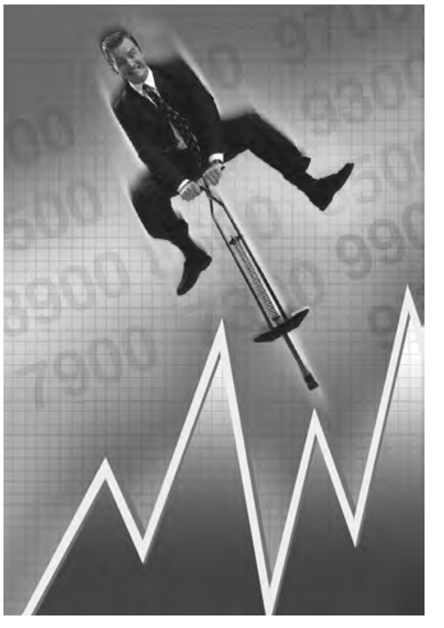
The SWIB Report

Published by the State of Wisconsin Investment Board for WRS participants

May 2008

Strategy is important as uncertain markets prevail



Stock markets remain -- in a word -- volatile. But, such challenges are considered by SWIB throughout the ongoing strategic process used to help ensure that the trust funds can meet present and future pension obligations.

In 2007, the Core Fund returned 8.7% and the Variable Fund returned 5.6% after the worst fourth quarter in the US stock market in years. During the first quarter of 2008, markets have continued to decline. Both the Core and Variable Funds have negative returns year-to-date. These difficult market conditions are expected to continue as the outlook for the economy remains uncertain. High oil prices and concerns about the financial sector continue to be key factors.

Historically, markets tend to be cyclical and decline after a few years of strong performance. In the past SWIB has experienced negative absolute returns after three or four years of positive returns. Markets have been positive for the past five years.

The investment strategy determined for the trust funds takes into account that in some years there may be investment gains while in other years there may be losses. Therefore, one of the ways to measure performance for long-term investors, such as SWIB, is to look at the five-year and ten-year returns. As of December 31, 2007, Core Fund returns were 13.9% and 8.4%, respectively. Our long-term focus means we are not forced to change investment strategy when there is market volatility. Our portfolio managers consider current market conditions when they buy and sell investments, guided by the overall strategy that has been set.

Calendar Year-to-Date Preliminary Returns
As of 3/31/08

Core Fund .... -4.3%
Variable Fund ..... -9.1%

Discipline has proven results for long-term investors

Sitting on the sidelines waiting for calmer markets is not an option for public pension fund investors. With more than $83.3 billion in pension assets to manage, SWIB instead sets prudent policies to help weather turbulent times.

Asset allocation and diversification (see related stories on page 3) are key components of long-term investment strategy. SWIB also considers the money required for benefit payments and manages investment risks to assure they are not excessive.

There are ups and downs in performance over shorter time periods. However, longer-term performance reflects the benefits of SWIB's investment process.

Core Fund Performance from 1991 to 2007

Returns	SWIB ahead of Benchmark	SWIB Behind Benchmark
One-year	10 times	7 times
Five-year	15 times	2 times
Ten-year	16 times	1 time

Two Funds: Core provides diversification; Variable option offers more stock exposure

All participants in the Wisconsin Retirement System (WRS) have at least half -- if not all -- of their pension account contributions in the Core Fund. About 20% participate in the Variable Fund option, which is unique to the WRS.

Which is the best choice? While SWIB can't give you the answer, we can provide information that will help you as you consider whether or not to pick the Variable Fund option.

Balanced Core Fund

The Core Fund is the larger of the two trust funds. It is a fully diversified, balanced fund. The Fund is anchored with equities (stocks) and fixed income (bonds) and includes investments in private markets. (See asset allocations on page 3.)

