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☞ Details: Follow-up: State of Wisconsin Investment Board FY 2006-07 financial audit by Legislative Audit Bureau

(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)



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
leg.audit.info@legis.wisconsin.gov

Janice Mueller
State Auditor

January 28, 2008

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) 2006-07 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 2007 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 38.3 percent, from \$218.9 million in FY 2005-06 to \$302.7 million in FY 2006-07 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 \$6.2 billion as of June 30, 2007.

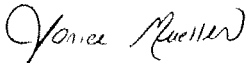
The retirement funds, which include the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund, experienced positive investment returns in FY 2006-07. The Core Fund reported net investment income of \$12.2 billion, and the Variable Fund reported net investment income of \$1.3 billion. After factoring in net investment income, net contribution receipts, and benefit disbursements in FY 2006-07, the net investment assets of the retirement funds as of June 30, 2007, were \$80.5 billion for the Core Fund and \$7.4 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 Historical Society Trust Fund, and the EdVest Tuition 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 and Families Compensation Fund, had net investment assets totaling \$798.1 million as of June 30, 2007.

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
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January 28, 2008

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/BB/bm

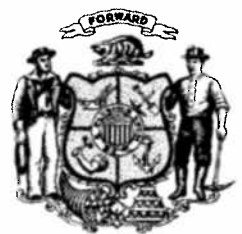
Enclosure

cc: Senator Julie Lassa
Senator Mark Miller
Senator Alan Lasee
Senator Robert Cowles

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



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

23 January 2008

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 53708-8962

Re: Update on SWIB Program Audit Recommendations

Dear Senator Sullivan and Representative Jeskewitz:

There were five recommendations included in the program audit released August 1, 2007. Significant developments related to two of those items have occurred, leading to this update.

Recommendation #1 read:

SWIB should re-evaluate its policies and procedures for making allocation and investment decisions that affect the Variable Fund.

SWIB recently completed its biennial asset allocation review with respect to both the Core and Variable Funds. One result was a revision of the Variable Fund allocation, but more important, SWIB initiated a discussion involving the Employee Trust Funds, Wisconsin Retirement and Teachers Retirement Boards concerning the purposes and participant expectations for the Variable Fund. Those discussions are ongoing, and the revised allocation should be viewed as an interim adjustment, subject to longer term developments.

Attached for your reference is a paper jointly authored by ETF Secretary Dave Stella and me, concerning the Variable Fund. In short, the paper makes two critical points. First, the original purpose of the Variable Fund was to allow for a diversified portfolio, when combined with the Fixed Fund, for individuals so electing. The "Fixed" Fund at that time was essentially a bond fund, so providing an equity exposure through the Variable Fund made sense. In contrast, the Fixed Fund (renamed the Core Fund) has increased its diversification over the years, and the current broadly diversified Core Fund now serves that original purpose. Second, current statutory constraints on Variable Fund allocation do not promote an optimal diversified portfolio, either considered on a stand-alone basis, or in combination with the Core Fund. This point is addressed in greater detail below.

These two considerations suggest that a broader discussion of the benefit purposes of the Variable Fund and the expectations of members participating in the Variable Fund should be

held. The attached paper was discussed with the Joint Retirement Boards on December 13, 2007. That dialogue should be considered ongoing.

In the meantime SWIB, in conjunction with its asset allocation consultant, conducted analysis of available allocation options for the Variable Fund. After that analysis, the decision was made to move the Variable Fund from an 80%/20% split between domestic and international stock to a 70%/30% split. The shift will be phased in during 2008.

The 70%/30% mix provides a slightly higher expected return than the previous mix, and the highest Sharpe Ratio (which melds risk and return considerations) of the modeled asset mixes. The later point is noteworthy, because the Variable Fund mix does not mirror the Core Fund split between domestic and international equities. On the surface an argument can be made that the same split that is optimal for the Core Fund should be optimal for the Variable Fund, too; that turns out not to be the case.

The reason is simply that in seeking optimal mixes asset allocation models consider the interaction (correlation) between all the asset classes involved. The Variable Fund does not contain most of the asset classes contained in the Core Fund, so the dynamics will not mirror those of the Core Fund. Mirroring the domestic/international stock split of the Core Fund does not produce the most desirable mix for the Variable Fund.

This fact leads to two additional points. First, asset allocation is a forward looking exercise. The fact that the domestic/international split of the Core Fund has outperformed the split of the Variable Fund in recent years does not mean the Core Fund split is an optimal split for the Variable Fund in the future.

The second point is that the Core and Variable Fund asset mixes interact with one another. As part of the modeling process SWIB examined a hypothetical participant with a 65% Core and 35% Variable account. (which is a rough proxy for an average participant in the Variable Fund) The Variable Fund allocation options used in the modeling varied between the existing 80/20 split and a 50/50 split for domestic and international stock. In no case did the combined Core and Variable allocation rest on the "efficient frontier." That result is a product of the limitation on asset options available for the Variable Fund.

In other words, under the current statutory structure an optimal portfolio (Core and Variable combined) cannot be constructed. What started out decades ago as an attempt to allow for a better diversified portfolio option, now has the reverse effect. It perhaps goes without saying, but SWIB's primary asset allocation responsibility is to set a Core Fund allocation designed to address the liabilities for the WRS. Core Fund allocation cannot be adjusted to accommodate Variable Fund considerations.

