	92
Law Office of Walter S. Cowger	Private Markets Investment Transactions	38,232
Mayer, Brown, Rowe & Maw	Private Markets Investment Transactions	100
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	(183)
Quarles & Brady	Litigation & Private Markets Investment Transactions	9,843
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	64,602
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	4,336
Total Legal Fees, Services and Expenses		\$117,714

Internal Management

Evans Assoc Consulting LLC	Professional Engineering Services	2,100
Total Internal Management		\$2,100

Total Asset Specific Charges**\$119,814****Capitalized Legal Fees**

Cox, Castle & Nicholson	Real Estate Investment Transactions	161
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	39,681
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	16,924
Total Capitalized Legal Fees		\$56,765

Total Capitalized Legal Fees**\$56,765**

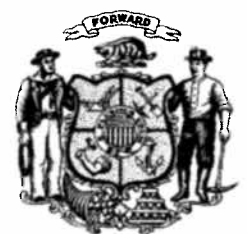
This table includes expenses that are capitalized at the time of acquisition or directly associated with the ongoing activity of an asset such as appraisals or bankruptcy costs. Unlike other expenses reflected in this report, these expenses are reflected in the value of the asset or netted in gross returns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

**INTERNAL & EXTERNAL MANAGEMENT
QUARTER TO QUARTER COMPARISON**

	9/30/2006		12/31/2006		3/31/2007		6/30/2007	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$16,472	20.9%	\$17,064	20.5%	\$17,233	20.4%	\$17,694	20.1%
Externally Managed Dedicated Accounts	12,013	15.2%	12,912	15.5%	13,384	15.8%	14,072	16.0%
Externally Managed Commingled Accounts	50,450	63.9%	53,200	64.0%	53,858	63.8%	56,056	63.8%
1. Passive Index Funds	23,334	29.6%	24,199	29.1%	24,500	29.0%	27,369	31.2%
2. Enhanced Index Commingled Funds	20,656	26.2%	22,045	26.5%	21,843	25.9%	20,395	23.2%
3. Limited Partnerships	3,795	4.8%	3,990	4.8%	4,490	5.3%	5,001	5.7%
4. Actively Managed Commingled Accounts	2,665	3.4%	2,966	3.6%	3,025	3.6%	3,291	3.7%
TOTAL WRS Assets	\$78,935	100.0%	\$83,176	100.0%	\$84,475	100.0%	\$87,822	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

May 15, 2007

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

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

Senator Jim Sullivan, 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. Michael Morgan, Secretary
Department of Administration
101 East Wilson Street
P.O. Box 7864
Madison, WI 53707-7864

Dear Senator Decker, Senator Sullivan, Representative Rhoades, Representative Jeskewitz and Secretary Morgan:

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 March 31, 2007. Wisconsin statute sec. 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 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 first quarter of 2007, the share of assets managed externally was slightly higher than the last quarter of 2006. This was largely due to international and emerging markets outperforming domestic markets. External managers manage the majority of international assets. As the assets rise due to positive returns in the international markets, so do the management fees.

External investment fees, which apply to active and index portfolios in the public markets, decreased \$1.2 million or 4.4% from the fourth quarter of 2006. This was due to two factors: (1) SWIB negotiated lower base fees with Barclays Global Investors (BGI), which is SWIB's largest external manager; and (2) performance based fees decreased primarily as a result of lower investment returns from portfolios with these fee arrangements. Fees for both private equity and real estate management increased as the fees are continuing to be recognized for a number of new limited partnerships begun in 2006.

The quarterly custodial fees rose due to the increased international assets held by the custodial bank, which increased by \$1.7 billion from July 1, 2006 through March 31, 2007. The increase was due to a weak dollar and good performance in the international markets.

