

March 31, 2015

Honorable Alberta Darling, Co-Chair
Joint Committee on Finance
P.O. Box 7882
Madison, WI 53707-7882

Honorable John Nygren, Co-Chair
Joint Committee on Finance
P.O. Box 8953
Madison, WI 53708

Honorable Robert Cowles, Co-Chair
Joint Committee on Audit
P.O. Box 7882
Madison, WI 53707-7882

Honorable Samantha Kerkman, Co-Chair
Joint Committee on Audit
P.O. Box 8952
Madison, WI 53707-8952

Mr. Jeffrey Renk
Senate Chief Clerk
PO Box 7882
Madison, WI 53707-7882

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

Members of the Legislature:

I am submitting the Goals, Strategies and Performance Report for the State of Wisconsin Investment Board (SWIB). As required by section 25.17 (14m), WI Stats., this report provides information about SWIB's annual investment goals and long-term strategies, details how we are performing, and includes future goals and plans to strengthen SWIB for the years ahead.

Please let me know if you have any questions about the report or the markets in general.

Sincerely,

Michael Williamson
Executive Director

cc: Members, Joint Committee on Finance
Members, Joint Committee on Audit
Robert Lang, Legislative Fiscal Bureau
Joe Chrisman, Legislative Audit Bureau

Goals, Strategies & Performance Report 2015

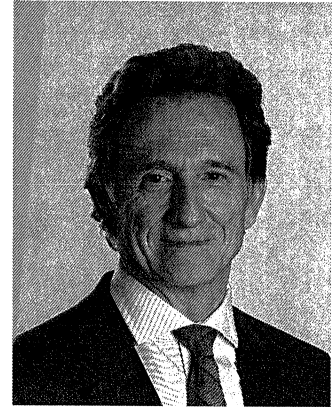


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Introduction

The State of Wisconsin Investment Board (SWIB) takes its responsibility to manage a large part of the retirement assets of our more than 580,000 Wisconsin Retirement System (WRS) participants very seriously. We work hard to generate favorable returns, manage investment risk and control costs. The decisions we make have an immediate impact on the lives of our participants and on the financial health of the overall system for many years to come. Therefore we diligently manage the assets on a daily basis while keeping our eyes focused on the future. We do this by developing goals and strategies that generate strong performance while maintaining the long-term success of what has become one of the model public pension funds in the country. We apply this philosophy with all the funds entrusted to us.



Last year, we launched a strategic plan initiative that was intended to help us maintain our success while staying at the forefront of institutional investment practices. The strategic plan provides us with a solid framework for meeting the challenges presented by an evolving investment landscape. The goals and strategies outlined in the strategic plan are designed to keep us agile, integrated and innovative in the way we effectively manage risk, control costs and achieve target returns over the long-term. We believe this is what is required to be a institutional investment leader.

In 2014, we embarked on the first phase of our three-year strategic plan. Over the past year, our work has touched virtually every aspect of our organization from investment strategies, to improving our operations and technology systems which will give us a competitive edge in the access to and management of financial data. Similarly, we have examined our people, our business processes, our management systems and how we are organized to ensure optimal alignment of resources with our strategic direction. This report will provide you with a look at the work we completed in 2014 and what is on the horizon for 2015.

As our mission states, we will “be a trusted and skilled global investment organization contributing to a strong financial future for the beneficiaries of the funds entrusted to us,” both now and in the future. American author and scholar Warren Bennis once said, “Leaders keep their eyes on the horizon, not just on the bottom line.” At SWIB, we have built a reputation of doing both and we will continue to reach for new horizons.

A handwritten signature in black ink that reads "Michael Williamson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Williamson
Executive Director

Executive Summary

2014 Performance

- The Core Fund returned 5.7 percent for calendar year 2014, matching its benchmark while exceeding its three-, five- and ten-year benchmarks.
- The Variable Fund returned 7.3 percent, slightly trailing its benchmark of 7.5 percent, while exceeding its three-, five- and ten-year benchmarks.
- SWIB has adopted an investment strategy designed to reduce risk of investing in the stock markets and minimize downturns.
- According to Callan Associates, SWIB has a favorable risk/reward tradeoff relative to peers, which points to an efficient use of investment risk.
- Real estate, private equity and multi-asset portfolios contributed positively to the 2014 earnings.
- SWIB's investment strategy is to meet the assumed rate of return for the Wisconsin Retirement System (WRS) of 7.2 percent over the long-term. SWIB's 20-year returns for the Core Fund is 8.6 percent, well above the 7.2 percent assumed rate of return.