The conclusions offered are twofold. 1) A discussion should be held on whether there is a need for the Variable Fund. The answer to that question involves benefit policy questions, germane to the retirement boards and the Legislature, as well as investment considerations. 2) If there remains a desire for a higher risk option for members, the statute should be revised to allow for the use of the full range of assets in structuring an optimal portfolio.

The dialogue on the first topic was started. Until that dialogue reaches a conclusion, SWIB has attempted to achieve the best available allocation under current constraints.

Recommendation #2 read:

SWIB should review closely the process and decisions made by the investment staff in the placement of investment into transition portfolios.


As noted in SWIB's response, we believe decisions have been appropriately made, but we agreed a review of policies was reasonable. We are attaching a copy of the Private Markets Transition Portfolio Procedures recently adopted by the SWIB Investment Committee. This document memorializes procedures and decision criteria to be used in structuring and managing transition portfolios. The Procedure is a new document for SWIB and should assure future use of transition portfolios will remain appropriate.

Recommendation #3, concerning real estate equity benchmarks, will be addressed following SWIB's regular annual benchmark review later this year.

Recommendations #4 and #5 have to do with the content of SWIB's annual report to the Legislature and will be addressed in that report filed at the end of March.

As always, we welcome any additional questions you may have.

Sincerely,


Keith Bozarth
Executive Director

c. Members - Joint Legislative Audit Committee

Jan Mueller, State Auditor
Legislative Audit Bureau

Attachments



STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: November 30, 2007

TO: Employee Trust Funds Board
Teachers Retirement Board
Wisconsin Retirement Board

FROM: Dave Stella, Secretary
Department of Employee Trust Funds (ETF)

Keith Bozarth, Executive Director
State of Wisconsin Investment Board (SWIB)

SUBJECT: Variable Trust Fund Asset Allocation

A recent Legislative Audit Bureau audit recommended that SWIB examine the variable trust funds' underperformance as compared to the core fund equity investment returns when averaged over a number of years. SWIB is in the process of establishing the core and variable fund asset allocations for 2008. The Department and SWIB are seeking the retirement boards' thoughts on the variable fund prior to finalizing an asset allocation strategy.

Background

The Wisconsin legislature first established the variable trust funds effective in 1958 for the three (formerly) separate retirement funds, the Wisconsin Retirement Fund, the State Teachers Retirement System and the Milwaukee Teachers Retirement Fund.* The stated purpose of creating the variable fund was to establish a well-balanced, broadly diversified investment program that would provide retirement benefits that would fluctuate in proportion to changes in the general economy, thereby providing some measure of financial protection for participants' retirement benefits during periods of high inflation. Participation in the variable fund has always been voluntary, because while it offers the potential for increasing retirement benefits, there is also the risk of benefit decreases in periods of poor stock market performance.

When the variable fund was first created, an election to participate was irrevocable. After a prolonged period of poor stock market performance there was pressure from variable participants to allow them to cancel their participation, and in 1980 at the bottom of the market the Wisconsin legislature closed the variable fund to new enrollments. After a long period of excellent returns there was pressure to reopen the variable fund, and when the market was at its peak in 1999 the Legislature reopened the variable fund to new enrollments effective January 1, 2001, through one of the provisions of 1999 Wisconsin Act 11. Over 108,000 Wisconsin Retirement System (WRS) members now participate in the variable fund.

* These separate retirement plans merged into the Wisconsin Retirement System as of January 1, 1982.

Variable and Core Fund Asset Allocation

The core fund (formerly called the "fixed fund") is the primary funding source for WRS benefits, and investments are intended to produce returns over the long run that equal or exceed the investment earnings assumptions used for actuarial purposes. Core fund monies were initially invested primarily in fixed income investments such as bonds, real estate, etc., while the variable fund has always been invested exclusively in equities.

Over time the relationship between the variable and core fund has changed; the core fund asset allocation has evolved to include greater exposure to equities, and the current policy range allows up to 65% of the core fund to be invested in the stock market. The core fund has essentially become a well-balanced, broadly diversified investment portfolio that provides retirement benefits that adjust in proportion to changes in the general economy. It has the advantage of a smoothing mechanism that protects participants from the more extreme fluctuations of a volatile stock market. Consequently, the policy reasons for the variable fund have become outdated, especially since the core fund now provides substantial equity exposure and corresponding returns, with less volatility than the variable fund.

In recent years the asset allocation for the variable fund has included a lower proportion of international stocks than the core fund equity investments. For example, the variable fund allocation is currently 80% U.S. stock and 20% international stock, while the core fund equity allocation is 36% U.S. and 22% international (a 62%/38% split, remembering that the core fund is also invested in real estate, bonds and other assets). The LAB audit noted that the lower portion of international stock in the variable fund has contributed in recent years to lower performance than the equity portion of the core fund because international stocks have outperformed U.S. stocks. As a result the LAB has suggested reviewing the asset allocation decision for the future.

The relatively lower portion of international stock in the variable fund was motivated by a desire to balance return and volatility potential for those participating in the variable fund. Consideration was given to the fact that a member with half of his/her funds in the variable fund and half in the core fund would have over 80% total stock exposure, well ahead of the asset mix maintained by the most aggressive of the large public pension funds.