SWIB submitted a budget request to increase its basis point operating budget so that it can begin to bring more assets in-house and reduce the costs of external management. Governor Doyle included SWIB's request in the biennial budget, and the Joint Committee on Finance adopted the Governor's recommendation with one modification. The Legislature's approval of the Joint Finance recommendation will enable SWIB to begin the process of implementing strategies that will permit more internal management

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,



Gail Hanson
Interim 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 March 31, 2007

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	1,509,952
US Bank	State Banking Services	1,003

Legal Fees, Services and Expenses

Cox, Castle & Nicholson	Real Estate Investment Transactions	\$1,015
Mayer, Brown, Rowe & Maw	Sale of Real Property	(9,960)
Quarles & Brady	Litigation & Private Markets Investment Transactions	3,094
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	(3,094)

Investment Counsel

Alvin Stroyny	Quantitative Analysis Consulting	\$6,000
American Stock Exchange	American Stock Exchange Data	3,080
Analysis Group Economics	Investment Management Consultant-Equity Exposure Reporting	3,333
AON Risk Services Companies	Fidelity Bond	57,656
BCA Publications	Global & Domestic Fixed Income Strategy Research	10,998
Bloomberg, LP	Market, Company, Industry & Benchmark Information	141,055
Call Street Transcript Service	Credit Analysis	1,350
Callan Associates Inc.	Global Custodian Search	10,000
CanDeal.ca Inc.	Canadian Government Bond Trading Service	600
Charles River Systems, Inc.	Portfolio Management Software	52,403
Council of Institutional Investors	Corporate Governance	7,500
Courtland Partners	Performance Monitor Reporting	51,250
Credit Sights	Credit Assessments	17,875
Data Broadcasting Corporation - CMS Bond Edge	Pricing Service	10,725
Davis Mendel & Regenstein, Inc.	Online Investment Reports	6,250
Dominion Bond Rating Service (DBRS)	Credit Ratings & Research Reports for Corporate Bond Issuers	1,390
Dow Jones & Co	Company and Industry News Service	10,380
Economy.com	Economic, Currency & Bond Analysis	348
EFL Associates, Inc.	Executive Search - Chief Investment Officer	26,668
Ennis, Knupp & Associates	Fiduciary & Governance Consulting	46,250
Factset Data Systems	Financial & Economic Database	72,675
Fitch Info., Inc.	Credit Rating Service	1,600
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	3,147
Gimme Credit	Credit Research	4,500
Global Investment Research Inc.	Technology and Telecom Research	2,502
Groom Law Group, Chartered	Fiduciary Counsel	2,201

Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	362,500
IDC Portfolio Management, Inc.	Interest Rate Forecasting & Wisconsin Bank Reports	4,100
iMoneyNet, Inc	Money Market Fund Database	9,999
Instinet	Equity Trading Service	810
Institutional Investor	Global Fixed Income Institute Membership	4,341
Institutional Shareholder Services, Inc	Proxy Voting Analysis	34,539
KPA Advisory Services	Investment Organization Consulting	4,500
Lombard Street Research	Global Economic Analysis	7,400
London Stock Exchange PLC	License to Use Foreign Security Numbers	274
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axess Corporation	Bond and Yield Pricing	900
McLagan Partners	Compensation Comparison	36,409
Moody's Investor Service	Corporate Bond Credit Quality Screening	33,566
Morgan Stanley Capital International	Developed Markets Security Data	19,747
NASDAQ Stock Market	NASDAQ Stock Exchange Data	2,100
New York Stock Exchange	New York Stock Exchange Data	3,769
Options Price Reporting Authority (OPRA)	Quote System for Options Market	1,440
Peter L. Bernstein	Economic & Portfolio Strategy	308
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,500
Reuters America Inc.	News, Economic & Company Research & Analytics	117,479
RiskMetrics	Volatility and Correlation Data for Value	6,876
Russell/Mellon Analytical Services	Fundamental and Quantitative Risk & Performance Analysis	9,168
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
SNL Financial	Customized Analysis of Bank Investments	8,625
Standard & Poor's	Industry & Corporate Research	44,088
Strategic Economic Decisions	Research Reports	6,249
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	70,000
Thomson Financial Services	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	84,204
Toronto Stock Exchange	Market Data/Traders	1,134
Trade Web	On-Line Fixed Income Trading Service	7,200
William O'Neil & Co.	Equity & Analytics Technical Research	21,250
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	90,875