2014 Goals

1. Enhance management of risk and performance at the trust fund level.

As part of its strategic plan, SWIB began planning and implementation of a comprehensive risk management solution to enhance and optimize risk, performance and cost management across all portfolios, asset classes and investment strategies. SWIB continued to develop strategies that will maintain the Core Fund's goal of earning 7.2 percent return over the long-term, while seeking to decrease variability of returns using cost-effective approaches.

2. Implement enhancements to SWIB's enterprise investment management system.

SWIB launched planning and implementation of a state-of-the-art technological and operation infrastructure that includes contract services, streamlined processes and better access to quality and timely data needed for investment decision making.

3. Ensure SWIB's workflow, processes and staff operate efficiently.

SWIB focused on cultural and organizational structure enhancements needed to support changes resulting from the investment strategy and operations and technology components of the strategic plan.

2015 Goals

1. Investment Goals

Staff will continue to work on building strategies that focus on managing factors and risk at the trust fund level while adding value and implementing the long-term structure of internally managed multi-asset portfolios.

2. Operations and Technology

SWIB will begin putting solutions identified last year into place in 2015. The new enterprise investment management system will be implemented in phases over the next several years.

3. People and Culture

SWIB will focus on developing, implementing and maintaining a workforce plan that effectively translates SWIB's future direction into actual, tangible improvements to organizational structure, job roles and responsibilities, education and development, morale, culture and incentives.

About Us

The State of Wisconsin Investment Board (SWIB) is responsible for managing the assets of the Wisconsin Retirement System (WRS), the State Investment Fund (SIF) and other state trust funds. As of December 31, 2014, SWIB managed over \$100 billion in assets.

The largest portion of the assets managed by SWIB (about 93 percent) is the trust funds of the WRS. About 6 percent is the SIF, a pool of cash balances of the WRS various state and local government units. The remaining 1 percent of the total assets are other trust funds invested by SWIB including the Injured Patients and Families Compensation Fund, State Life Insurance Fund, Local Government Property Insurance Fund, the Tuition Trust Fund and the State Historical Society of Wisconsin Endowment Fund.



Annually, SWIB is required to report its long-term strategies, investment goals and the status of goals and investment performance for the previous year. This report is submitted to the Legislature pursuant to section 25.17 (14m) of the Wisconsin State Statutes.

More information about SWIB and the funds it manages can be found at www.swib.state.wi.us.



Wisconsin Retirement System

Contributing to a Strong Future

Each year, more than 580,000 participants in the WRS rely on SWIB to produce returns that will help provide a strong financial future. SWIB's positive returns for both the Core Fund and the Variable Fund in 2014 will not only contribute to the financial future of WRS participants, they also will benefit employers while helping the WRS remain one of only a few fully-funded public pension systems in the country. The WRS continues to be among the best public pension systems in the country, in large part, due to investment returns, which on average, represent nearly 80 percent of the system's annual income.

The Core Fund, the larger of the two WRS funds with diversified holdings in domestic and international stocks, bonds, loans, real estate and private equity, earned 5.7 percent in 2014, which matched its benchmark. In the six years since the severe market downturn in 2008, which touched virtually every type of public or private investment, the Core Fund has earned positive returns.

Because of SWIB's sound investment performance the Core Fund, which had a market value of approximately \$89 billion as of December 31, 2014, has beat its three-, five- and ten-year benchmarks.

The objective of the investment strategy for the Core Fund investments is to help provide added protection during extreme market declines and earn returns comparable to the actuarial objective of 7.2 percent over the long-term, but with less risk than the typical 60 percent equities/40 percent non-equities portfolio.

The Variable Fund, an optional, U.S. and international stock fund, ended the year with a return of 7.3 percent, which slightly trailed its benchmark of 7.5 percent. The Variable Fund's market value was approximately \$7.3 billion as of December 31, 2014.

The investment strategy for the Variable Fund is to achieve returns equal to or above that of similar stock portfolios over a market cycle.

