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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)



WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

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

May 13, 2008

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

Dear Mr. Bozarth:

As the legislative session draws to a close, we write to acknowledge receipt of your January 2008 follow-up report concerning the recommendations offered by the nonpartisan Legislative Audit Bureau in its recent audit of the State of Wisconsin Investment Board (report 07-10).

We appreciate your efforts to inform us of the challenges associated with managing the Variable Fund. We understand your position to be that the current statutory structure does not permit an optimal portfolio for the Core and Variable Funds to be constructed. As noted in your January 2008 follow-up report and in your March 2008 annual report, you correctly anticipate the need for further discussion with the Legislature, the Department of Employee Trust Funds, and the retirement boards concerning this issue in general and the future of the Variable Fund specifically.

Thank you for your efforts to keep us apprised of your progress in implementing the audit recommendations. We look forward to noting your continued progress through future statutorily required reports and audits.

Sincerely,

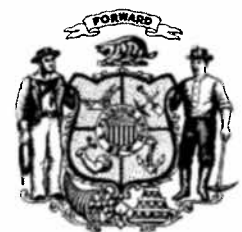
Senator Jim Sullivan, Co-chair  
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair  
Joint Legislative Audit Committee

cc: Janice Mueller  
State Auditor



# WISCONSIN STATE LEGISLATURE





## State of Wisconsin Investment Board

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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, 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) listing all expenses that were charged directly to funds managed by the State of Wisconsin Investment Board (SWIB or the Board) during the quarter ending March 31, 2008. Section 25.17 (13m), Stats., requires that we provide this report on a quarterly basis.

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

This report lists expenses 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 services that are directly charged to the funds. A negative charge typically indicates an 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 following highlights changes from the previous quarter:

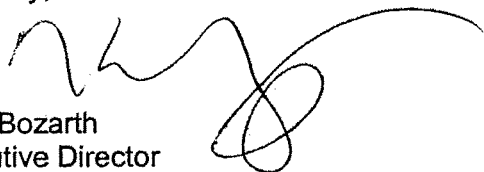
- Indexed and enhanced commingled fund fees continued to decrease during the quarter. Fees paid to Barclay's Global Investors (BGI) dropped \$1.5 million. SWIB had renegotiated fees, which went into effect on January 1, 2008, with BGI for managing the passive index funds. Also, the fees were lower as assets managed by BGI dropped by \$5.4 billion due to volatile markets and moving assets to other managers during the quarter. Fees paid for active external management also decreased by \$1.2 million. Correcting some accruals, which had been over estimated in the fourth quarter, and a decrease in assets due to the markets accounted for the decrease.
- Internal agency operational expenses increased \$7.4 million during the first quarter 2008 over the fourth quarter of 2007. This was due primarily to the \$2.7 million incentive compensation and associated fringe benefits paid based on incentive compensation. These are annual costs.
- Private equity fees increased \$2.5 million over the prior quarter. Approximately \$1.6 million was attributed to expenses associated with new fund commitments. Real estate costs decreased by \$765,000 from the fourth quarter of 2007. This is because fees for three quarters for one investment were combined and credited during the fourth quarter. This resulted in fees for the first quarter appearing to be disproportionately lower than the prior quarter. Had the fees for this investment not been combined in the last report, real estate fees would have shown a slight increase for the first quarter.
- Although custodial fees increased by \$48,000 from the prior quarter, they were still only 10% of the fees paid in the first quarter of 2007 as a result of the renegotiated contract with the custodian. A \$30,000 payment in the fourth quarter of 2007 from the University of Wisconsin for annual custodial fees reduced the costs reported for that period. Costs for investment counsel increased by 5.7% because of an annual insurance premium payment, one-time costs associated with a request for proposal, staff recruitment and specialized training for staff.

Attachment B provides further explanation about the various expenditure categories. Attachment C includes legal expenses that were 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. During the first quarter of 2008, internally managed assets increased when assets were transferred from a passive external bond fund to the internally managed international equities portfolio. External enhanced commingled funds decreased over 2% when funds were transferred to external passive management.

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,

A handwritten signature in black ink, appearing to read 'Keith Bozarth', with a large, stylized flourish at the end.

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 March 31, 2008**

**Custodial and Banking Fees**

Bankers' Bank	Wisconsin CD Program	\$2,500
BNY Mellon	Retirement System Custodial Services	154,103
US Bank	State Banking Services	443

**Legal Fees, Services and Expenses**

Foley & Lardner	Private Markets Investment Transactions	\$15,716
Reinhart Boemer Van Dueren	Private Markets Investment Transactions	282
Stafford Rosenbaum, LLP	Securities Litigation	1,512

**Investment Counsel**

Abel/Noser Corp.	Trade Analysis	\$15,000
Alvin Stroyny	Quantitative Analysis Consulting	9,350
American Stock Exchange	American Stock Exchange Data	3,171
AON Risk Services Companies	Fidelity Bond	50,852
BCA Publications	Global & Domestic Fixed Income Strategy Research	12,000
BioCentury Publications	Biotech Stock News	999
Bloomberg, LP	Market, Company, Industry & Benchmark Information	175,241
Call Street Transcript Service	Credit Analysis	1,350
Callan Associates Inc.	Global Custodian Search	45,000
CanDeal.ca Inc.	Canadian Government Bond Trading Service	900
Center for Advanced Study in Business	Introduction to Derivatives Training	21,515
Charles River Systems, Inc.	Portfolio Management Software	53,577
Connexiti LLC	Supply Chain Data	7,500
Council of Institutional Investors	Corporate Governance	7,500
Courtland Partners	Performance Monitor Reporting	51,250
Credit Sights	Credit Assessments	18,500
Data Broadcasting Corporation - CMS Bond Edge	Pricing Service	10,725
Davis Mendel & Regenstein, Inc.	Online Investment Reports	17,500
Dominion Bond Rating Service (DBRS)	Credit Ratings & Research Reports for Corporate Bond Issuers	964
Dow Jones & Co	Company and Industry News Service	12,275
Economy.com	Economic, Currency & Bond Analysis	(116)
Ennis, Knupp & Associates	Fiduciary & Governance Consulting	53,334
Factset Data Systems	Financial & Economic Database	81,837
Financial Engineering Assoc Inc.	Value-at-Risk Calculation	3,309
Fitch Info., Inc.	Credit Rating Service	1,750
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	4,338
Gimme Credit	Credit Research	4,752

Global Investment Research Inc.	Technology and Telecom Research	2,502
Groom Law Group, Chartered	Fiduciary Counsel	1,913
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	375,000
IDC Portfolio Management, Inc.	Interest Rate Forecasting & Wisconsin Bank Reports	4,100
iMoneyNet, Inc	Money Market Fund Database	10,500
Instinet	Equity Trading Service	864
Institutional Investor	Global Fixed Income Institute Membership	11,300
Institutional Shareholder Services, Inc	Proxy Voting Analysis	138,870
Interfaith Center On Corporate Responsibility	Social Investing Research	501
International Strategy & Investment Group Inc.	Economic Research and Analysis	25,000
Investor Responsibility & Support Services, Inc	Securities Class Action Support	8,751
John Tumazos Very Independent Research	Materials Sector Research	6,250
KPA Advisory Services	Investment Organization Consulting	1,251
Lombard Street Research	Global Economic Analysis	15,970
London Stock Exchange PLC	London Stock Exchange Data	10,056
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axess Corporation	Bond and Yield Pricing	1,050
Moody's Analytics, Inc.	Economic, Currency & Bond Analysis	464
Moody's Investor Service	Corporate Bond Credit Quality Screening	47,311
Morgan Stanley Capital International	Developed Markets Security Data	20,249
NASDAQ Stock Market	NASDAQ Stock Exchange Data	(180)
New York Stock Exchange	New York Stock Exchange Data	4,132
Options Price Reporting Authority (OPRA)	Quote System for Options Market	1,575
Peter L. Bernstein	Economic & Portfolio Strategy	471
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,500
QTI Professional Staffing, Inc	Recruitment Consulting	36,590
Quantitative Services Group LLC	Access to Quantitative Data	20,001
Reuters America Inc.	News, Economic & Company Research & Analytics	149,067
RiskMetrics	Volatility and Correlation Data	6,875
RiskMetrics Group	Proxy Voting Analysis	(93,971)
Russell Investment Group	Index Data Feeds	8,750
S.R. Battiboi & Company	Tax Compliance Services Required by Government of India	866
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
Sheshunoff Info. Services	Government Financial Management Report	123
SNL Financial	Customized Analysis of Bank Investments	9,750
Standard & Poor's	Industry & Corporate Research	52,504
StepStone Group LLC	Private Equity consultant	43,750
Strategic Economic Decisions	Research Reports	6,249
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	70,000
Telsey Advisory Group	Consumer Sector Research	7,083
The Corporate Library	Proxy Voting Research Data	3,084
Thomson Financial Services	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	93,672
Toronto Stock Exchange	Market Data/Traders	1,218
Trade Web	On-Line Fixed Income Trading Service	7,800
William O'Neil & Co.	Equity & Analytics Technical Research	21,250
Wilshire Associates	Axiom Training	10,000
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	125,230
World Bank Publications	Historical Emerging Market Countries Macroeconomic Data	180