Real Estate Investment Management Services

Apollo Advisors II & LP	Real Estate Management Services	(\$134,129)
Archstone - Smith Trust	Real Estate Management Service	306,437
Berkshire Property Advisors, LLC	Real Estate Management Services	88,325
Bristol Group, Inc.	Real Estate Management Services	775,039
BVP Managers, LLC	Real Estate Management Services	375,000
Capital Trust	Real Estate Management Services	131,592
Comerstone Real Estate Advisors	Real Estate Management Services	169,892
Essex VFGP	Real Estate Management Services	94,282
Fortress Investment Corp.	Real Estate Management Services	889,479
Goldman Sachs & Co.	Real Estate Management Services	107,646
Guggenheim Structured Real Estate Advisors, LLC	Real Estate Management Services	161,411
Hawkeye Partners LP	Real Estate Management Services	340,316
Heitman Capital Management, LLC	Real Estate Management Services	34,510
Henderson Global Investors (North America) Inc.	Real Estate Management Services	178,967
Hudson Advisors	Real Estate Management Services	384,284
Invesco Realty Advisors, Inc.	Real Estate Management Services	247,310

JP Morgan Investment Management	Real Estate Management Services	1,009,658
Kensington Realty Advisors	Real Estate Management Services	77,292
Koll Bren Realty Advisors	Real Estate Management Services	166,821
KTR Capital Partners	Real Estate Management Services	187,500
Landmark Realty Advisors	Real Estate Management Services	19,842
Lazard Freres	Real Estate Management Services	102,614
Mesa West Capital LLC	Real Estate Management Services	439,303
MMA Realty Capital	Real Estate Management Services	14,514
Morgan Stanley	Real Estate Management Services	103,914
Northwestern Mutual Life	Real Estate Management Services	40,021
Prudential (senior housing)	Real Estate Management Services	158,461
Rockpoint Group LLC	Real Estate Management Services	171,217
Rockspring Property Investment Managers	Real Estate Management Services	49,424
RREEF	Real Estate Management Services	427,476
Security Capital	Real Estate Management Services	629,619
Sentinel Realty Advisors Corp.	Real Estate Management Services	(25,868)
UBS Realty Investors	Real Estate Management Services	59,123
Westbrook Real Estate	Real Estate Management Services	356,813

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 Investment Partners	Private Equity Management	\$123,900
ACI Capital Investors II	Private Equity Management	250,000
Alchemy Partners	Private Equity Management	310,300
Alta Communications IX, LP	Private Equity Management	204,200
Ampersand Ltd Partnership	Private Equity Management	222,900
Apollo Investment Fund VI	Private Equity Management	314,100
Apollo Invt Fd III LP	Private Equity Management	29,100
Ares Corporate Opportunities Fund II	Private Equity Management	218,800
Ares Management	Private Equity Management	167,600
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	198,800
Bear Stearns	Private Equity Management	140,000
Bear Stearns Merchant Capital	Private Equity Management	260,100
Blackstone Management Partners V LLC	Private Equity Management	400,000
Boston Millennia	Private Equity Management	118,800
Bridgepoint Europe III A LP	Private Equity Management	198,100
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, LP	Private Equity Management	366,700
Cerberus Institutional Partners LP	Private Equity Management	365,600
Charterhouse	Private Equity Management	354,500
Charterhouse VIII	Private Equity Management	367,500
Coller International	Private Equity Management	149,000
Coller International V LP	Private Equity Management	562,500

Cornerstone Equity IV LP	Private Equity Management	43,200
CVC European Equity Partners IV	Private Equity Management	1,116,600
CVC European Equity Partners Tandem Fund	Private Equity Management	70,100
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
EQT V, L.P.	Private Equity Management	451,200
Essex VFGP	Private Equity Management	112,500
Facilitator Fund LP	Private Equity Management	59,900
FFC Partners II, LP	Private Equity Management	87,600
Fortress Invest Fund II LLC	Private Equity Management	48,300
Fortress Invest Fund IV (Coinvestment Fund A) LP	Private Equity Management	(220,300)
Fortress Invest Fund IV (Fund A) LP	Private Equity Management	232,500
Fortress RIC	Private Equity Management	(171,300)
Frazier	Private Equity Management	327,300
Frontenac	Private Equity Management	189,600
Graphite	Private Equity Management	375,800
Green Equity Partners V	Private Equity Management	(106,800)
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Stonington Partners	Private Equity Management	24,400
TA X	Private Equity Management	91,400

TD Capital	Private Equity Management	99,200
Thomas Lee VI	Private Equity Management	1,500,000
TPG Partners V, LP	Private Equity Management	162,600
Venture Investors	Private Equity Management	106,700
Venture Investors Early Stage Fund IV	Private Equity Management	187,500
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	750,000
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	325,000
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