Areas For Discussion

Notwithstanding the policy issue of whether there is still a clear need for the variable fund, at this point we are requesting the boards share their thoughts on whether the variable fund's risk and volatility should be reduced or increased. The variable fund returns have lagged the core fund returns while the volatility has been very high (see chart below). As SWIB considers asset allocation in the variable fund it would be helpful for the retirement boards to comment on whether WRS members in the variable fund would want to have the increased risks that are associated with strategies that seek higher returns. The Investment Board can then consider the retirement boards' comments in determining an asset allocation strategy.

Core and Variable Fund Returns for the period ending 12-31-06:

	1 YR	3 YR	5 YR	10 YR
Core	15.8%	12.3%	9.9%	9.2%
Variable	17.6%	12.8%	8.3%	8.7%

Conclusion

Over the longer term, it may be prudent to discuss revision to the variable fund, focusing on such policy issues as: the need for the variable fund; whether the variable fund would better serve its purpose if it can be more broadly diversified; and whether any adjustment should be made for those in or nearing retirement.

State of Wisconsin Investment Board
Private Markets
Transition Portfolio Procedures

Applicability

A transition portfolio is established when a strategy is being discontinued (e.g. direct private equity investment) or a new portfolio manager assumes responsibility for an existing portfolio. In the private markets, a transition portfolio is used to hold assets which are to be sold as well as assets which will continue to be held but do not conform with the new portfolio strategy. In some instances, the transition portfolio holds assets which, due to their size, would overwhelm the performance of the new portfolio. The potentially longer-term nature of this process differs from public markets, in which the purpose of a transition portfolio is to segregate assets for purchase/sale during the transition period only.

In establishing a new portfolio, the new portfolio manager selects assets which are consistent with the manager's investment strategy and then makes a recommendation to the Managing Director regarding which of the remaining assets should be targeted for sale or for retention. The quantitative component of the portfolio manager's incentive compensation is based upon the performance of the new portfolio including selected assets which have been transferred. The remaining transition portfolio will typically be part of the asset class performance but is not directly attributed to the portfolio manager. However, oversight of the transition portfolio will be assigned to one or more portfolio managers and the portfolio performance will be part of the assessment for the qualitative component of incentive compensation. Assets selected from an existing portfolio are transferred to the new portfolio at market value at a future quarter end.

On rare occasions, an asset in a transition portfolio may be transferred into an existing portfolio. This typically arises either due to a change in the character or size of the asset, or to a change in strategy.

Procedures – Set-Up for New Portfolio

For a new portfolio manager, whether hired from outside or promoted from within, a determination is made whether the existing portfolio will be assumed in its entirety or the portfolio manager will be allowed to set up a new portfolio. In the latter case, a transition portfolio will be established. Following is the procedure for establishing a transition portfolio:

- 1) The portfolio manager will review the existing portfolio and select the assets to be transferred to a new portfolio. The remaining assets will constitute the transition portfolio.
- 2) A written justification will be made regarding the division of assets between the two portfolios.
- 3) The division of assets must be approved by the Managing Director of Private Markets.
- 4) Documentation for the transfer will be provided to the Director of Internal Audit who will review it for adequacy.
- 5) The Director of Quantitative Analytics will make a determination regarding when the performance measurement on the new portfolio will begin. This will also

trigger the beginning of the incentive compensation applicable to the new portfolio.

- 6) The Director of Operations and Accounting will be consulted regarding the date of establishing the new portfolio. Portfolios will be established and assets transferred at market value at a quarter end valuation date.
- 7) Once all the details have been established, the final approval is obtained from the Chief Investment Officer or Executive Director.

Procedures – Transfer of Assets from an Existing Portfolio

In limited circumstances, an asset in a transition portfolio may qualify for transfer to an already established portfolio or a portfolio for a newly established strategy. In such a case the following procedures will apply:

- 1) The portfolio manager will identify the assets to be transferred from the transition portfolio.
- 2) A written justification will be made regarding why the assets qualify for transfer.
- 3) The asset transfer must be approved by the Managing Director of Private Markets.
- 4) Documentation for the transfer will be provided to the Director of Internal Audit who will review it for adequacy.
- 5) The Director of Operations and Accounting will be consulted regarding the date of the asset transfer. The asset will be transferred at market value at a quarter end valuation date.
- 6) Once all the details have been established, the final approval is obtained from the Chief Investment Officer or Executive Director.

Approved by Investment Committee 1/22/08





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

February 15, 2008

Senator Mark Miller, 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 Miller, Senator Sullivan, Representative Rhoades, Representative Jeskewitz and Secretary Morgan:

Attached is our quarterly report (Attachment A) of all expenses that were charged directly to funds managed by the State of Wisconsin Investment Board (SWIB or the Board). This report includes expenses incurred during the quarter ending December 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 A lists all expenses by category. Expenses decreased by \$2.3 million from the prior quarter, primarily due to the following:

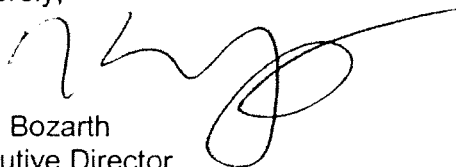
- The most significant change between this report and the third quarter report occurred with the "Total Private Equity Management" expenses, which decreased approximately \$3.6 million from the prior quarter. During the prior two quarters, SWIB had enhanced its accounting procedures to more accurately categorize the management fees for private equity as an expense or a reduction in the asset value. With the enhanced procedures, SWIB recalculated the costs and made adjustments during the second and third quarters of 2007 for private equity limited partnership management fees. Fourth quarter expenses reflect accruals that occurred during the period plus fees for new investments made during the period.
- Earlier in the year, SWIB re-negotiated the contract with BNY Mellon for custodial services, and this report reflects the lower negotiated fees. As a result of the new contract, the "Custodial and Banking Fees" decreased by more than \$400,000 from the prior quarter and are nearly \$1 million less than in the second quarter.
- The equity markets were very volatile during the third and fourth quarters and particularly affected the enhanced index funds. The fees that SWIB pays the managers for those funds are primarily performance-based. As a result of lower performance, the fees had dropped nearly \$2.8 million in the third quarter and decreased another \$350,000 in the fourth quarter. SWIB also moved assets from enhanced portfolios to passive and active external management, which helped to lower the "Total Index, Enhanced and Commingled Fund Fees" SWIB paid for management of those funds.
- Total public market active management fees increased nearly \$800,000. This is due to the addition of two global real estate investment trust portfolios, an accrual adjustment and market value shifts.

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 against gross returns of the asset, consistent with standard industry practices.

Attachment D shows the amount and percent of Wisconsin Retirement System (WRS) assets managed internally and externally over the last four quarters. In the fourth quarter of 2007, dedicated externally managed assets increased, primarily due to funding two new global real estate investment trusts (REIT). Commingled externally managed assets decreased two percent, largely as a result of negative returns in the domestic and international stock portfolios.

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

Sincerely,



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

STATE OF WISCONSIN INVESTMENT BOARD
Direct Charges to All Funds Under Management - Accrual Basis
Quarter Ending December 31, 2007

Charge Category	Service Provided	Charges
Custodial and Banking Fees		
Bankers' Bank	Wisconsin CD Program	\$2,500
BNY Mellon	Retirement System Custodial Services	105,955
US Bank	State Banking Services	446
Total Custodial and Banking Fees		\$108,900
Legal Fees, Services and Expenses		
Foley & Lardner	Private Markets Investment Transactions	\$4,615
Total Legal Fees, Services and Expenses		\$4,615
Investment Counsel		
Abel/Noser Corp.	Trade Analysis	\$20,000
American Stock Exchange	American Stock Exchange Data	3,171
BCA Publications	Global & Domestic Fixed Income Strategy Research	12,000
BioCentury Publications	Biotech Stock News	999
Bloomberg, LP	Market, Company, Industry & Benchmark Information	185,846
Call Street Transcript Service	Credit Analysis	1,350
Callan Associates Inc.	Global Custodian Search	15,000
CanDeal.ca Inc.	Canadian Government Bond Trading Service	900
Charles River Systems, Inc.	Portfolio Management Software	51,610
Connexiti LLC	Supply Chain Data	8,750
Council of Institutional Investors	Corporate Governance	7,500
Courtland Partners	Performance Monitor Reporting	51,250
Credit Sights	Credit Assessments	17,250
Data Broadcasting Corporation - CMS Bond Edge	Pricing Service	10,725
Davis Mendel & Regenstein, Inc.	Online Investment Reports	8,750
Dominion Bond Rating Service (DBRS)	Credit Ratings & Research Reports for Corporate Bond Issuers	1,326
Dow Jones & Co	Company and Industry News Service	11,415
Economy.com	Economic, Currency & Bond Analysis	350
Ennis, Knupp & Associates	Fiduciary & Governance Consulting	78,250
Factset Data Systems	Financial & Economic Database	77,400
Financial Engineering Assoc Inc.	Value at Risk Calculation	3,309
Fitch Info., Inc.	Credit Rating Service	1,600
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	3,757
Gabriel Roeder Smith & Co.	Actuarial Consulting	54,000
Gimme Credit	Credit Research	4,749
Global Investment Research Inc.	Technology and Telecom Research	2,499
Groom Law Group, Chartered	Fiduciary Counsel	128
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	375,000
iMoneyNet, Inc	Money Market Fund Database	10,500
Instinet	Equity Trading Service	864
Institutional Investor	Global Fixed Income Institute Membership	12,850
International Strategy & Investment Group Inc.	Economic Research and Analysis	41,500
Investor Responsibility & Support Services, Inc	Securities Class Action Support	8,751
John Tumazos Very Independent Research	Materials Sector Research	6,250
Lombard Street Research	Global Economic Analysis	14,100
London Stock Exchange PLC	License to Use Foreign Security Numbers	10,059
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axess Corporation	Bond and Yield Pricing	1,050
McLagan Partners	Compensation Comparison	16,972
Moody's Investor Service	Corporate Bond Credit Quality Screening	33,846