**Real Estate Investment Management Services**

Apollo Advisors	Real Estate Management Services	\$57,980
Archstone - Smith Trust	Real Estate Management Services	219,487
Berkshire Property Advisors, LLC	Real Estate Management Services	88,325
Bristol Group, Inc.	Real Estate Management Services	77,490
BVP Managers, LLC	Real Estate Management Services	375,000
Callahan Capital	Real Estate Management Services	358,533
Capital Trust	Real Estate Management Services	532,007
Centerline Capital Group	Real Estate Management Services	191,595
Cornerstone Real Estate Advisors	Real Estate Management Services	80,253
Essex VFGP	Real Estate Management Services	102,693
Fortress Investment Corp.	Real Estate Management Services	1,340,441
Goldman Sachs & Co.	Real Estate Management Services	80,869
Guggenheim Structured Real Estate Advisors, LLC	Real Estate Management Services	161,038
Hawkeye Partners LP	Real Estate Management Services	125,000
Heitman Capital Management Corp.	Real Estate Management Services	62,316
Heitman Capital Management, LLC	Real Estate Management Services	(554)
Henderson Global Investors (North America) Inc.	Real Estate Management Services	223,394
Hudson Advisors	Real Estate Management Services	304,681
Invesco Realty Advisors, Inc.	Real Estate Management Services	295,413
JP Morgan Investment Management	Real Estate Management Services	1,105,211
Kensington Realty Advisors	Real Estate Management Services	69,620
Koll Bren Realty Advisors	Real Estate Management Services	71,284
KTR Capital Partners	Real Estate Management Services	644,752
Landmark Realty Advisors	Real Estate Management Services	15,563
Lazard Freres	Real Estate Management Services	88,723
Mesa West Capital LLC	Real Estate Management Services	220,308
MMA Realty Capital	Real Estate Management Services	2,786
Morgan Stanley	Real Estate Management Services	136,027
Northwestern Mutual Life	Real Estate Management Services	18,726
Prudential (senior housing)	Real Estate Management Services	156,250
Rockpoint Group LLC	Real Estate Management Services	405,566
Rockspring Property Investment Managers	Real Estate Management Services	82,953
RREEF	Real Estate Management Services	432,082
Security Capital	Real Estate Management Services	568,204
Sentinel Realty Advisors Corp.	Real Estate Management Services	151,538
The Blackstone Group	Real Estate Management Services	562,500
UBS Realty Investors	Real Estate Management Services	50,449
Westbrook Real Estate	Real Estate Management Services	605,295

**Private Equity Management**

3i Europe Investment Partners	Private Equity Management	\$85,000
ACI Capital Investors II	Private Equity Management	250,000
Alchemy Partners	Private Equity Management	198,900
Alta Communications IX, LP	Private Equity Management	234,100
American Securities Opportunities Fund, LP	Private Equity Management	2,500
Ampersand Ltd Partnership	Private Equity Management	48,600

Apollo Investment Fund V LLP	Private Equity Management	(24,700)
Apollo Investment Fund VII, L.P.	Private Equity Management	621,400
Ares Corporate Opportunities Fund II, LP	Private Equity Management	271,800
Ares Corporate Opportunities Fund, LP	Private Equity Management	134,000
Asia Recovery Fund	Private Equity Management	23,700
Avenue Special Situations Fund V, L.P.	Private Equity Management	281,300
Baird Venture Partners	Private Equity Management	123,800
BC European Capital	Private Equity Management	(244,300)
Birch Hill Equity II	Private Equity Management	31,300
Blackstone Management Partners V LLC	Private Equity Management	113,100
Boston Millennia	Private Equity Management	180,700
Bridgepoint Europe III A LP	Private Equity Management	322,100
Capital International Global	Private Equity Management	11,600
Capital Res Partners IV LP	Private Equity Management	64,700
Capital Resource Lenders III	Private Equity Management	11,400
Carlyle Asia Ltd.	Private Equity Management	39,800
Carlyle Partners IV, LP	Private Equity Management	29,100
Carlyle Partners V, L.P.	Private Equity Management	135,100
Cerberus Institutional Partners LP	Private Equity Management	365,000
Charterhouse	Private Equity Management	53,700
Charterhouse VIII	Private Equity Management	375,600
Coller International	Private Equity Management	99,600
Coller International V LP	Private Equity Management	186,500
CVC European Equity Partners IV	Private Equity Management	166,200
CVC European Equity Partners Tandem Fund	Private Equity Management	53,000
Cypress Advisors, LP	Private Equity Management	50,600
Doll Technology Invt Fd II LP	Private Equity Management	17,500
EI Dorado Ventures	Private Equity Management	320,000
EQT V, L.P.	Private Equity Management	202,700
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	77,400
Fortress Invest Fund II LLC	Private Equity Management	3,300
Fortress Invest Fund IV (Coinvestment Fund A) LP	Private Equity Management	94,800
Fortress Invest Fund IV (Fund A) LP	Private Equity Management	124,500
Fortress RIC	Private Equity Management	47,100
Fortress V	Private Equity Management	200,000
Fortress V Coinvestment	Private Equity Management	37,400
Frazier	Private Equity Management	308,300
Gores Capital Partners II, LP	Private Equity Management	26,200
Graphite	Private Equity Management	620,000
Green Credit Investors, L.P.	Private Equity Management	7,000
Green Equity Partners V	Private Equity Management	234,800
GS Special Oppty Asia Fd LP	Private Equity Management	6,700
GTCR	Private Equity Management	113,300
Harbourvest International	Private Equity Management	353,200
IGP II	Private Equity Management	10,500
Kelso Investment VII LP	Private Equity Management	117,500

KKR European Fund III, L.P.	Private Equity Management	148,600
KKR European II	Private Equity Management	193,600
Kohlberg Investors VI, LP	Private Equity Management	67,000
Kohlberg Kravis Roberts & CO	Private Equity Management	16,000
KRG Capital Fund IV, L.P.	Private Equity Management	223,900
Lake Pacific I Gladson, LLC	Private Equity Management	58,300
Lake Pacific Partners, LLC	Private Equity Management	161,700
Lindsay Goldberg and Bessemer II	Private Equity Management	305,600
Lone Star Fund IV LP	Private Equity Management	16,300
Mason Wells Partners I, LLC	Private Equity Management	60,500
Mayfield XI LP	Private Equity Management	37,000
Montreux Equity Partners IV, L.P.	Private Equity Management	833,300
New Mountain Partners III, L.P.	Private Equity Management	419,600
Oak Investment Partners XII, LP	Private Equity Management	175,000
OCM Opportunities Fund VII	Private Equity Management	157,300
Old Lane India Opportunities Fund-T, LP	Private Equity Management	124,300
Peninsula Fund IV LP	Private Equity Management	250,000
Pennisula Fund	Private Equity Management	102,600
Pomona Capital	Private Equity Management	170,100
Providence Equity Partners VI, LP	Private Equity Management	31,700
Recovery Equity	Private Equity Management	42,100
Seaport Capital Partners II	Private Equity Management	57,800
SKM Equity Fund III, LP	Private Equity Management	31,700
Sprout	Private Equity Management	5,800
TA X	Private Equity Management	51,800
TAC 2007, L.P.	Private Equity Management	13,800
Thomas Lee VI	Private Equity Management	291,200
TPG Partners VI, LP	Private Equity Management	570,400
Venture Investors	Private Equity Management	65,600
Venture Investors Early Stage Fund IV	Private Equity Management	156,300
Vista Equity Partners Fund III, L.P.	Private Equity Management	145,700
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	425,100
Warburg Pincus Private Equity X, L.P.	Private Equity Management	(141,600)
Windpoint Partners V LP	Private Equity Management	66,900
WLR Recovery Fund L P	Private Equity Management	7,700

#### Index, Enhanced and Commingled Fund Fees

Barclays Global Investors (BGI)	Quantitative/Enhanced & Index Fund Management	\$4,976,955
Boston Company, The	Equity Emerging Market Management	1,077,204
Capital Guardian Trust Company	Global High Yield Fixed Income Management	487,142
Goldman Sachs Asset Management	Quantitative/Enhanced & Index Fund Management	723,445
Grantham, Mayo, Van Otterloo	Equity and Fixed Income Emerging Market Management	630,095
Janus Institutional Asset Management	Quantitative/Enhanced & Index Fund Management	718,510
LSV Asset Management	Quantitative/Enhanced & Index Fund Management	802,264
T. Rowe Price Trust Company	International Emerging Market Management	1,826,733
UBS Global Asset Management	Multi-Asset Management	813,395