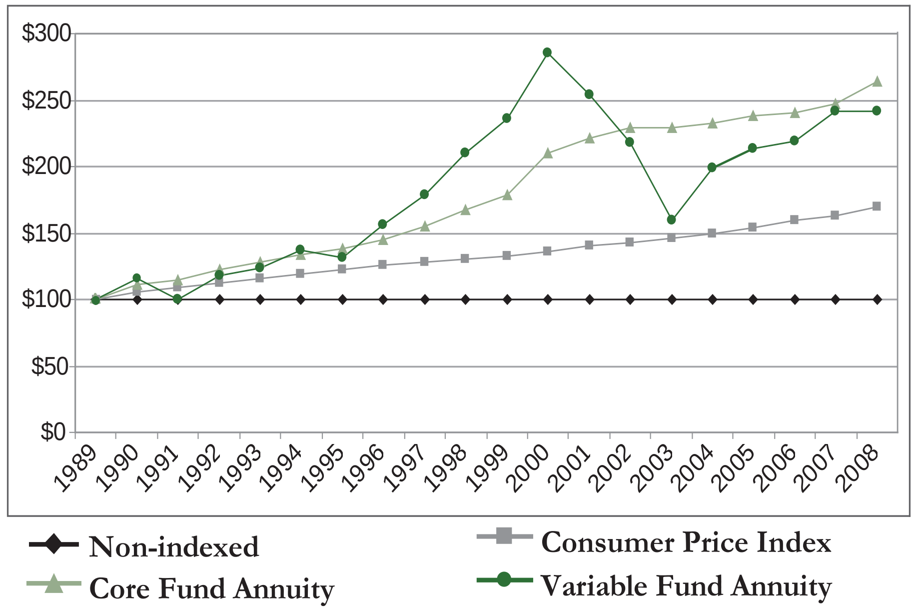
One very important aspect of the Core Fund is the smoothing of returns over five years. This lessens the impact of market volatility on contribution rates, adjustments to employee accounts and annuitant dividends.

All-stock Variable Fund

The smaller of the two trust funds is the Variable Fund. The Variable Fund is a stock fund. It is diversified by including both domestic and international equities, but not fixed income or private market assets. The investments in the Variable Fund are the same equities that are selected for the Core Fund.

The returns of the Variable Fund are not smoothed and, therefore, fully reflect market changes. Participants in the Variable Fund are exposed to a higher degree of risk because of possible losses from unfavorable stock market performance in exchange for the possibility of greater long-run returns.

Growth in $100 Annuity



The chart above compares increases accumulated if $100 was invested over 20 years based on the percent of the Core Fund dividend, Variable Fund adjustment and Consumer Price Index increase.

Two funds differ in objectives and investment strategies

The basic objective of the Core Fund is to earn an optimum net rate of return while taking an acceptable level of risk. This objective reflects the purpose of the Core Fund, which is to continue to ensure the retirement system can meet its financial obligations now and into the future.

To achieve this objective, SWIB sets an asset allocation that considers potential returns and potential risk of several asset classes taken together.

A second goal is to exceed the benchmark established by the Board of Trustees. The benchmark measures SWIB's performance against the markets. The Core Fund benchmark is mainly a composite of several market indexes, such as the Russell 3000, rolled up and weighted to reflect the Board's asset allocation.

By way of comparison, the investment objective for the Variable Fund is to achieve returns equal to or above that of similar stock portfolios over a market cycle.

Allocation is a key element

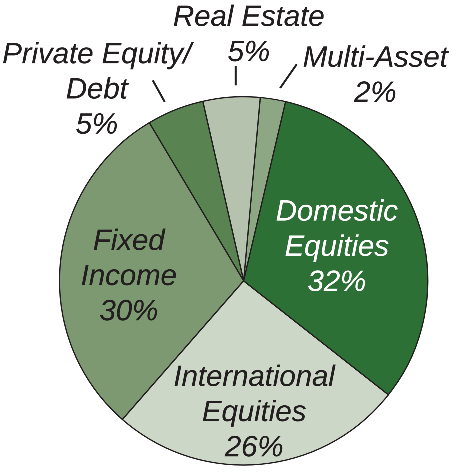
International stock allocations increased

The Board of Trustees regularly reviews the asset allocation to consider adjustments and new initiatives. After conducting its asset allocation review, Trustees have decreased domestic equities (stocks) and increased international equities allocation targets for 2008.

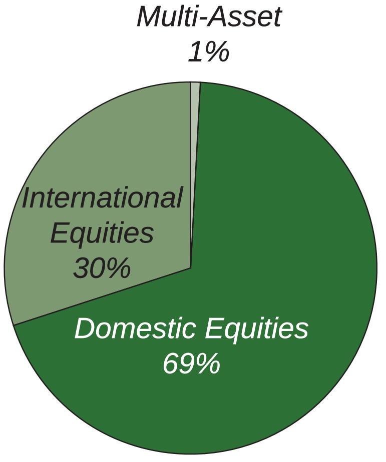
The Variable Fund saw the largest increase in its international equities allocation targets, from 20% to 30%. This shift in assets needed to meet the new target will

Allocation Cont. on page 4

2008 Core Asset Targets



2008 Variable Asset Targets



Diversification helps manage risk and volatility

Diversification is an important strategy for investing the pension system funds. This process is one of the ways that SWIB manages risk and helps stabilize returns. For example, by including equities, fixed income, and real estate, risk is limited because all three of these assets are unlikely to experience the same value movement (either up or down) at the same time. Likewise, volatility of returns is limited because typically not all industries or individual companies within these asset classes move up and down in value at the same time or at the same rate. Diversification allows for more consistent performance under a wide range of economic conditions.