Charge Category	Service Provided	Charges
Morgan Stanley Capital International	Developed Markets Security Data	20,250
New York Stock Exchange	New York Stock Exchange Data	1,883
Options Price Reporting Authority (OPRA)	Quote System for Options Market	1,500
Peter L. Bernstein	Economic & Portfolio Strategy	463
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,500
Quantitative Services Group LLC	Access to Quantitative Data	20,001
RiskMetrics	Proxy Voting Analysis	32,730
Reuters America Inc.	News, Economic & Company Research & Analytics	143,884
RiskMetrics	Volatility and Correlation Data for Value	6,872
Russell Investment Group	Index Data Feeds	8,750
S.R. Batliboi & Company	Tax Compliance Services Required by Government of India	11,215
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
Sheshunoff Info. Services	Government Financial Management Report	120
SNL Financial	Customized Analysis of Bank Investments	8,625
Standard & Poor's	Industry & Corporate Research	51,156
StepStone Group LLC	Private Equity consultant	53,339
Strategic Economic Decisions	Research Reports	6,251
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	70,000
Thomson Financial Services	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	98,675
Toronto Stock Exchange	Market Data/Traders	1,134
Trade Web	On-Line Fixed Income Trading Service	7,800
William O'Neil & Co.	Equity & Analytics Technical Research	21,250
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	93,039
World Bank Publications	Historical Emerging Market Countries Macroeconomic Data	121
Total Investment Counsel		\$1,868,383

Real Estate Investment Management Services

Apollo Advisors	Real Estate Management Services	\$39,469
Archstone - Smith Trust	Real Estate Management Services	210,110
Berkshire Property Advisors, LLC	Real Estate Management Services	88,325
Bristol Group, Inc.	Real Estate Management Services	346,126
BVP Managers, LLC	Real Estate Management Services	375,000
Callahan Capital	Real Estate Management Services	452,761
Capital Trust	Real Estate Management Services	326,285
Centerline Capital Group	Real Estate Management Services	(18,705)
Cornerstone Real Estate Advisors	Real Estate Management Services	136,616
Essex VFGP	Real Estate Management Services	102,694
Fortress Investment Corp.	Real Estate Management Services	1,277,444
Goldman Sachs & Co.	Real Estate Management Services	111,049
Guggenheim Structured Real Estate Advisors, LLC	Real Estate Management Services	338,121
Hawkeye Partners LP	Real Estate Management Services	125,000
Henderson Global Investors (North America) Inc.	Real Estate Management Services	215,566
Hudson Advisors	Real Estate Management Services	347,891
Invesco Realty Advisors, Inc.	Real Estate Management Services	279,682
JP Morgan Investment Management	Real Estate Management Services	1,349,134
Kensington Realty Advisors	Real Estate Management Services	94,064
Koll Bren Realty Advisors	Real Estate Management Services	84,687
KTR Capital Partners	Real Estate Management Services	187,500
Landmark Realty Advisors	Real Estate Management Services	17,765
Lazard Freres	Real Estate Management Services	88,723
Mesa West Capital LLC	Real Estate Management Services	243,750
MMA Realty Capital	Real Estate Management Services	2,786
Morgan Stanley	Real Estate Management Services	39,922
Northwestern Mutual Life	Real Estate Management Services	21,254
Prudential (senior housing)	Real Estate Management Services	158,600
Rockpoint Group LLC	Real Estate Management Services	417,695
Rockspring Property Investment Managers	Real Estate Management Services	(88,454)

Charge Category	Service Provided	Charges
RREEF	Real Estate Management Services	468,115
Security Capital	Real Estate Management Services	611,342
Sentinel Realty Advisors Corp.	Real Estate Management Services	155,183
The Blackstone Group	Real Estate Management Services	1,671,875
UBS Realty Investors	Real Estate Management Services	63,951
Westbrook Real Estate	Real Estate Management Services	487,893
Total Real Estate Investment Management Services*		\$10,829,219

Private Equity Management

3I Europe Investment Partners	Private Equity Management	\$78,900
ACI Capital Investors II	Private Equity Management	214,700
Alchemy Partners	Private Equity Management	208,600
Alta Communications IX, LP	Private Equity Management	226,900
American Securities Opportunities Fund, LP	Private Equity Management	3,600
Ampersand Ltd Partnership	Private Equity Management	109,100
Apollo Investment Fund IV LP	Private Equity Management	(24,200)
Apollo Investment Fund VII, L.P.	Private Equity Management	(250,000)
Ares Corporate Opportunities Fund II, LP	Private Equity Management	214,200
Ares Corporate Opportunities Fund, LP	Private Equity Management	3,000
Asia Recovery Fund	Private Equity Management	23,700
Avenue Special Situations Fund V, L.P.	Private Equity Management	430,600
Baird Venture Partners	Private Equity Management	123,800
BC European Capital	Private Equity Management	(1,400)
Bear Stearns	Private Equity Management	34,100
Bear Stearns Merchant Capital	Private Equity Management	101,900
Birch Hill Equity II	Private Equity Management	27,900
Blackstone Management Partners V LLC	Private Equity Management	111,900
Boston Millennia	Private Equity Management	200,000
Bridgepoint Europe III A LP	Private Equity Management	307,500
Capital International Global	Private Equity Management	11,600
Capital Res Partners IV LP	Private Equity Management	56,900
Capital Resource Lenders III	Private Equity Management	11,200
Carlyle Asia Ltd.	Private Equity Management	45,500
Carlyle Partners IV, LP	Private Equity Management	7,100
Carlyle Partners V, L.P.	Private Equity Management	330,300
Cerberus Institutional Partners LP	Private Equity Management	375,000
Charterhouse	Private Equity Management	108,100
Charterhouse VIII	Private Equity Management	347,000
Coller International	Private Equity Management	112,400
Coller International V LP	Private Equity Management	187,500
CVC European Equity Partners IV	Private Equity Management	118,900
CVC European Equity Partners Tandem Fund	Private Equity Management	106,500
Cypress Advisors, LP	Private Equity Management	55,000
Doll Technology Invnt Fd II LP	Private Equity Management	17,500
El Dorado Ventures	Private Equity Management	320,000
EQT V, L.P.	Private Equity Management	215,100
Essex Woodlands Hlth Venture V	Private Equity Management	91,100
Facilitator Fund LP	Private Equity Management	49,700
FFC Partners II, LP	Private Equity Management	76,700
Fortress Invest Fund II LLC	Private Equity Management	(6,000)
Fortress Invest Fund IV (Coinvestment Fund A) LP	Private Equity Management	84,900
Fortress Invest Fund IV (Fund A) LP	Private Equity Management	190,300
Fortress RIC	Private Equity Management	46,900
Fortress V	Private Equity Management	201,300
Fortress V Coinvestment	Private Equity Management	13,600
Frazier	Private Equity Management	320,800