**Public Market Active Management Fees**

Aberdeen Asset Management	Global Fixed Income/Emerging Active Management	\$507,922
Acadian Asset Management	International Equity Active Management	1,088,240
AEW	Real Estate Investment Trusts	94,978
Alliance Bernstein	International Equity Active Management	1,207,133
American Century Investments	International Equity Active Management	393,008
Brandywine Asset Management	Global Fixed Income Active Management	326,212
Bridgewater Associates	Global Fixed Income Active Management	682,888
EII Realty Services, Inc.	Real Estate Investment Trusts	227,063
Fidelity Management Trust Co.	International Equity Active Management	1,099,532
Grantham, Mayo, Van Otterloo	Large Cap Quantitative Management	83,855
Heitman Real Estate Securities, LLC	Real Estate Investment Trusts	92,744
Loomis, Sayles & Co.	High Yield Fixed Income Active Management	494,681
LSV Asset Management	International Equity Active Management	1,646,694
Morgan Grenfell Asset Management	Global Fixed Income Active Management	528,848
Morgan Stanley Asset Management	International Equity Active Management	1,236,510
RREEF America LLC	Real Estate Investment Trusts	211,774
Standish Mellon Asset Management LLC	Cash Management Service	20,972
Stone Harbor Asset Management	Emerging Market Fixed Income Active Management	164,369
UBS Global Asset Management	Global Fixed Income Management	265,441

**Total Quarterly Charges to Funds****\$47,343,902**

*\*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 March 31, 2008**

Legal Fees, Services and Expenses		
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	\$361
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	1,080

**Total Asset Specific Charges** \$1,441

Capitalized Legal Fees		
Cox, Castle & Nicholson	Real Estate Investment Transactions	3,011
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	11,832
Quarles & Brady	Litigation & Private Markets Investment Transactions	26,350
Reinhart Boerner Van Dueren	Private Markets Investment Transactions	46,686
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	28,378

**Total Capitalized Legal Fees** \$116,256

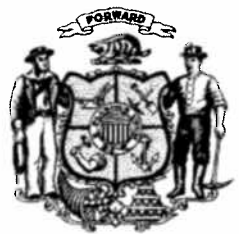
This table includes expenses that are capitalized at the time of acquisition or directly associated with the ongoing activity of an asset, such as appraisals or bankruptcy costs. Unlike other expenses shown in this report, these expenses are reflected in the value of the asset or netted in gross returns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

ATTACHMENT D

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

	6/30/2007		9/30/2007		12/31/2007		3/31/2008	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$17,694	20.1%	\$18,406	20.6%	\$18,251	20.8%	\$18,833	22.7%
Externally Managed Dedicated Accounts	14,072	16.0%	14,865	16.6%	16,060	18.3%	15,058	18.1%
Externally Managed Commingled Accounts	56,056	63.8%	56,057	62.8%	53,492	60.9%	49,214	59.2%
1. Passive Index Funds	27,369	31.2%	27,347	30.6%	25,566	29.1%	24,276	29.2%
2. Enhanced Index Commingled Funds	20,395	23.2%	19,800	22.2%	18,665	21.3%	15,907	19.1%
3. Limited Partnerships	5,001	5.7%	5,414	6.1%	5,685	6.5%	5,704	6.9%
4. Actively Managed Commingled Accounts	3,291	3.7%	3,496	3.9%	3,577	4.1%	3,327	4.0%
TOTAL WRS Assets	\$87,822	100.0%	\$89,328	100.0%	\$87,803	100.0%	\$83,106	100.0%







## State of Wisconsin Investment Board

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21 July 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 53708-8952


Dear Senator Sullivan and Representative Jeskewitz:

One focus in the most recent management audit of the Investment Board was the Wisconsin private equity portfolio that SWIB operates.

Enclosed with this letter is a white paper prepared by SWIB's investment staff that addresses the investment merits of the venture opportunities in the state and region. This white paper was prepared in conjunction with a recommendation to the SWIB trustees to make a commitment of the remaining funds allocated to the program. At its May meeting the trustees approved the recommendation to commit \$25 million to a new venture fund and \$15 million to the Discretionary Fund which the staff can use to invest in Wisconsin companies in which any of SWIB's venture partnerships have invested – referred to as "side-by-side" investments.

This white paper provides a good background on the investment thesis behind the portfolio and the approach SWIB has taken to deploying the capital allocated to the portfolio. As always, please let me know if you have any questions.

Sincerely yours,

  
Keith Bozarth  
Executive Director

c. Jan Mueller

Enclosure

**STATE OF WISCONSIN INVESTMENT BOARD**  
**Private Markets Group – Wisconsin Private Equity Portfolio**

***WHITE PAPER ON  
THE WISCONSIN VENTURE CAPITAL LANDSCAPE***

## Executive Summary

Over the past nine years, a total of \$200 million has been allocated to the Wisconsin Venture Capital Portfolio (the "Portfolio") under four separate recommendations in 2000, 2003, 2005 and 2008. The Portfolio's strategy continues to be the ability to capitalize on the imbalance in Wisconsin and the Midwest between the recognized high levels of research and development occurring in the region and the disproportionately low levels of venture capital dollars seeking investments. This imbalance creates a highly inefficient market that offers an advantage to investors with deep connections to the research channels and the experience and skill to build companies to commercialize that research. The lack of competition for deals gives early investors the opportunity to invest at attractive valuations and to select the best opportunities.

Underlying the strategy is the understanding that venture capital investing involves time-intensive hands-on attention to each company. High transaction costs rule out long-distance investments, especially in seed-stage and very early-stage investments. Because of this, venture capital does not flow to the "best" ideas regardless of location as readily as other kinds of capital, creating local or regional market inefficiencies. In the face of evidence of a rich climate for emerging new technologies in a region, the lack of ongoing venture capital investment can signal an opportunity to invest, rather than a confirmation that no opportunities exist.

Section One provides background reconfirming what Staff believes to be opportunities for investment in Wisconsin by identifying the characteristics of the successful venture capital investment regions in the U.S. (especially the "technology centers" of Silicon Valley, Route 128 around Boston and the Research Triangle Park of North Carolina) and evaluating the current status of those characteristics in Wisconsin.

Section Two provides background on the commitments made by the Portfolio in four rounds totaling \$200 million. Mason Wells Biomedical Fund I and Venture Investors Early Stage Fund III, received \$45 million in total commitments, including the side-by-side commitment pool, in 2000. Frazier Technologies Fund II and Baird Venture Partners Fund I(B) received \$90 million in commitments, including the side-by-side commitment pool, in 2003. In 2004, a \$5 million Discretionary Fund was established, and in 2006 Venture Investors Early Stage Fund IV received \$30 million including the side-by-side commitment pool. A commitment was made to Mason Wells Biomedical Fund II in 2006, however was later canceled as a result of the general partner deciding to close down its venture capital group. And finally in 2008, a commitment was made to a venture capital fund totaling \$25 million (An official announcement on this investment will be made in the near future) and an additional \$15 million was added to the Discretionary Fund.

Section Three provides an overview of Staff's Investment Opportunities and Considerations that were presented as part of the overall recommendation to invest in Wisconsin venture capital opportunities.

### **Section One: Thesis behind Venture Capital investing in Wisconsin and the Midwest**

Since the Wisconsin Private Equity portfolio's inception, Staff's investment thesis has been that there are quality investment opportunities based on the gap between the high quantity and quality of research and development supported in the state and the low level of capital for these types of start-up investments. This inefficiency creates opportunities for investors knowledgeable about the local market. The fact that there has been little interest from venture capitalists from the coasts is often used as evidence that opportunities do not, or cannot, exist. Staff believes there are opportunities for experienced investors with local knowledge and well-developed local and regional networks. Wisconsin and other areas around the Midwest have created a supportive atmosphere to encourage an entrepreneurial environment that can attract venture capital. This environment has been created due to the following factors: (I) World-Class Research and Development

Institutions; (II) Technology Transfer, the crucial first step in transferring intellectual property out of academic laboratories to start-up companies for commercial uses; (III) Corporate Catalysts with research and development functions that can be the source of capital, spin-off technologies and management talent for start-up companies, perhaps eventually acquiring the start-up and its technology or becoming customers of the start ups; (IV) Entrepreneurial and Support Concentrations (scientists, experienced management, venture capitalists, lawyers, accountants and other professionals) that can build start-up companies and, when those companies are successful, take their new wealth and repeat the cycle. A culture to encourage company formation and risk-taking underpins the entrepreneurial effort.