2014 Investment Performance*				
Annualized for period ending Dec. 31, 2014				
	One Year	Three Years	Five Years	Ten Years
Core Fund	5.7%	10.9%	9.3%	6.7%
Core Fund Benchmark	5.7%	10.4%	8.8%	6.4%
Variable Fund	7.3%	17.4%	12.7%	7.1%
Variable Fund Benchmark	7.5%	17.1%	12.3%	7.0%

*Gross of investment management & operational fees.



Long-Term Strategies

SWIB has been, and continues to be, a long-term investor. Historically, markets tend to be cyclical and decline after a few years of strong performance. Because SWIB is a long-term investor, it can be more patient and flexible than many other investors. However, it must also be responsible and committed to a well thought-out plan that provides the best value to all WRS participants in the long run if and when another market downturn occurs.

Earnings from investments represent nearly 80 percent of the WRS's annual income. However, the shared risk and reward of the system creates some tension when market conditions result in significant losses because pension payments are impacted directly, both positively and negatively, by annual returns. It should be remembered that success is measured by the overall long-term health of the system rather than individual peaks and valleys. For that reason, managing investment risk is a constant consideration for the trust funds.

SWIB's long-term goal is to provide prudent and cost-effective management of funds held in trust. This is achieved through rational and systematic processes for setting asset allocation in a diversified portfolio, estimating expected investment returns and evaluating investment performance.

WRS assets constitute approximately 93 percent of the total funds invested by SWIB and are divided into two funds: Core Fund and Variable Fund.

Core Trust Fund

The Core Fund is a broadly diversified portfolio of stocks, bonds, private equity, real estate, hedge funds and other holdings. The investment goal of the Core Fund is to earn an optimum rate of return while taking an acceptable level of risk and to meet or exceed the actuarially assumed rate of return of 7.2 percent (expected return over 20-30 years).

SWIB's current investment strategy for the Core Fund is a long-term strategy. The strategy was developed, discussed, and implemented over several years to address the significant risk exposure to volatile stock markets

Consistent Performance

SWIB provides consistent, long-term performance that benefits the WRS and its members. SWIB's investment strategy is to meet the assumed rate of return for the WRS of 7.2 percent over the long-term, not earning the highest returns. SWIB's investment strategy has been successful in achieving its long-term goal and has helped keep the WRS in strong financial condition.

20-Year Returns

As of Dec. 31, 2014

8.6%

Core Fund

8.8%

Variable Fund

and needs diverse strategies to lessen that risk. Those strategies in particular consider lessons learned from the market collapse of 2008, the worst downturn since the 1930s.

Asset allocation – the distribution of investments across stocks, bonds and other assets to maximize returns and minimize risk – is the primary driver of long-term investment returns and is determined by the Trustees using an external consultant. Because the mix of assets is a large driver of the ultimate return, when comparing SWIB's return with other pension plans, one must consider differences in asset allocation, objectives and risk tolerance.

SWIB is slowly reducing the unpredictability of Core Fund returns by investing a modest allocation of assets in volatility-reducing strategies. These strategies help smooth returns year over year to limit impacts of significant market downturns and include multi-asset strategies that use hedge funds, modest leverage, and risk parity portfolios, which are designed to distribute volatility more evenly over asset classes.

Measured alone, these strategies may underperform the market during periods of strong stock market performance but outperform in less favorable times. Measured within the context of the entire trust fund, however, this strategy allows the overall plan to be well suited to a variety of future market conditions and should protect the Core Fund against severe market downturns. In 2014, hedge funds returned 3.7 percent and risk parity investments returned 8.1 percent. The fund-level leverage results are not directly measurable as with a portfolio versus its benchmark, but can be estimated by comparing what the Core Fund benchmark returned versus an unlevered Core Fund benchmark from before the program was implemented, which is 6 basis points, or .06 percent added value from the leverage for 2014. It is worth noting that the fund-level leverage strategy does not have an excess return objective, but rather is designed to reduce the volatility of fund returns.

In December 2014, SWIB's Board of Trustees approved continuing the implementation of strategic asset allocation targets in the 2010 asset allocation plan, which deploys up to 20 percent leverage. Over the course of implementation, the Board is informed of the nature and method used for each incremental step. Before implementing leverage beyond 10 percent, the Board, consultants and staff will engage in additional focused asset allocation discussion. Based on a risk analysis, there is not a need to increase the active risk objective for the trust funds in 2015.