Charge Category	Service Provided	Charges
Frontenac	Private Equity Management	169,900
Gores Capital Partners II, LP	Private Equity Management	91,400
Graphite	Private Equity Management	136,900
Green Equity Partners V	Private Equity Management	(250,000)
GS Special Opptys Asia Fd LP	Private Equity Management	7,300
GTCR	Private Equity Management	(179,400)
Harbourvest International	Private Equity Management	349,700
Hellman & Friedman Capital VI	Private Equity Management	35,200
IGP II	Private Equity Management	(128,800)
Industrial Growth Partners	Private Equity Management	7,300
Kelso Investment VII LP	Private Equity Management	156,000
Kelso VIII	Private Equity Management	(420,800)
KKR 2006 Fund LP	Private Equity Management	602,200
KKR European II	Private Equity Management	23,700
Kohlberg Investors VI, LP	Private Equity Management	218,500
Kohlberg Kravis Roberts & CO	Private Equity Management	(3,500)
KRG Capital Fund IV, L.P.	Private Equity Management	295,500
Lake Pacific I Gladson, LLC	Private Equity Management	110,000
Lake Pacific Partners, LLC	Private Equity Management	(45,000)
Lindsay Goldberg and Bessemer II	Private Equity Management	438,200
Lone Star Fund IV LP	Private Equity Management	15,600
Mason Wells Partners I, LLC	Private Equity Management	47,600
Mayfield XI LP	Private Equity Management	36,800
New Mountain Partners III, L.P.	Private Equity Management	(35,700)
Oak Investment Partners XII, LP	Private Equity Management	150,000
OCM Opportunities Fund VII	Private Equity Management	154,700
Old Lane India Opportunities Fund-T, LP	Private Equity Management	126,000
Peninsula Fund IV LP	Private Equity Management	250,000
Pennisula Fund	Private Equity Management	103,500
Pomona Capital	Private Equity Management	113,500
Providence Equity Partners VI, LP	Private Equity Management	186,400
Recovery Equity	Private Equity Management	(4,300)
Seaport Capital Partners II	Private Equity Management	57,800
SKM Equity Fund III, LP	Private Equity Management	23,000
Sprout	Private Equity Management	11,000
Stonington Partners	Private Equity Management	(11,500)
TA X	Private Equity Management	6,000
TAC 2007, L.P.	Private Equity Management	6,500
Thomas Lee VI	Private Equity Management	(364,900)
TPG Partners V, LP	Private Equity Management	217,500
Venture Investors	Private Equity Management	65,600
Venture Investors Early Stage Fund IV	Private Equity Management	165,400
Vista Equity Partners Fund III, L.P.	Private Equity Management	318,900
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	449,700
Warburg Pincus Private Equity X, L.P.	Private Equity Management	562,500
Windpoint Partners IV LP	Private Equity Management	89,700
Windpoint Partners V LP	Private Equity Management	86,000
Windpoint Partners VI LP	Private Equity Management	57,400
Windward Capital Partners II LP	Private Equity Management	21,300
WLR Recovery Fund LP	Private Equity Management	7,700
Total Private Equity Management**		\$10,167,700

Index, Enhanced and Commingled Fund Fees

Barclays Global Investors (BGI)	Quantitative/Enhanced & Index Fund Management	\$6,483,443
Boston Company, The	Equity Emerging Market Management	1,178,339
Capital Guardian Trust Company	Global High Yield Fixed Income Management	492,145

Charge Category	Service Provided	Charges
Goldman Sachs Asset Management	Quantitative/Enhanced & Index Fund Management	563,832
Grantham, Mayo, Van Otterloo	Equity and Fixed Income Emerging Market Management	631,461
Janus Institutional Asset Management	Quantitative/Enhanced & Index Fund Management	543,872
LSV Asset Management	Quantitative/Enhanced & Index Fund Management	569,139
T. Rowe Price Trust Company	International Emerging Market Management	2,058,356
UBS Global Asset Management	Multi-Asset Management	857,269
Total Index, Enhanced and Commingled Fund Fees		\$13,377,855