The presence of all of these characteristics creates a chain reaction that feeds new growth and investment success. In evaluating Wisconsin's current investment climate according to these characteristics, it is clear that Wisconsin has research institutions that rival the best of the venture capital centers, especially in life sciences. At the UW-Madison, in particular, Wisconsin also has the pioneering patent and licensing office in the nation, the Wisconsin Alumni Research Foundation (WARF). In the other two categories, Wisconsin has been weaker than the successful venture capital regions, but there is substantial evidence that these related infrastructure elements are developing quickly.

### **I. Research and Development Institutions**

At the core of successful venture capital regions are the research and development engines. This is the essential requirement for the emergence of promising technologies in which to invest. For Wisconsin, this element is well developed primarily due to the University of Wisconsin-Madison's continued top ranking among other public and private universities competing for federal science and technology research grant dollars. In 2006, the UW-Madison's \$832 million in research and development expenditures (federal and non-federal funded) ranked second (first among public institutions) among the nation's academic research institutions as reported by the National Science Foundation (NSF). The UW-Madison's research generated the eleventh highest rate of invention disclosures per \$100 million in research spending in 2005 among top universities.

The UW's success has been the result of its commitment to interdisciplinary research which many feel is essential for breakthrough technologies. Interdisciplinary research projects are cross-disciplinary efforts that draw together members of faculty throughout the school to investigate ideas that change the way those involved think and act. An example at UW relates to the area of stem cell research which encompasses biomedical engineering, developmental biology, ethics and policy, neuroscience and hematology. The UW's interdisciplinary tradition is enhanced by facilities such as the Waisman Center, the Forest Products Laboratory, and the Wisconsin Institutes for Discovery. The Wisconsin Institute for Discovery is similar to the Clark Center for Biomedical Engineering and Sciences at Stanford University. The Wisconsin Institute for Discovery will combine both the public and private sectors in a facility to be constructed in the heart of the UW-Madison campus as a hub for interdisciplinary research. The \$150 million facility was made possible through a \$50 million gift from UW-Madison alumni John and Tashia Morgridge and matching funds from WARF and the State of Wisconsin. Construction has begun with an anticipated completion date of 2010. Other areas of the state are also experiencing a significant surge in research and development activity, driven by a number of academic and private institutions, providing a base for emerging technologies that will some day be commercialized. The more prominent institutions include: (1) The Medical College of Wisconsin, (2) The Milwaukee School of Engineering, (3) The University of Wisconsin-Milwaukee, (4) Marquette University, (5) The Blood Center of Wisconsin, and (6) Marshfield Clinic.

It should also be noted that behind the UW-Madison, 10 other Midwest universities rank among the top 50 Research Universities nationally, according to the NSA. The largest Midwest institution after the UW-Madison was the University of Michigan, which placed fourth with \$800 million in research and development expenditures. The clustering of high quality academic R&D institutions in the Midwest is important for two reasons. The first has to do with cross fertilization of ideas between universities. Academics are able to draw upon the expertise of others within close proximity to one another. This is already occurring between the UW-Madison and the University of Michigan. Second, with this core R&D hub in the Midwest, a greater number of investment opportunities should provide portfolio diversification and a greater focus from venture capitalists within the Midwest and on the coasts.

## **II. Technology Transfer**

Wisconsin is a leader in technology transfer, with WARF perennially in the top-ten list of university technology transfer offices. Since 1925, WARF has processed more than 5,600 UW-Madison faculty and staff inventions and obtained 1,820 patents and 1,530 license agreements on those inventions. Currently, WARF manages more than 856 pending, and 933 issued, U.S. patents (plus 2,300 foreign equivalents); has a portfolio of more than 1,000 technologies available for licensing; and has more than 940 active license agreements (of which 282 are with Wisconsin companies). In the fiscal year ending June 30, 2007, WARF processed over 410 invention disclosures, filed 300 U.S. patent applications, obtained nearly 115 U.S.-issued patents and signed 60 new license and option agreements. A report by the Association of University Technology Managers ranks the UW-Madison and WARF in the top ten of gross license income for 2006. Other WARF related groups that help foster emerging technologies include: (1) WiCell Research Institute, a WARF non-profit established in 1999 to advance human embryonic stem cell research and therapeutic applications, (2) UW-Madison's Office of Corporate Relations, created to connect corporations to the UW's resources and promote entrepreneurial activities within the UW community and (3) WiSys Technology Foundation, another WARF subsidiary, that is designated to manage the intellectual property for all institutions of the University of Wisconsin System other than the UW-Madison.

## **III. Corporate Catalysts**

Critical to a successful emerging technology environment is the presence of a good selection of well established businesses that are involved and interested in start-up opportunities. Corporate involvement can be beneficial to young start-ups in two areas, capital and talented management. Active corporate venture capital investing is defined as operating businesses investing directly in early stage/start-up companies, either on a sole basis or alongside traditional, independent venture capital funds. These businesses are in some cases referred to as strategic investors. Many times these strategic investors end up acquiring the start-up at some point in the future. The second benefit to young start-up companies is the pool of management talent that is available at these larger, more established businesses. Managers with deep technical and operating backgrounds will pursue new start-up opportunities for professional growth reasons, as well as to potentially increase personal wealth. Wisconsin is home to many businesses with significant R&D functions and cutting edge technologies.

The most prominent is Waukesha-based GE Healthcare Technologies, with a \$17 billion business in medical imaging and information technologies, patient monitoring and healthcare services. Not only is GE a major employer, it has been a serial acquirer buying Madison employers, Lunar Corporation and Datex Ohmeda (Amersham plc). GE has been the training ground for many of the high level managers now employed at some of the local start-ups. These managers include: TomoTherapy (Fred Robertson, Ken Buroker, Delwin Coufal and Mary Klein), Collectar (William Clarke and Neal Sandy), NeuWave (Laura King), Third Wave (Kevin Conroy), EM System (Andrew Nunemaker) and PointOne Systems (Robert Pothier). Other valuable

corporate relationships to Wisconsin and the growth in emerging companies include: Shell Oil (formed strategic relationship with Virent Energy 2007), Microsoft (acquired Jellyfish.com in 2007), CSC (acquired NameProtect.com in 2007) TomoTherapy (successful completion of an IPO in 2007), Roche (acquired NimbleGen in 2007), CDW (acquired Berbee Information Networks in 2006), Cardinal Health (acquired Gala Design in 2003), Genzyme (acquired Bone Care in 2005), Hologic (announced in June 2008 its intentions to acquire Third Wave), Affymetrix (formed a strategic distribution agreement with NimbleGen in 2007), Bayer HealthCare and Promega (entered into commercial agreements with EraGen), EMD Biosciences (acquired Novagen in 1997), Sigma Aldrich (acquired Tetrionics in 2004), Covance (completed a \$50 million facility expansion in Madison, its third expansion in Wisconsin for the drug testing company) and Doosan (partnered with Nutra-Park in 2000).

#### **IV. Critical Mass or Concentration of Entrepreneurs and Resources**

The Wisconsin venture capital landscape has been changing over the past ten years stimulated by both public and private efforts to capitalize on the research and development wealth of the state. Years ago, the most elusive of the key characteristics of venture capital and technology centers in the state was having a "critical mass", or the point at which entrepreneurs and resources coalesce into a technological, cultural and economic network that is not just self-sustaining but growing rapidly. Once this critical mass is formed in a certain region, a new ecosystem develops. Wisconsin is closer than ever to forming the critical mass necessary to develop this venture capital sub-culture. Some of the more critical components of this critical mass and the evolutionary process here in Wisconsin include the following:

***Technology Industry and Investor Networks:*** In regions where there are high levels of venture capital, entrepreneurs and resources are concentrated in relatively small areas, providing investors and start-up companies an opportunity to quickly learn about one another. In the past, both founders and investors in Wisconsin worked in relative isolation. Today, new groups have been organized to link founders, entrepreneurs and investors. A few of these groups include: (1) Wisconsin Technology Council, (2) Wisconsin Biotechnology and Medical Device Association and (3) Wisconsin Association for Biomedical Research and Education. All three organizations have promoted technology and entrepreneurship leading to new industry networks (Mid-America Healthcare Investors Network, Biotechnology Industry Organization and the Wisconsin Innovation Network). These cooperative efforts recognize the need for the entire region to pool its resources and to create the kind of efficient knowledge transfer and interaction that occurs more naturally in a concentrated area such as Silicon Valley.