The Core Fund's asset allocation is similar to other peer public pension funds, although each fund has its own objectives and goals which results in differences in asset allocation.

Core Fund Returns		
As of December 31, 2014		
Asset Class	Benchmark	Actual Returns
Stocks	4.8%	4.1%
Fixed Income	4.4%	4.6%
Inflation Sensitive	2.2%	2.1%
Real Estate	12.4%	14.0%
Private Equity	13.5%	15.5%
Multi-Asset*	3.3%	7.0%
Total	5.7%	5.7%

*Multi-Asset includes hedge funds, risk parity and other cross-asset class strategies.

Core Fund Asset Allocation Targets			
As of December 31, 2014			
Asset Class	2012	2013	2014
Stocks	50%	50%	50%
Fixed Income	26%	27%	27%
Inflation Sensitive	7%	8%	9%
Real Estate	7%	7%	7%
Private Equity	7%	7%	7%
Multi-Asset	5%	5%	6%
Cash/Leverage*	-2%	-4%	-6%
Total	100%	100%	100%

*Negative percentages reflect SWIB's leverage strategy.

SWIB uses investment performance targets that are tied to benchmarks – usually market indexes against which portfolio and fund returns are evaluated. An example is the Russell 3000, which measures the performance of the largest 3,000 companies. The Core Fund is measured against a blend of benchmarks representing broader markets for stocks, bonds and other assets and reflecting the blend of individual portfolios.

Diversification Reduces Risk

The primary tool for managing risk is diversification of assets at the fund level because the more varied a fund is, the less overall risk there is. This is based on the idea that market conditions often affect diverse investments differently so returns do not typically move with each other and can, in fact, move in opposite directions. SWIB continues to find ways to better diversify the Core Fund as a way to address market volatility. Decreasing the stock allocation is important because risk, measured by return variability over time (or volatility), is disproportionately coming from stocks.

Managing risk becomes even more important in a mature pension fund, such as the WRS, which has an increased number of retirees whose annuity payments are directly impacted by returns. In addition, the WRS has the added factor of the shared risks and rewards affecting retirees' accounts. Lowering volatility helps stabilize contribution rates and benefit adjustments by trading a reduction in expected returns during positive stock markets for better protection in down markets. SWIB is also incorporating other diversification strategies that will help lower stock exposure and provide more options for responding to market uncertainty. New investment strategies are phased in over time.

SWIB Manages Risk in Many Ways

In addition to diversification, SWIB monitors and manages risk through an enterprise-wide process. Each portfolio follows guidelines that specify the types of allowable investments and other requirements consistent with policies established by Trustees. Portfolio managers are responsible for complying with guidelines, as well as Wisconsin Statutes and administrative code.

Risk management also includes monitoring of asset diversification, related to types of risk exposures and worst-case scenario modeling. Comprehensive reports are presented to SWIB's Investment Committee and the Trustees at least quarterly.

SWIB's compliance officer continuously monitors investments and reports resolution and exceptions. Many monitoring tools are automated to prevent unauthorized activities. Portfolios out of compliance with guidelines will be brought into compliance immediately, or a plan for doing so may be discussed and approved by the executive director and Trustees.

Derivatives may be used to implement investment strategies for the Retirement Funds. All derivative instruments are subjected to risk analysis and monitoring processes at the portfolio, asset class and fund levels. Investment guidelines define allowable derivative activity for each portfolio and are based on the investment objectives which have been approved by Trustees. The following are the types of derivatives that SWIB uses in its portfolios. SWIB also invests in derivative instruments indirectly through several commingled funds, which have not been included in the following narrative.

Foreign Currency Spot and Forward Contracts

SWIB may employ discretionary currency overlay strategies at the total fund and asset class level when currency market conditions suggest such strategies are warranted. Only the currencies of developed market countries in the MSCI World Index may be used to implement a currency overlay. SWIB executes spot and forward contracts with various counterparties. Guidelines have been established which provide minimum credit ratings for counterparties. Additionally, policies have been established which seek to implement master netting arrangements with counterparties to over-the-counter derivative transactions.