Public Market Active Management Fees		
Aberdeen Asset Management	Global Fixed Income/Emerging Active Management	\$575,472
Acadian Asset Management	International Equity Active Management	1,198,813
AEW	Real Estate Investment Trusts	93,176
Alliance Bernstein	International Equity Active Management	2,323,941
American Century Investments	International Equity Active Management	434,582
Brandywine Asset Management	Global Fixed Income Active Management	478,992
Bridgewater Associates	Global Fixed Income Active Management	651,379
EII Realty Services, Inc.	Real Estate Investment Trusts	236,915
Grantham, Mayo, Van Otterloo	Large Cap Quantitative Management	76,796
Heitman Real Estate Securities, LLC	Real Estate Investment Trusts	92,861
Loomis, Sayles & Co.	High Yield Fixed Income Active Management	524,190
LSV Asset Management	International Equity Active Management	1,792,816
Morgan Stanley Asset Management	International Equity Active Management	1,088,321
Pyramis Global Advisors Trust Company	International Equity Active Management	1,198,016
RREEF America LLC	Real Estate Investment Trusts	221,588
Standish Mellon Asset Management LLC	Cash Management Service	27,919
Stone Harbor Asset Management	Emerging Market Fixed Income Active Management	323,140
UBS Global Asset Management	Global Fixed Income Management	257,664
Total Public Market Active Management Fees		\$11,596,582

Total Quarterly Charges to Funds

\$47,953,255

**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.*

***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.*

Explanations of Direct Charges

Custodial & Banking Fees

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.

BNY Mellon: 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), the State Investment Fund (SIF) and the smaller funds. In addition, SWIB receives performance measurement and analytical services from BNY Mellon Analytical Solutions through its custodial contract with BNY Mellon, which serves as the official book of record for SWIB's accounting and performance measurement functions. BNY Mellon provides the data and analytical tools used by SWIB for compliance and risk management. Fees for these services are established by contract.

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.

BNY 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 1000) 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 December 31, 2007

Charge Category	Service Provided	Charges
Legal Fees, Services and Expenses		
Cox, Castle & Nicholson	Real Estate Investment Transactions	\$2,633
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	2,420
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	5,275
Total Legal Fees, Services and Expenses		<u>\$10,328</u>
Total Asset Specific Charges		<u>\$10,328</u>
Capitalized Legal Fees		
Cox, Castle & Nicholson	Real Estate Investment Transactions	925
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	9,375
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	60,451
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	16,243
Total Capitalized Legal Fees		<u>\$86,994</u>
Total Capitalized Legal Fees		<u>\$86,994</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.

Internal and External Management of Wisconsin Retirement System Assets Quarter to Quarter Comparison

	3/31/2007		6/30/2007		9/30/2007		12/31/2007	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$17,233	20.4%	\$17,694	20.1%	\$18,406	20.6%	\$18,251	20.8%
Externally Managed Dedicated Accounts	13,384	15.8%	14,072	16.0%	14,865	16.6%	16,060	18.3%
Externally Managed Commingled Accounts	53,858	63.8%	56,056	63.8%	56,057	62.8%	53,492	60.9%
1. Passive Index Funds	24,500	29.0%	27,369	31.2%	27,347	30.6%	25,566	29.1%
2. Enhanced Index Commingled Funds	21,843	25.9%	20,395	23.2%	19,800	22.2%	18,665	21.3%
3. Limited Partnerships	4,490	5.3%	5,001	5.7%	5,414	6.1%	5,685	6.5%
4. Actively Managed Commingled Accounts	3,025	3.6%	3,291	3.7%	3,496	3.9%	3,577	4.1%
TOTAL WRS Assets	\$84,475	100.0%	\$87,822	100.0%	\$89,328	100.0%	\$87,803	100.0%





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

February 19, 2008

Senator Mark Miller, 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

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

Subject: FY 2007 Annual Financial Report and Schedule of Investments

Dear Senators and Representatives:

I have enclosed copies of the FY 2007 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, 2007.

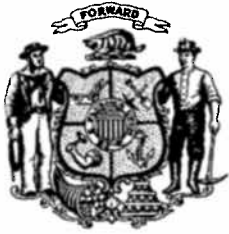
If you would like additional copies, you may either download the reports from our website, which is www.swib.state.wi.us, or call Sandy Drew (261-0182) for additional hard copies.

Sincerely,



Keith Bozarth
Executive Director

Enclosures

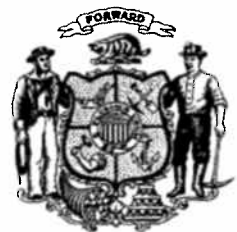


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State of Wisconsin - Legislative Reference Bureau
1 East Main Street, Suite 200
Madison, WI 53703



Annual Report / Fiscal Year 07

State of Wisconsin Investment Board



Annual Report / Table of Contents

This document includes a brief overview of the assets under management by the Investment Board and the financial statements and related notes for the fiscal years ending June 30, 2007, and June 30, 2006. A complete listing of the Board's investments held as of June 30, 2007, is available on the Internet at www.swib.state.wi.us or by contacting the State of Wisconsin Investment Board using the contact information provided on the back cover of this report.