***Research Parks:*** In recent years, there has been substantial public and private investment in research parks and business incubators, especially but not exclusively at universities. These initiatives serve as an important mechanism for stimulating technology transfer, the formation and growth of high-tech entrepreneurial start-ups, regional economic development and revenue for firms and universities. The creation of research parks and business incubators was the initial seed planted in Silicon Valley by Stanford University and in Raleigh-Durham, North Carolina. The research park concept was brought to Madison in 1984 when the University Research Park ("URP") was formed through the collaborative efforts of the University of Wisconsin-Madison and both local and state governments. URP is a not-for-profit corporation that is operated for the University to encourage and promote scientific, technological and educational opportunities. All income that is generated by URP is distributed to the University to assist in further scientific and technological investigation and the transfer of knowledge. Today, URP is home to 114 tenants in 34 buildings with more than 1.5 million square feet of office and laboratory space. Recently, URP officials announced plans to build a new, 65,000-square-foot "accelerator

building” to house life-science companies that have moved beyond early-stage development. This will be the second “accelerator” facility in URP history. In addition, URP has announced its Phase II plans to expand the park further west toward Middleton (located on the large parcel of land at the corner of Mineral Point Road and Highway M). Other private Dane County incubator/start-up facilities that have been recently developed include the Fitchburg Technology Campus on Madison’s southwest side, the TEC Incubator Center located across from MATC and the Novation Campus on the south side of Madison. An indication that local business/investors in the community see opportunities in technology start-up companies has been the number of high technology facilities developed and the ability of these start-up companies to find private developers/real estate investors to construct and lease specialized single use buildings. Milwaukee County has also been working to develop its own research park, The Milwaukee County Research Park Corporation (MCRPC). The MCRPC was created to manage the development of a university-related research park on 175 acres in Milwaukee County. The park supports technology-based companies, strengthens Milwaukee County's business base, creates new employment opportunities and facilitates technology commercialization. This objective is being accomplished by bringing together the substantial academic, intellectual, business and entrepreneurial resources of the metropolitan Milwaukee area in a physical environment conducive to such activities. The MCRP includes the Technology Innovation Center, a business incubator supporting more than 77 firms since inception with wet labs, offices and conference rooms with ready access to the corporate and university affiliates of the park.

**Tax Policy Initiatives:** As Wisconsin’s manufacturing economy continues to suffer from recession and pressure from global competition, public policy has focused on using tax credits to stimulate investments in businesses engaged in emerging technologies. The Wisconsin Act 255 was created to provide tax credits for angel investors and seed capital funds, provide other funding sources through technology development grant programs and a technology venture loan fund. Governor Doyle is currently proposing a follow-up initiative called Accelerate Wisconsin, which will focus on expanding Act 255 and other early stage initiatives.

**Angel Groups:** Angel investors, usually high net worth individuals, traditionally are the first outside investors in a start-up company, after “friends and relatives” and before venture capital funds invest. Wisconsin’s angel groups received a boost with the creation of the Wisconsin Angel Network (WAN). WAN provides resources for angel groups, enhances deal flow, provides professional guidelines for screening deals, diversifies angel portfolios and connects angel groups and entrepreneurs. WAN, a collaborative effort between the Wisconsin Departments of Commerce, the Wisconsin Department of Financial Institutions and the Wisconsin Technology Council, assists entrepreneurs to find and secure angel financing. There are now 16 angel groups in Wisconsin, up from six in 2004.

**Recruiting Professional Management:** Access to experienced managers is important for emerging companies. Start-ups with great science and adequate access to capital can fail if they cannot attract experienced financial, operating and marketing executives. In the technology centers of the U.S., the concentration of start-up companies provides opportunities for experienced managers to move readily between companies and find new employment if their employer is acquired or fails. It has been difficult to convince executives with start-up experience to relocate their families to Wisconsin and the Midwest where alternative employment might be hard to find. But as outlined previously, this obstacle is less today than it was ten years ago.

**Coastal Investors:** Although far from where many would like to be as far as attracting coastal venture groups, Wisconsin companies are seeing some increased interest. A few examples are Skyline Ventures,



a Palo Alto, CA based venture capital firm that invested in NimbleGen, and Avalon Capital, a LaJolla, CA based venture capital firm that invested in TomoTherapy.

**Serial Entrepreneurs:** In the technology centers around the country, the chain reaction really began when successful entrepreneurs reinvested their personal wealth and expertise to start additional new companies. The section above on corporate catalysts gives some indication of this process emerging in Wisconsin. A few of the local serial entrepreneurs include: Brian Wiegand (founder of BizFilings, NameProtect.com and Jellyfish.com), Ralph Kauten (PanVera) and Bill Linton (Promega).

## **Section Two: Wisconsin Private Equity Initiative Background**

Over the past nine years, the Portfolio has invested in four venture capital partnerships that have focused on Wisconsin and Midwest venture capital opportunities. The investments were made following Staff led searches with the support of consultants, for private equity funds focusing on this particular niche. Underlying these partnership investments is the premise that an investment opportunity arises from the mismatch between the high quality and quantity of research and development in Wisconsin and Midwest academic and medical research institutions and the low levels of venture capital seeking opportunities in the area. In this inefficient market, investors with deep connections to the research channels should be able to find attractive opportunities at attractive valuations.

As of December 31, 2007, the Portfolio held investments in five venture capital funds actively seeking investments in Wisconsin. Through side-by-side co-investment agreements, SWIB also held direct investments in five venture-stage companies operating in Wisconsin.

These investments were originated by a direct Board of Trustee action. The first fund initiative was authorized in April 1999 when SWIB's Trustees approved a proposal to invest up to \$50 million in nonpublic healthcare and biotechnology companies in Wisconsin and the Midwest. Out of the \$50 million, \$45 million was allocated to two venture capital funds: Mason Wells Biomedical Fund I (MWBF I) and Venture Investors Early Stage Fund III (VIESF III). Both of these funds began investing in 2000.

The second fund initiative approved by the Board in 2002 was to invest up to \$100 million in venture capital funds active in Wisconsin. The investment focus was extended to all emerging technologies rather than being limited to healthcare and biotechnology. In April, 2003, a total of \$90 million was allocated to Baird Venture Partners Fund I(B) and Frazier Technology Ventures II.

In 2004, Staff received approval from the Board for the authority to directly invest up to \$5 million in follow-on venture capital investments in Wisconsin Companies where SWIB already held or would hold an interest in a company as a side-by-side investment with one of its for current venture capital funds. The \$5 million was carved out of the \$15 million that had been unallocated under the 1999 and 2002 Wisconsin Private Equity initiatives. The fund was necessary to protect SWIB's investment from dilution during follow on rounds where the side-by-side commitment was not enough for SWIB to participate in its pro rata share. The \$5 million fund for internal purposes is known as the Discretionary Fund.

The third fund initiative approved by the Board in December 2005 was to invest up to \$50 million in nonpublic healthcare, biotechnology and emerging technologies located in Wisconsin and the Midwest. Out of the \$50 million, up to \$20 million, including a side-by-side commitment was allocated to Mason Wells Biomedical Fund II (MWBF II) and up to \$30 million, including a side-by-side commitment, was allocated to Venture Investors Early Stage Fund IV (VIESF IV). VIESF IV began investing these funds in 2006. The Mason Wells Fund II commitment was canceled as a result of the general partner's decision to close down its venture capital group.

The fourth and final initiative approved by the Board as part of the initial \$200 million allocation was given in May of 2008 to invest up to \$25 million in a new venture capital fund with no side-by-side commitment allocation (a formal announcement of this commitment will be made in the near future). The proposed new fund does not have a mandated geographic limit in their partnership agreements, but the local nature of venture capital investments and the particular strategy of this fund make it clear they will focus on opportunities in Wisconsin and the Midwest if they fit the funds general strategy. Also, as part of this initiative, the Discretionary Fund was increased an additional \$15 million and modified to (1) Allow staff to make direct investments in companies that have been funded or will be funded by one of the current venture capital relationships SWIB has supported (Mason Wells Biomedical Fund I, Venture Investors Fund III and Fund IV and Baird Venture Partners Fund I(B) and the new venture capital fund that SWIB recently committed to) and (2) Invest in opportunities of up to 30% of the Discretionary Fund outside of Wisconsin to further diversify portfolio holdings and take advantage of good opportunities outside of the state. Moving away from the directed side-by-side commitment model creates additional flexibility for Staff. Historically we have seen some funds call down all of their side-by-side commitment while others have called nothing. Structuring of the Discretionary Fund, as proposed, will allow Staff to allocate dollars where necessary (i.e. protect from dilution or take advantage of a lower risk investment opportunity such as the top-off round).

Table I (below) shows a breakdown of the allocations to each of the five funds, the related side-by-side commitments and the Discretionary Fund.