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	\$10,888,315
Boston Company, The	Equity Emerging Market Management	927,333
Capital Guardian Trust Company	Global High Yield Fixed Income Management	466,661
Goldman Sachs Asset Management	Quantitative/Enhanced & Index Fund Management	337,716
Grantham, Mayo, Van Otterloo	Equity and Fixed Income Emerging Market Management	596,770
Janus Institutional Asset Management	Quantitative/Enhanced & Index Fund Management	282,057
LSV Asset Management	Quantitative/Enhanced & Index Fund Management	310,970
T. Rowe Price Trust Company	International Emerging Market Management	1,431,215
UBS Global Asset Management	Multi-Asset Management	809,350

Public Market Active Management Fees

Aberdeen Asset Management	Global Fixed Income/Emerging Active Management	\$500,206
Acadian Asset Management	International Equity Active Management	1,008,885
AEW	Real Estate Investment Trusts	149,669
Alliance Bernstein	International Equity Active Management	1,809,279
American Century Investments	International Equity Active Management	377,975
Brandywine Asset Management	Global Fixed Income Active Management	445,119
Bridgewater Associates	Global Fixed Income Active Management	612,381
Grantham, Mayo, Van Otterloo	Large Cap Quantitative Management	61,853
Heitman Real Estate Securities, LLC	Real Estate Investment Trusts	144,430
Loomis, Sayles & Co.	High Yield Fixed Income Active Management	507,284
LSV Asset Management	International Equity Active Management	1,770,288
Morgan Stanley Asset Management	International Equity Active Management	956,384
Pyramis Global Advisors Trust Company	International Equity Active Management	913,714
Standish Mellon Asset Management LLC	Cash Management Service	32,091
Stone Harbor Asset Management	Emerging Market Fixed Income Active Management	471,236
UBS Global Asset Management	Global Fixed Income Management	242,690

Total Quarterly Charges to Funds

\$52,702,723

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 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 March 31, 2007

Legal Fees, Services and Expenses

Chapman & Cutler	Private Markets Investment Transactions	\$925
Cox, Castle & Nicholson	Real Estate Investment Transactions	502
Jones, Day, Reavis & Pogue	Private Markets Investment Transactions	4,169
Law Office of Walter S. Cowger	Private Markets Investment Transactions	20,848
Mayer, Brown, Rowe & Maw	Private Markets Investment Transactions	10,581
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	433
Reinhart Boemer Van Dueren	Private Markets Investment Transactions	(127)
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	1,597
Whyte Hirschboek	Private Markets Investment Transactions	528

Capitalized Legal Fees

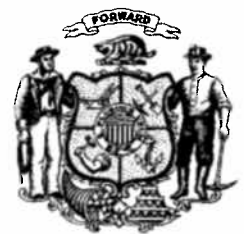
Cox, Castle & Nicholson	Real Estate Investment Transactions	1,355
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	7,480
Orrick, Herrington & Sutcliffe	Real Estate Investment Transactions	45,873
Quarles & Brady	Litigation & Private Markets Investment Transactions	17,271
Reinhart Boemer Van Dueren	Private Markets Investment Transactions	41,493
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	<u>12,791</u>

ATTACHMENT D

	6/30/2006		9/30/2006		12/31/2006		3/31/2007	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$16,067	21.0%	\$16,472	20.9%	\$17,064	20.5%	\$17,233	20.4%
Externally Managed Dedicated Accounts	11,583	15.2%	12,013	15.2%	12,912	15.5%	13,384	15.8%
Externally Managed Commingled Accounts	48,765	63.8%	50,450	63.9%	53,200	64.0%	53,858	63.8%
1. Passive Index Funds	22,794	29.8%	23,334	29.6%	24,199	29.1%	24,500	29.0%
2. Enhanced Index Commingled Funds	19,799	25.9%	20,656	26.2%	22,045	26.5%	21,843	25.9%
3. Limited Partnerships	3,650	4.8%	3,795	4.8%	3,990	4.8%	4,490	5.3%
4. Actively Managed Commingled Accounts	2,522	3.3%	2,665	3.4%	2,966	3.6%	3,025	3.6%
TOTAL WRS Assets	\$76,415	100.0%	\$78,935	100.0%	\$83,176	100.0%	\$84,475	100.0%