Futures Contracts

A futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Upon entering into a futures contract, collateral is deposited with the broker, in SWIB's name, in accordance with initial margin requirements. Collateral for futures contracts can be in the form of cash, U.S. Treasuries and equity securities. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. The resulting gain/(loss) is typically received/paid the following day until the contract expires. Futures contracts involve, to varying degrees, risk of loss in excess of the margin deposited with the broker. Losses may arise from future changes in the value of the underlying instrument.

Options

An option contract gives the purchaser of the contract the right, but not the obligation, to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration of the option contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk, to the extent of the premium paid to enter into the contract.

Swap

A swap is an agreement in which counterparties exchange cash flows of one party's financial instrument for those of the other party's financial instrument. Both parties to the swap contract are subject to market and credit risk of the underlying contract payments. Market risk results from the variability of payments and credit risk results from the parties' obligations to make payments. Collateralization of payments and market value variations mitigates the credit risk.

SWIB Optimizes Implementation

Staff is responsible for making investment decisions. Assets can be managed passively as an index, which seeks to replicate the returns of the market or benchmark, or with active management, which attempts to exceed the performance of a particular market index using independent decisions. Active strategies are expected to produce higher returns than passive strategies; however, additional costs and risk associated with active management are considered when determining strategies.

Internal Management is Cost Effective

Independent reports from Callan Associates, Inc., and CEM Benchmarking, Inc., found that SWIB, when compared to its peers, continues to be a low-cost pension fund manager that produces favorable results. SWIB's management of the Wisconsin Retirement System (WRS) provides a significant financial benefit to the retirement

system and that its mix of investments, diversification and long-term investment strategy allow for favorable returns, according to the reports.

CEM, an independent provider of objective and actionable benchmarking information for pension plans, found SWIB's cost of management to be lower than its peers given a similar mix of assets. The lower costs are a result of decisions made by SWIB's Board of Trustees to, when possible, use less expensive internal and passive management, and to allocate investments to less expensive asset classes.

SWIB uses more internal and passive management and a lower-cost mix of assets than other large public pension funds, according to CEM. SWIB manages 54 percent of WRS assets internally, compared to the peer average of 30 percent, and 38 percent of assets

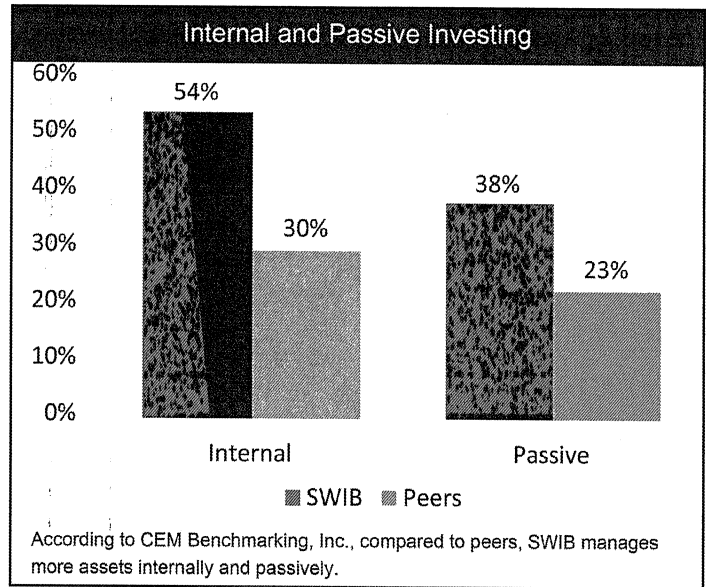
are managed passively, compared to the peer average of 23 percent. By using qualified staff to manage the assets of the WRS, SWIB lowers costs substantially while maintaining strong performance. Without qualified staff to manage the assets, SWIB would have to contract with expensive external managers to manage the retirement funds. In addition to savings from managing more assets internally, CEM found that SWIB pays less than its peers for the external management it does use. Taken together, these efforts resulted in SWIB paying \$175 million less than comparable public pension systems in the United States in 2013.

In addition to being a low cost investor, SWIB's mix of assets has performed well. Callan Associates, Inc., a firm that provides research, education, decision support and advice to institutional investors, found that SWIB's investment strategy, when compared to its peers, has performed well and exceeded its benchmarks for the last five years as of December 31, 2014.