<b>Fund Name</b>	<b>Total Fund Raised</b>	<b>SWIB Commitment</b>	<b>SWIB Side-by-Side</b>
Mason Wells Biomedical Fund I	\$43,000,000	\$20,000,000	\$5,000,000
Venture Investors Early Stage III	\$37,076,000	\$15,000,000	\$5,000,000
Baird Venture Partners I(B)	\$70,000,000	\$25,000,000	\$5,000,000
Frazier Technology Ventures II	\$104,445,000	\$50,000,000	\$0
Discretionary Fund		\$5,000,000	
Venture Investors Early Stage IV	\$117,651,515	\$25,000,000	\$5,000,000
New VC Commitment		\$25,000,000	\$0
Discretionary Fund		\$15,000,000	
<b>TOTAL</b>		<b>\$180,000,000</b>	<b>\$20,000,000</b>

Table II provides a listing of SWIB's side-by-side and discretionary investments. Of these nine, the investments in Gala Design, NameProtect, TomoTherapy and NimbleGen have been realized.

<b>Table II: Total Companies Funded by SWIB backed Venture Firms (as of December 31, 2007)</b>	
<b>Side-by-Side Investment</b>	<b>Managing Fund</b>
Gala Design <i>[Exited]</i>	MWBF I, VIES III
TeraMedica	MWBF I
NimbleGen Systems <i>[Exited]</i>	VIES III, BVP I
NameProtect <i>[Exited]</i>	MWBF I
OpGen	MWBF I
TomoTherapy <i>[Exited]</i>	VIES III, BVP I
ZyStor Therapeutics	MWBF I, VIES III
Pinstripe, Inc.	BVP I(B)
Caden BioSciences	BVP I(B), VIES III

### **Section Three: Investment Opportunities and Considerations**

#### **Investment Opportunities**

The rationale for opportunistic investments in Wisconsin and Midwest venture stage companies is:

1. The imbalance between the high quantity and quality of research and development supported in the region and the low levels of venture capital dollars offered for investment.
2. It is a highly inefficient market that affords investors with deep connections to the local or regional research channels the opportunity to find attractive investments at very attractive valuations.
3. Investors who are willing to invest early benefit from better pricing and less competition for the best deals, and often get the first look at new opportunities as well.
4. The relatively lower cost of operating a business in the region compared to the coasts allows a business to get more value out of each dollar invested.
5. Because of the intense hands-on nature of venture investing, venture capitalists invest close to home. Therefore, unlike other forms of capital, venture capital does not flow easily to all regions of the country and the lack of venture capital in an area need not be a sign of poor investment opportunities. Almost by default, investing in venture capital funds involves a geographic play.
6. If the analysis shows that the conditions for successful venture capital investments exist, investors familiar with that area have an advantage.
7. The R&D institutions and technology transfer characteristics of Wisconsin rival those of other technology centers in the U.S.

8. The conditions for the other factors (corporate catalysts and a concentration of entrepreneurs and resources) exist, are stronger than they were back in the 1999/2000 period and continue to develop quickly.
9. We have seen that there are compelling companies and technologies to invest here locally with the recent investment realizations in NameProtect.com, TomoTherapy and NimbleGen. Local opportunities do exist and can be very profitable for investors.
10. With only a few venture capital funds actively prospecting in Wisconsin, it takes only a small number of opportunities like TomoTherapy or NimbleGen to deliver market rate returns for those portfolios specializing in the market.
11. As the environment improves, the investment risk related to an underdeveloped "infrastructure" is being reduced. SWIB's prior investments have contributed to the emergence of this infrastructure. Continuing to invest now will allow SWIB to benefit from the groundwork built by its earlier investments when the risk was higher.
12. The Portfolio's returns have started to improve over the past 12 months as a result of the three exits in 2007 and write-ups in value in a few of the portfolio companies. Based on the December 31, 2007, the Portfolio's actual returns for the one-year and three-year period was 61.4% and 18.9%, compared to the Venture Economics Venture Capital Weighted by Vintage Year returns of 18.3% and 11.3%. Both the five-year and ten-year returns at 8.7% and -.5% respectively were below the benchmarks of 16.2% and 10.4%. We believe these returns will improve over time as we continue to see investment realizations within the funds.

### **Investment Considerations**

Venture capital remains a high-risk investment strategy. On a portfolio basis, the general expectation is that one-third of investments will be total losses, one-third to one-half will not lose money but will not contribute much return and less than one-third of the investments will be highly successful and raise the portfolio returns to an acceptable level.

As with other private equity investments, venture capital investments are highly illiquid. Further, seed- and early-stage investments in the life sciences, in particular, take much longer to achieve a successful exit compared to information technology or business services. Investments in medical devices or drug development companies will require extended periods and multiple rounds of financing before regulatory approval is granted and products are commercialized and marketed. Venture funding of \$100 million or more is often needed for companies in these highly regulated industries, posing an additional risk. Venture capital companies can be vulnerable because they may have only one product line, larger competitors may be more successful in bringing similar products to market or rapid changes in technology may result in early product obsolescence.

For a public pension fund, the probability of losses, especially early losses before successful investments are visible, can be a particular risk if beneficiary groups are uncomfortable with the underlying strategy. The extent of this risk can be lessened if it is acknowledged from the start that losses are inevitable and accounted for in overall expected returns.





August 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) listing 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 June 30, 2008. Section 25.17 (13m), Stats., requires that we provide this report on a quarterly basis.

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

This report lists expenses 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 services that are directly charged to the funds. A negative charge typically indicates an 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 following highlights changes from the previous quarter:

- Private equity fees increased \$5.5 million during the second quarter. Of that amount, approximately \$3.2 million was for expenses associated with new commitments. Real estate costs decreased by \$337,000 from the first quarter of

2008. The total funded amount for each asset class has reached the 5% asset allocation target.

- Custodial fees decreased slightly during the second quarter. Because of the lower fees that SWIB negotiated with the custodian in 2007, fees for calendar year 2008 are expected to be less than 20% of the fees paid during calendar year 2007.
- Costs for investment counsel were slightly lower for the second quarter but are expected to be somewhat higher for the entire calendar year.
- Indexed and enhanced commingled fund fees increased slightly during the quarter primarily due to a payment to BYN Mellon for managing assets when transitioned between managers or strategies. Assets managed in enhanced commingled funds decreased by approximately \$1.5 billion in the second quarter, reflecting market effects and a further shift of assets to less expensive internal management. Active external investment management fees increased by \$500,000 in the second quarter due to several accrual adjustments and corrections.

Attachment B provides further explanation about the various expenditure categories. Attachment C includes legal expenses that were 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. For the fifth consecutive quarter, the percentage of total assets managed internally increased, while externally managed assets decreased. This shows the result of the increased staff and budget authority, which is allowing SWIB to manage more assets internally and reduce the use of more expensive external management.

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 June 30, 2008**

<b>Charge Category</b>	<b>Service Provided</b>	<b>Charges</b>
<b>Custodial and Banking Fees</b>		
Bankers' Bank	Wisconsin CD Program	\$2,500
BNY Mellon	Retirement System Custodial Services	153,368
US Bank	State Banking Services	225
<b>Total Custodial and Banking Fees</b>		<b>\$156,093</b>
<b>Legal Fees, Services and Expenses</b>		
Foley & Lardner	Private Markets Investment Transactions	10,217
<b>Total Legal Fees, Services and Expenses</b>		<b>\$10,217</b>
<b>Investment Counsel</b>		
Abel/Noser Corp.	Trade Analysis	20,000
American Stock Exchange	American Stock Exchange Data	2,923
Antonio S. Mello	Global Bond & Currency Management Project	12,000
BCA Publications	Global & Domestic Fixed Income Strategy Research	13,250
BioCentury Publications	Biotech Stock News	999
Bloomberg, LP	Market, Company, Industry & Benchmark Information	164,142
Call Street Transcript Service	Credit Analysis	1,350
CanDeal.ca Inc.	Canadian Government Bond Trading Service	900
Charles River Systems, Inc.	Portfolio Management Software	55,682
Connexiti LLC	Supply Chain Data	7,500
Council of Institutional Investors	Corporate Governance	7,500
Courtland Partners	Performance Monitor Reporting	51,250
Credit Sights	Credit Assessments	18,750
Data Broadcasting Corporation - CMS Bond Edge	Pricing Service	10,725
Dominion Bond Rating Service (DBRS)	Credit Ratings & Research Reports for Corporate Bond Issuers	789
Dow Jones & Co	Company and Industry News Service	12,705
Ennls, Knupp & Associates	Fiduciary & Governance Consulting	46,250
Factset Data Systems	Financial & Economic Database	89,787
Financial Engineering Assoc Inc.	Value-at-Risk Calculation	3,303
Financial Tools, Inc.	Financial Statement Spreadsheet Software License	216
Fitch Info., Inc.	Credit Rating Service	1,750
FX Alliance LLC	Electronic Platform for Trading Foreign Currencies	5,162
Gartner, Inc.	Tech Sector Specific Research	11,250
Gimme Credit	Credit Research	4,814
Global Investment Research Inc.	Technology and Telecom Research	2,501
Groom Law Group, Chartered	Fiduciary Counsel	4,718
Hamilton Lane Advisors, LLC	Private Equity Consulting/Reporting Services	375,000
Harvest Investments	Fixed Income Security Pricing	1,192
iMoneyNet, Inc	Money Market Fund Database	10,500
Instinet	Equity Trading Service	(288)
Institutional Investor	Global Fixed Income Institute Membership	15,884
Interfaith Center On Corporate Responsibility	Social Investing Research	501