WISCONSIN STATE LEGISLATURE





WISCONSIN STATE LEGISLATURE
Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Jim Sullivan
State Representative Suzanne Jeskewitz

October 22, 2007

Mr. Keith S. Bozarth, Executive Director
State of Wisconsin Investment Board
121 East Wilson Street
Madison, Wisconsin 53703

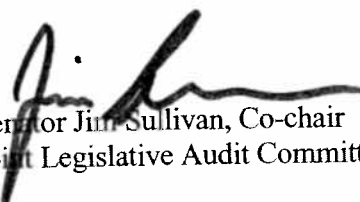
Dear Mr. Bozarth:

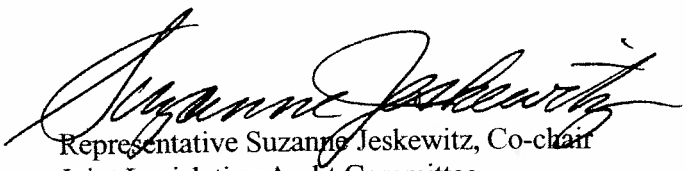
As indicated on the enclosed hearing notice, the Joint Legislative Audit Committee will hold a public hearing on the Legislative Audit Bureau's evaluation of the *State of Wisconsin Investment Board* (report 07-10), on Wednesday, October 31, 2007, at 1:00 p.m. in Room 411 South of the State Capitol.

As this report relates to the activities of your agency, we ask you, and the appropriate members of your staff, to be present at the hearing to offer testimony in response to the audit findings and to respond to questions from committee members. Please plan to provide each committee member with a written copy of your testimony at the hearing.

Please contact Mr. Lewis Rosser in the office of Senator Jim Sullivan at 266-2512 to confirm your participation in the hearing. Thank you for your cooperation and we look forward to seeing you on October 31st.

Sincerely,


Senator Jim Sullivan, Co-chair
Joint Legislative Audit Committee


Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

Enclosure

cc: Ms. Janice Mueller
State Auditor



WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Jim Sullivan
State Representative Suzanne Jeskewitz

October 22, 2007

Mr. James A. Senty, Chairman
Board of Trustees
State of Wisconsin Investment Board
c/o Midwest Bottle Gas
P.O. Box 429
La Crosse, Wisconsin 54602-0429

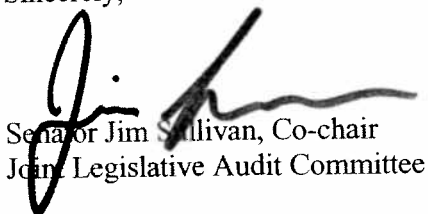
Dear Mr. Senty:

As indicated on the enclosed hearing notice, the Joint Legislative Audit Committee will hold a public hearing on the Legislative Audit Bureau's evaluation of the *State of Wisconsin Investment Board* (report 07-10), on Wednesday, October 31, 2007, at 1:00 p.m. in Room 411 South of the State Capitol.

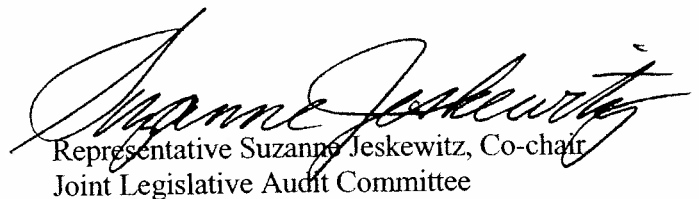
As this report relates to the activities of the State of Wisconsin Investment Board, we invite you to be present at the hearing to offer testimony in response to the audit findings on behalf of the Board of Trustees and to respond to questions from committee members. Please plan to provide each committee member with a written copy of your testimony at the hearing.

Please contact Mr. Lewis Rosser in the office of Senator Jim Sullivan at (608) 266-2512 to confirm your participation in the hearing. Thank you for your cooperation and we look forward to seeing you on October 31st.