Qualified Staff and Systems Are Critical

A successful internal management program requires experienced staff. With assistance from an independent compensation consultant, SWIB annually reviews the investment industry employment market to set compensation at appropriate levels. In addition to hiring and retaining qualified staff, SWIB seeks to develop information technology, trading, accounting, and monitoring systems adequate to accommodate new and more complex investment strategies. When considering an investment strategy, SWIB compares the cost and return potential associated with internal or external management.

The only way SWIB can manage assets in-house is to attract, hire and retain qualified staff. Over the past few years, Trustees have worked with a consultant to develop an incentive compensation program that motivates staff to earn the highest possible returns at reasonable costs and controlled levels of risk and aligns with the interest of the WRS. SWIB's compensation plan focuses on pay for performance and five year-returns. This compensation plan has resulted in the creation of a talented and skilled SWIB workforce. Of the 155 employees, 70 percent hold advanced degrees or professional certifications and 52 percent hold multiple degrees or certifications.



To adequately and efficiently process trades, measure risk and manage investments, SWIB must continually enhance its systems and processes. SWIB is currently implementing a new enterprise investment management system that will improve accounting, trading, risk and portfolio management activities. The new system, comprised of seven applications, will be implemented in several phases over the next three to four years at an estimated cost of \$48 million. The system will provide staff easy access to high quality and timely data, improve SWIB's ability to monitor and manage risk, and increase the capability to manage more assets internally. This project is on schedule and remains under budget with no major issues. Key updates include:

- Investment management software selection has been approved with contract negotiations and implementation planning underway. This will include systems that will further help portfolio managers with modeling, investment analysis and decision making. It will also include enhanced risk modeling and analysis.
- The first phase of the financial and administrative solution is underway and includes general ledger management and financial reporting, accounts payable and receivable, budgeting procurement, fixed assets, cost allocations, contract management, and travel and expense management. Among other enhancements, this will facilitate evaluation of portfolio cost and return tradeoffs.
- Enhancements to SWIB's processes and systems for trade execution, settlement and accounting will be accomplished through changes in its third party service provider contract.
- SWIB is centralizing the management of its investment data, a key business differentiator in the investment industry, through the implementation of new tools and processes. SWIB completed the design of the new data architecture and has selected and implemented a data integration tool.
- A data management business intelligence tool that will facilitate access to the large complex volume of SWIB's data has been selected and implementation planning is underway.
- Total costs for software and consulting services were \$4.5 million as of December 31, 2014.

Variable Fund

Active WRS participants can elect to have 50 percent of their contributions invested in the all-stock Variable Fund instead of 100 percent to the Core Fund. The Variable Fund provides participants the potential for higher returns in exchange for higher investment risk. By choosing this option, participants also forego part of the formula benefit guarantee. The Variable Fund's gains and losses are not smoothed and are recognized in the year in which they occur. This results in greater volatility in investment gains or losses.

By law, the Variable Fund invests in stocks. When setting the Variable Fund asset allocation, Trustees evaluate the risk/return trade-off of various combinations of U.S. and non-U.S. exposures. The benchmark is a weighted blend of U.S., international and emerging market stock indexes.

Staff Qualifications	
MBA	55
Chartered Financial Analyst (CFA)	45
Masters (other than MBA)	27
Certified Public Accountant	23
Attorneys	5
PhD	3
Total Credentials	158
Total Employees	155
* As of December 2014: CFAs typically have advanced degrees, so the total credentials exceed the number of employees.	

Variable Fund Asset Allocation	
U.S. Stock	70%
International Stock	30%
Total	100%

Goals & Strategies

To maintain success in the future, SWIB is working to stay at the forefront of institutional investment practices that are continually evolving. In 2014, SWIB launched a three-year strategic planning initiative that has allowed staff to step back to assess strengths and opportunities to improve, and then chart a course for the future. The strategic planning process is the result of an exercise involving the Board of Trustees, representatives from SWIB's member organizations and staff.



SWIB completed its first year of the three-year strategic plan in December 2014. Staff accomplished all of the 2014 objectives included in strategic goals that centered on investment strategy; operations and technology; people and culture; authority, decision-making and accountability; and innovation management.

Last fall, SWIB began the process of creating objectives for 2015. The process began by drawing on in-house experts who developed an assessment of current economic, market and financial trends that might affect SWIB in the future. Senior managers used feedback from a staff engagement survey and several subsequent focus groups to gain an understanding of what is working well at SWIB and where there are opportunities for improvement. Based on this work, SWIB has identified three main strategic priorities for the upcoming year including investment strategy, operations and technology, and people and culture.