Charge Category	Service Provided	Charges
Investor Responsibility & Support Services, Inc	Securities Class Action Support	8,747
John Tumazos Very Independent Research	Materials Sector Research	6,250
KPA Advisory Services	Investment Organization Consulting	1,251
Lombard Street Research	Global Economic Analysis	16,155
London Stock Exchange PLC	London Stock Exchange Data	9,501
Maria Fiorini Ramirez	Economic Analysis	1,200
Market Axess Corporation	Bond and Yield Pricing	1,050
Moody's Analytics, Inc.	Economic, Currency & Bond Analysis	348
Moody's Investor Service	Corporate Bond Credit Quality Screening	30,468
Morgan Stanley Capital International	Developed Markets Security Data	18,584
New York Stock Exchange	New York Stock Exchange Data	4,436
Options Price Reporting Authority (OPRA)	Quote System for Options Market	1,575
Peter L. Bernstein	Economic & Portfolio Strategy	474
Property & Portfolio Research	Real Estate Consulting & Electronic Services	27,500
QTI Professional Staffing, Inc	Investment Staff Recruitment Consulting	88,200
Quantitative Services Group LLC	Access to Quantitative Data	19,997
Reuters America Inc.	News, Economic & Company Research & Analytics	162,524
RiskMetrics	Volatility and Correlation Data	6,877
RiskMetrics Group	Proxy Voting Analysis	37,299
Russell Investment Group	Index Data Feeds	8,750
S.R. Batliboi & Company	Tax Compliance Services Required by Government of India	17,247
Salomon Analytics Yield Book	Fixed Income Portfolio Risk & Optimization Modeling/Analysis	15,000
Sheshunoff Info. Services	Government Financial Management Report	82
SNL Financial	Customized Analysis of Bank Investments	9,750
Standard & Poor's	Industry & Corporate Research	47,372
StepStone Group LLC	Private Equity consultant	73,750
Strategic Economic Decisions	Research Reports	6,251
Strategic Investment Solutions, Inc.	Asset Allocation & Benchmark Consulting	70,000
Telsey Advisory Group	Consumer Sector Research	21,249
The Corporate Library	Proxy Voting Research Data	4,626
Thomson Financial Services	Electronic Research Pricing (Autex, StreetEvents, FirstCall)	95,076
Toronto Stock Exchange	Market Data/Traders	1,334
Trade Web	On-Line Fixed Income Trading Service	7,800
William O'Neil & Co.	Equity & Analytics Technical Research	21,249
Wilshire Associates	Performance Measurement, Portfolio Management & Analytics	102,750
World Bank Publications	Historical Emerging Market Countries Macroeconomic Data	180

#### Real Estate Investment Management Services

Apollo Advisors	Real Estate Management Services	(3,660)
Archstone - Smith Trust	Real Estate Management Services	268,988
Berkshire Property Advisors, LLC	Real Estate Management Services	(44,077)
Blackstone Management Partners VI LLC	Real Estate Management Services	562,500
Bristol Group, Inc.	Real Estate Management Services	77,490
BVP Managers, LLC	Real Estate Management Services	375,000
Callahan Capital	Real Estate Management Services	354,608
Capital Trust	Real Estate Management Services	37,592
Centerline Capital Group	Real Estate Management Services	187,500
Cornerstone Real Estate Advisors	Real Estate Management Services	109,895
Essex VFGP	Real Estate Management Services	102,694

Charge Category	Service Provided	Charges
Fortress Invest Fund IV (Fund A) LP	Real Estate Management Services	124,500
Fortress Investment Corp.	Real Estate Management Services	936,615
Fortress V	Real Estate Management Services	250,000
Goldman Sachs & Co.	Real Estate Management Services	38,741
Guggenheim Structured Real Estate Advisors, LLC	Real Estate Management Services	406,071
Hawkeye Partners LP	Real Estate Management Services	125,000
Heitman Capital Management Corp.	Real Estate Management Services	36,206
Henderson Global Investors (North America) Inc.	Real Estate Management Services	276,502
Hudson Advisors	Real Estate Management Services	171,298
Invesco Realty Advisors, Inc.	Real Estate Management Services	305,272
JP Morgan Investment Management	Real Estate Management Services	1,062,912
Kensington Realty Advisors	Real Estate Management Services	74,764
Koll Bren Realty Advisors	Real Estate Management Services	58,429
KTR Capital Partners	Real Estate Management Services	562,500
Landmark Realty Advisors	Real Estate Management Services	17,251
Lazard Freres	Real Estate Management Services	117,093
Mesa West Capital LLC	Real Estate Management Services	243,750
MMA Realty Capital	Real Estate Management Services	1,189
Morgan Stanley	Real Estate Management Services	136,249
Northwestern Mutual Life	Real Estate Management Services	18,568
Prudential (senior housing)	Real Estate Management Services	156,250
Rockpoint Group LLC	Real Estate Management Services	405,757
Rockspring Property Investment Managers	Real Estate Management Services	113,289
RREEF	Real Estate Management Services	457,787
Security Capital	Real Estate Management Services	433,740
Sentinel Realty Advisors Corp.	Real Estate Management Services	322,339
UBS Realty Investors	Real Estate Management Services	66,604
Westbrook Real Estate	Real Estate Management Services	779,404
<b>Total Real Estate Investment Management Services</b>		<b>5,725,522</b>

#### Private Equity Management

3I Europe Investment Partners	Private Equity Management	86,000
ACI Capital Investors II	Private Equity Management	250,000
Advent International GPE VI, L.P.	Private Equity Management	275,900
Alchemy Partners	Private Equity Management	199,900
Alta Communications IX, LP	Private Equity Management	232,300
American Securities Opportunities Fund, LP	Private Equity Management	2,500
Ampersand Ltd Partnership	Private Equity Management	109,900
Apollo European Principal Finance Fund, L.P.	Private Equity Management	637,300
Apollo Investment Fund V LLP	Private Equity Management	(76,100)
Apollo Investment Fund VII, L.P.	Private Equity Management	637,900
Ares Corporate Opportunities Fund II, LP	Private Equity Management	140,600
Ares Corporate Opportunities Fund, LP	Private Equity Management	50,000
Asia Recovery Fund	Private Equity Management	23,700
Avenue Special Situations Fund V, L.P.	Private Equity Management	281,300
Baird Venture Partners	Private Equity Management	123,800
Baird Venture Partners III	Private Equity Management	625,000
BC European Capital	Private Equity Management	12,000
Bear Steams	Private Equity Management	46,300
Bear Steams Merchant Capital	Private Equity Management	237,900

Charge Category	Service Provided	Charges
Birch Hill Equity II	Private Equity Management	51,900
Blackstone Management Partners V LLC	Private Equity Management	113,100
Boston Millennia	Private Equity Management	98,400
Bridgepoint Europe III A LP	Private Equity Management	(125,500)
Bridgepoint Europe IV, L.P.	Private Equity Management	626,500
Capital International Global	Private Equity Management	11,600
Capital Res Partners IV LP	Private Equity Management	60,800
Capital Resource Lenders III	Private Equity Management	11,400
Carlyle Asia Ltd.	Private Equity Management	39,800
Carlyle Partners IV, LP	Private Equity Management	29,100
Carlyle Partners V, L.P.	Private Equity Management	65,100
Cerberus Institutional Partners LP	Private Equity Management	370,000
Charterhouse	Private Equity Management	76,100
Charterhouse VIII	Private Equity Management	441,800
Coller International	Private Equity Management	99,600
Coller International V LP	Private Equity Management	188,500
CVC European Equity Partners IV	Private Equity Management	168,100
CVC European Equity Partners Tandem Fund	Private Equity Management	56,900
CVC European Equity Partners V, L.P.	Private Equity Management	436,700
Cypress Advisors, LP	Private Equity Management	50,200
Doll Technology Invt Fd II LP	Private Equity Management	17,500
EI Dorado Ventures	Private Equity Management	204,400
EQT V, L.P.	Private Equity Management	236,400
Essex Woodlands Health Venture V	Private Equity Management	91,100
Facilitator Fund LP	Private Equity Management	38,800
FFC Partners II, LP	Private Equity Management	75,800
Fortress Invest Fund II LLC	Private Equity Management	3,400
Fortress Invest Fund IV (Co-investment Fund A)	Private Equity Management	94,800
Fortress Invest Fund IV (Fund A) LP	Private Equity Management	124,500
Fortress RIC	Private Equity Management	27,900
Fortress V	Private Equity Management	198,700
Fortress V Co-investment	Private Equity Management	38,700
Frazier	Private Equity Management	281,300
Gores Capital Partners II, LP	Private Equity Management	137,900
Graphite	Private Equity Management	675,200
Green Credit Investors, L.P.	Private Equity Management	14,700
Green Equity Partners V	Private Equity Management	234,800
GS Special Opportunities Asia Fd LP	Private Equity Management	5,500
GTCR	Private Equity Management	60,800
Harbourvest International	Private Equity Management	151,500
Hellman & Friedman Capital VI	Private Equity Management	291,700
IGP II	Private Equity Management	5,100
Kelso Investment VII LP	Private Equity Management	117,500
Kelso VIII	Private Equity Management	375,000
KKR European Fund III, L.P.	Private Equity Management	290,000
KKR European II	Private Equity Management	68,300
Kohlberg Investors VI, LP	Private Equity Management	134,100
Kohlberg Kravis Roberts & CO	Private Equity Management	14,100
KRG Capital Fund IV, L.P.	Private Equity Management	210,400
Lake Pacific I Gladson, LLC	Private Equity Management	110,000