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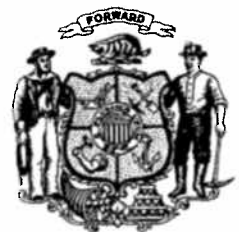


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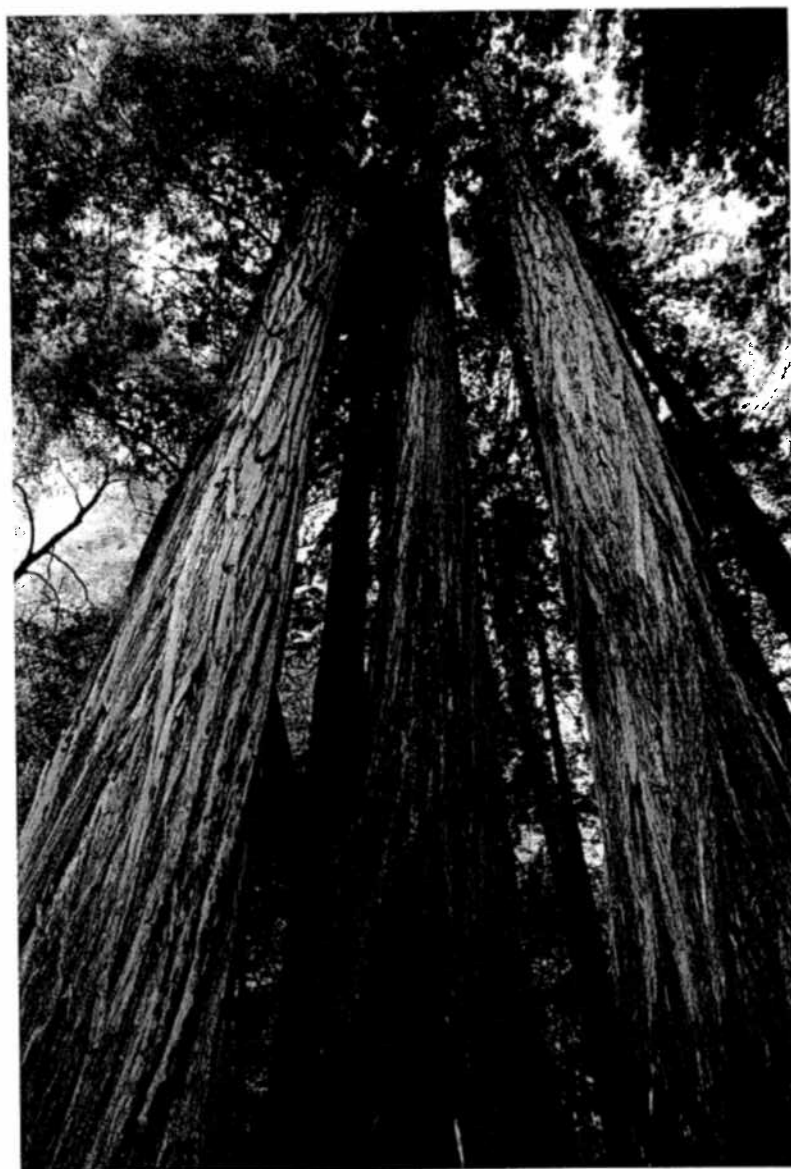
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Madison, WI 53703



Schedule of Investments / Fiscal Year 07

State of Wisconsin Investment Board



Annual Report / Table of Contents

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 four 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, 2007. The Annual Report for fiscal year ending June 30, 2007, which provides additional financial information, is available on the Internet or by contacting the Investment Board.

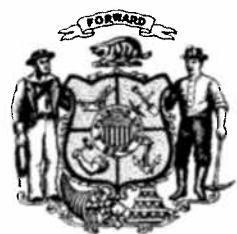
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Mailing Address: PO Box 7842, Madison WI 53707
Office Location: 121 E. Wilson Street, Madison WI 53703
General Telephone: (608) 266-2381 :: Beneficiary Hotline: (800) 424-7942
Email: info@swib.state.wi.us :: Website: www.swib.state.wi.us

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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

March 31, 2008

Senator Mark Miller, 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. Robert Marchant
Senate Chief Clerk
B20 Southeast, State Capitol
Madison WI 53707-7882


Mr. Patrick Fuller
Assembly Chief Clerk
401 Risser Justice Center
Madison WI 53708-8952

Members of the Legislature:

Attached please find a copy of our annual "Goals, Strategies and Performance Report". We provide this pursuant to section 25.17 (14m), Stats. The report contains in-depth information about how we managed the funds and how they performed during very volatile markets in 2007. We expect the markets' volatility to continue and describe in the report steps we are taking to position the funds for 2008 and beyond.

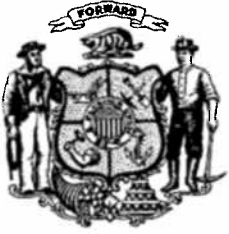
Please contact me if you have any questions about the report or would like to discuss any of the issues in more depth.

Sincerely,



Keith Bozarth
Executive Director

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

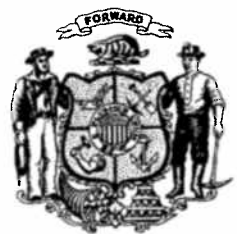


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Madison, WI 53703



**State of Wisconsin
Investment Board**

**Investment Goals, Strategies
and Performance**



March 2008

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