The Core Fund is fully diversified. It includes a mixture of holdings, such as stocks, bonds, real estate and private equity. In addition, the Fund is invested in companies that differ by size, industry and location. Diversification in the Variable Fund, which includes only equities, is achieved by investing in different industries, company sizes and locations. Asset allocation targets are selected from the following types of investments:

Public Equities (Stocks)

Domestic: primarily common stock in US companies diversified among small-, medium- and large-sized companies.

International: primarily common stock in foreign companies in developed countries.

Emerging markets: stocks in developing countries as defined by the World Bank.

Public Fixed Income (Bonds)

Public: US government and corporate bonds purchased in public markets meeting minimum credit quality requirements.

Global: developed country bonds meeting minimum credit quality requirements.

Emerging markets: fixed income securities, mostly government debt, in developing markets as defined by the World Bank.

Private Markets

Real estate: commercial real estate investments with SWIB as a sole direct owner, or in joint ventures and partnerships with outside managers and diversified by location and property types; and diversified sets of real estate investment trusts (REITs).

Private equity/debt: includes leveraged buyouts and venture capital; direct, long-term loans to Wisconsin companies; and private market investments that offer a current return. Investments may carry greater risk, but offer the possibility of greater return.

Sheila Conroy to serve as DOA designee

Michael Morgan, secretary of the Department of Administration (DOA), has appointed Sheila M. Conroy as his designee to the Board in his absence. Conroy oversees DOA's Division of Administrative Services, which provides personnel, financial management and other support services to the Department, as well as attached boards, commissions and councils. She also oversees the Continuity of Operations/ Continuity of Government program within DOA. She graduated from Marquette University Summa Cum Laude in 1988 and the University of Michigan Law School Cum Laude in 1991.

Sheila Conroy

Over the course of the next 15 years, she practiced employment law, representing employers in state and federal court litigation.

Annual Investment Returns		
Year	Core Fund	Variable Fund
2007	8.7%	5.6%
2006	15.8%	17.6%
2005	8.6%	8.3%
2004	12.8%	12.7%
2003	24.2%	32.7%
2002	-8.8%	-21.9%
2001	-2.3%	-8.3%
2000	-0.8%	-7.2%
1999	15.7%	27.8%
1998	14.6%	17.5%
1997	17.2%	21.6%
1996	14.4%	19.8%
1995	23.1%	25.6%
1994	-0.6%	0.8%
1993	15.0%	16.5%
1992	9.7%	10.7%
1991	20.4%	27.1%
1990	-1.5%	-11.3%
1989	19.2%	22.6%
1988	14.4%	21.7%
20-year Annualized Return	10.6%	11.0%

Allocation *Continued from page 3*

be done gradually during the year. The international allocation target for the Core Fund rose from 22% to 26%. Core Fund targets for fixed income, real estate, private equity, private debt and multi-assets remained unchanged. Domestic equities asset targets for both funds were decreased accordingly.

To adhere to these targets, the Board employs a rebalancing discipline. If market activities cause a public markets asset class (stocks and fixed income) to exceed the target range, some of its investments are sold, and the cash is reinvested in the asset class that is lower than its target.

Rebalancing keeps the Fund within its asset allocation ranges.

Why More International?

The size of the international proportion of global equity markets has grown from 43% to 56% between 2001 and 2007.

International investments are also expected to outperform domestic investments over the next seven to ten years. In addition, investing in international equities helps diversify risk by reducing volatility.

Based on an extensive analysis, the Board decided to take advantage of more international opportunities while still managing the risk.

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David Villa, Chief Investment Officer

2008 Board Meetings

May 14
June 11
No July Meeting
August 13 (Tentative)
September 9/10
October 8/9
November 12
December 10

Agendas are posted on our website.
Dates may change.

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