Sincerely,



Senator Jim Sullivan, Co-chair
Joint Legislative Audit Committee



Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

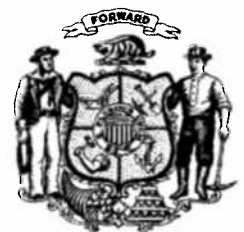
Enclosure

cc: Mr. Keith S. Bozarth, Executive Director
State of Wisconsin Investment Board

Ms. Janice Mueller
State Auditor



WISCONSIN STATE LEGISLATURE



State of Wisconsin Investment Board

Legislative Audit Bureau

October 2007

1

Wisconsin Retirement System

- ◆ \$83 billion in assets at 12/31/06
- ◆ 9th largest U.S. public pension fund
- ◆ Over 540,000 participants
- ◆ Core Fund – diversified fund 90%
- ◆ Variable Fund – stock fund reopened to participants in 2001 10%

2

Wisconsin Retirement System Annual Returns

<u>Year</u>	<u>Core Fund</u>	<u>Variable Fund</u>
2002	(8.8)%	(21.9)%
2003	24.2	32.7
2004	12.8	12.7
2005	8.6	8.3
2006	15.8	17.6

3

Investment Performance

- ◆ Core Fund met or exceeded its benchmarks at the end of 2005 and 2006.
- ◆ Core Fund continues to exceed the actuarial expected investment results of 7.8% over the long-term.
- ◆ Variable Fund met or exceeded its benchmarks at the end of 2005, but lagged its 3- and 5-year benchmarks at the end of 2006.

4

Variable Fund

- ◆ Variable Fund's equity investments no longer mirror those of the Core Fund.
- ◆ Variable Fund has less exposure to international equities than does the Core Fund.
- ◆ Variable Fund's performance lags the composite performance of all equity portfolios.

7

Private Markets Investments

- ◆ Private markets investments include:
 - real estate—directly owned, joint ventures, partnerships, and commercial mortgages;
 - private equity—leveraged buyout and venture capital; and
 - private debt—privately negotiated loans.
- ◆ Private markets investments totaled \$5.5 billion and represented 7.2% of the Core Fund at 12/31/06.

8

Management of Private Markets Investments

- ◆ Several concerns were identified in 2001.
- ◆ SWIB undertook organizational, staffing, and strategic changes.
- ◆ SWIB improved its due-diligence and monitoring procedures.

9

Performance of Private Markets Investments

<u>Asset Class</u>	<u>2005 Return</u>	<u>2006 Return</u>
Private Equity	44.2%	28.7%
Real Estate	28.2	30.1

10

Areas Needing Continued Attention

- ◆ Competition challenges
- ◆ Staff retention
- ◆ Transition portfolios
- ◆ Real estate benchmarks

11

Investments in Wisconsin Companies at 6/30/06

<u>Asset Class</u>	<u>Amount</u>
State Investment Fund	\$ 708,555,000
Private Equity/Private Debt	389,160,700
Public Equities	190,268,900
Fixed Income	67,254,700
Real Estate	<u>17,047,000</u>
Total	\$ 1,372,286,300

12

Investment Performance

- ◆ Real estate, private equity, and international equity had strong performance in 2005 and 2006.
- ◆ Domestic equities was the most notable underperforming asset class, missing its 1-, 3-, and 5-year benchmarks at the end of 2006.

5

Five-year Comparison (at 12/31/06)

<u>Pension Fund</u>	<u>Return</u>	<u>Rank</u>
Pennsylvania Public School Employees	11.7%	1
Washington	11.0	2
California	10.2	3
Virginia	10.1	4
Wisconsin Core Fund	9.9	5
New York State Teachers	9.6	6
Minnesota	9.0	7
Texas Teachers	8.8	8
Florida	8.7	9
New Jersey	7.8	10

6

Wisconsin Private Debt Portfolio

- ◆ The portfolio includes privately negotiated loans with Wisconsin companies.
- ◆ The portfolio was valued at \$353 million at 12/31/06, which represented loans with 31 different companies.
- ◆ The portfolio has had steady performance, providing a 10-year average annual return of 7.8% at the end of 2006.

13

Wisconsin Private Equity Portfolio

- ◆ The portfolio was established in 2000.
- ◆ Through 2006, \$180 million has been committed to investments that focus largely on start-up and early-stage companies.
- ◆ Almost \$78 million has been invested, including \$33 million in Wisconsin companies.

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Performance of Wisconsin Private Equity Portfolio

<u>Period Ending 12/31/06</u>	<u>Average Annual Return</u>
1-year	(1.8)%
3-year	(2.7)
5-year	(5.0)
From inception	(7.6)

15