Charge Category	Service Provided	Charges
Lone Star Fund IV LP	Private Equity Management	13,200
Mason Wells Partners I, LLC	Private Equity Management	73,400
Mayfield XI LP	Private Equity Management	36,500
Montreux Equity Partners IV, L.P.	Private Equity Management	156,300
New Mountain Partners III, L.P.	Private Equity Management	493,000
Oak Investment Partners XII, LP	Private Equity Management	175,000
OCM Opportunities Fund VII	Private Equity Management	157,300
Old Lane India Opportunities Fund-T, LP	Private Equity Management	125,700
Peninsula Fund IV LP	Private Equity Management	250,000
Peninsula Fund	Private Equity Management	92,700
Pomona Capital	Private Equity Management	126,000
Pomona Capital VII, L.P.	Private Equity Management	216,300
Providence Equity Partners VI, LP	Private Equity Management	260,200
Providence TMT Special Situations Fund	Private Equity Management	23,200
Providence V	Private Equity Management	20,600
Riverstone/Carlyle Global Energy & Power Fund, L.P	Private Equity Management	787,000
Seaport Capital Partners II	Private Equity Management	45,900
Segulah IV, L.P.	Private Equity Management	130,700
SKM Equity Fund III, LP	Private Equity Management	11,400
Sprout	Private Equity Management	4,000
TA X	Private Equity Management	65,300
TAC 2007, L.P.	Private Equity Management	13,800
Thomas Lee VI	Private Equity Management	130,400
TPG Partners V, LP	Private Equity Management	361,100
TPG Partners VI, LP	Private Equity Management	533,300
Venture Investors	Private Equity Management	65,600
Venture Investors Early Stage Fund IV	Private Equity Management	156,300
Vista Equity Partners Fund III, L.P.	Private Equity Management	260,100
Warburg Pincus Private Equity IX, L.P.	Private Equity Management	432,000
Warburg Pincus Private Equity X, L.P.	Private Equity Management	539,800
Wayzata Opportunities Fund II	Private Equity Management	408,800
Windpoint Partners V LP	Private Equity Management	66,900
Windpoint Partners VI LP	Private Equity Management	34,200
WLR Recovery Fund L P	Private Equity Management	7,700
<b>Total Private Equity Management</b>		<b>8,000,800</b>

#### Index, Enhanced and Commingled Fund Fees

Barclays Global Investors (BGI)	Quantitative/Enhanced & Index Fund Management	4,931,129
Boston Company, The	Equity Emerging Market Management	1,111,686
Capital Guardian Trust Company	Global High Yield Fixed Income Management	491,051
Goldman Sachs & Co.	Quantitative/Enhanced & Index Fund Management	613,031
Goldman Sachs Asset Management	Quantitative/Enhanced & Index Fund Management	116,337
Grantham, Mayo, Van Otterloo	Equity and Fixed Income Emerging Market Management	641,868
Janus Institutional Asset Management	Quantitative/Enhanced & Index Fund Management	725,581
LSV Asset Management	Quantitative/Enhanced & Index Fund Management	785,110
Mellon Transition Management		257,100
T. Rowe Price Trust Company	International Emerging Market Management	1,893,811
UBS Global Asset Management	Multi-Asset Management	800,468

Charge Category	Service Provided	Charges
<b>Public Market Active Management Fees</b>		
Aberdeen Asset Management	Global Fixed Income/Emerging Active Management	(1,063,277)
Acadian Asset Management	International Equity Active Management	1,095,797
AEW	Real Estate Investment Trusts	91,539
Alliance Bernstein	International Equity Active Management	1,657,928
American Century Investments	International Equity Active Management	403,107
Brandywine Asset Management	Global Fixed Income Active Management	650,571
Bridgewater Associates	Global Fixed Income Active Management	677,191
EII Realty Services, Inc.	Real Estate Investment Trusts	205,593
Fidelity Management Trust Co.	International Equity Active Management	(1,179,057)
Grantham, Mayo, Van Otterloo	Large Cap Quantitative Management	78,751
Heitman Real Estate Securities, LLC	Real Estate Investment Trusts	89,263
Loomis, Sayles & Co.	High Yield Fixed Income Active Management	516,219
LSV Asset Management	International Equity Active Management	1,577,109
Morgan Grenfell Asset Management	Global Fixed Income Active Management	1,098,557
Morgan Stanley Asset Management	International Equity Active Management	1,229,321
Pyramis Global Advisors Trust Company	International Equity Active Management	2,184,380
RREEF America LLC	Real Estate Investment Trusts	388,938
Standish Mellon Asset Management LLC	Cash Management Service	18,810
Stone Harbor Asset Management	Emerging Market Fixed Income Active Management	947,062
UBS Global Asset Management	Global Fixed Income Management	206,442
<b>Total Public Market Active Management Fees</b>		<b>\$53,239,045</b>

**Total Quarterly Charges to Funds**

**\$53,239,045**

*\*Fees paid to fund managers are established as a percentage of the capital committed. As assets in a fund are sold, the 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.*

## Explanations of Direct Charges

### **Custodial & Banking Fees**

*Wisconsin Certificate of Deposit Program:* Under a contract with SWIB, Bankers' Bank administers the program under which the State Investment Fund (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 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 the 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 June 30, 2008**

<b>Charge Category</b>	<b>Service Provided</b>	<b>Charges</b>
<b>Legal Fees, Services and Expenses</b>		
Baker & Botts	Real Estate Investment Transactions	\$1,273
Foley & Lardner	Private Markets Investment Transactions	312
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	(12,431)
Reinhart Boemer Van Dueren	Private Markets Investment Transactions	97,207
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	150
Susman Godfrey LLP	Private Markets Investment Transactions	1,051
Whyte Hirschboek	Private Markets Investment Transactions	1,209
<b>Total Legal Fees, Services and Expenses</b>		<b>\$17,775</b>
<b>Capitalized Legal Fees</b>		
Foley & Lardner	Private Markets Investment Transactions	16,875
Michael Best & Friedrich	Litigation & Private Markets Investment Transactions	3,198
Reinhart Boemer Van Dueren	Private Markets Investment Transactions	110,397
Solheim, Billing & Grimmer SC	Private Markets Investment Transactions	42,163
<b>Total Capitalized Legal Fees</b>		<b>\$172,633</b>



**ATTACHMENT D**

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

	9/30/2007		12/31/2007		3/31/2008		6/30/2008	
	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent	Amount (in millions)	Percent
Internally Managed	\$18,406	20.6%	\$18,192	20.7%	\$18,602	22.4%	\$18,807	23.2%
Externally Managed Dedicated Accounts	14,865	16.6%	16,060	18.3%	15,486	18.6%	14,454	17.8%
Externally Managed Commingled Accounts	56,057	62.8%	53,551	61.0%	49,018	59.0%	47,750	58.9%
1. Passive Index Funds	27,347	30.6%	25,566	29.1%	24,276	29.2%	23,814	29.4%
2. Enhanced Index Funds	19,800	22.2%	18,665	21.3%	15,480	18.6%	13,907	17.2%
3. Limited Partnerships	5,414	6.1%	5,744	6.5%	5,935	7.1%	6,169	7.6%
4. Actively Managed Funds	3,496	3.9%	3,577	4.1%	3,327	4.0%	3,860	4.8%
<b>TOTAL WRS Assets</b>	<b>\$89,328</b>	<b>100.0%</b>	<b>\$87,803</b>	<b>100.0%</b>	<b>\$83,106</b>	<b>100.0%</b>	<b>\$81,011</b>	<b>100.0%</b>

Note: the Quantitative Analytics group changed slightly the method to classify some private market investments to Mellon's definition. The new classification will reconcile with the internal/external breakdown on the AASPE.