Investment Strategy

As part of the strategic planning process, in 2014, SWIB began working to develop strategies that will manage factors and risk at the fund level. These strategies will help the Core Fund meet the actuarial targeted return of 7.2 percent over the long-term, while seeking to decrease the variability of returns. This is important because adjustments to WRS members' annuities and the effective rates applied to active employee accounts are directly impacted by SWIB's returns.

In 2014, SWIB completed the following objectives:

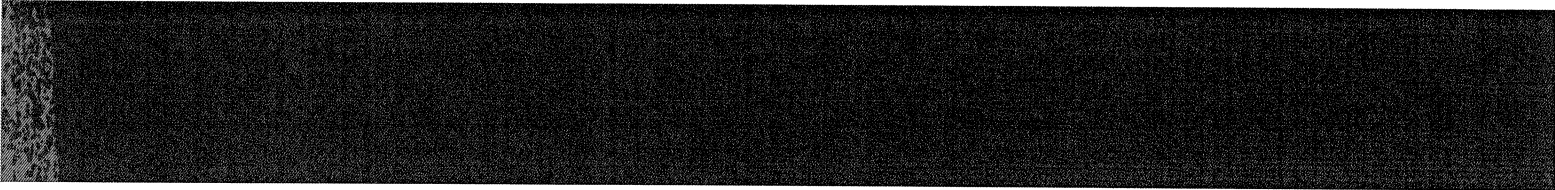
- Constructed a Core Fund risk budget and developed a framework for adding value to individual strategies.
- Continued to develop an internally managed hedge fund that is diversified across several different strategies.
- Increased fund level leveraging of low volatility assets and expansion of inflation sensitive assets.
- Implemented an interim solution that allows for cross-asset class risk and attribution.

Mission

To be a trusted and skilled global investment organization contributing to a strong financial future for the beneficiaries of the funds entrusted to us.

Vision

SWIB will be an innovative, agile, integrated organization that optimizes investment returns while managing risk and cost over the long term.



In 2015, staff will continue to work on building strategies that focus on managing factors and risk at the trust fund level while adding value and implementing the long-term structure of internally managed multi-asset portfolios.

Operations and Technology

SWIB is working on implementation of a more comprehensive state-of-the-art portfolio management system that will provide staff with easy access to high quality and timely data. The new system will allow the integration of investment data across the organization and once fully implemented, will allow SWIB to expand the amount of assets internally managed. It will also enhance SWIB's risk and performance modeling and analysis capability, and improve portfolio management for new and existing investment strategies. This will provide a financial benefit to the WRS because it will improve SWIB's access to data, ability to analyze market trends, all which should translate into lower risk and higher return.

SWIB will begin putting solutions identified last year into place in 2015. The new enterprise investment management system will be implemented in phases over the next several year.

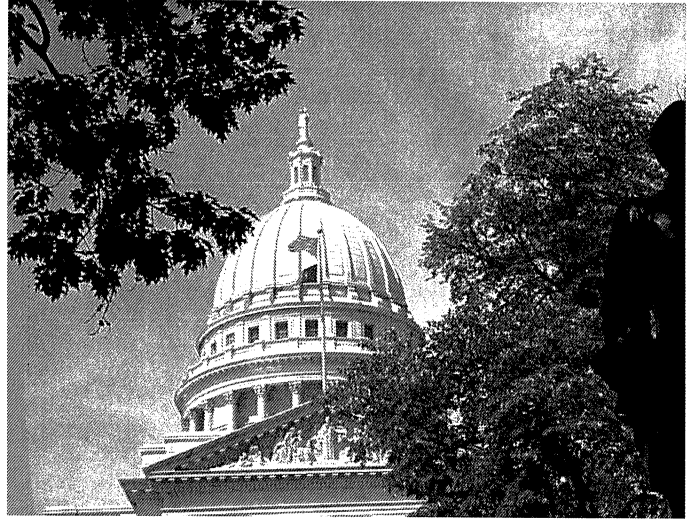
People and Culture

The 2014 primary objectives included components that focused on SWIB's culture and organizational structure enhancements needed to support changes resulting from the investment strategy and operations and technology components of the strategic plan. These objectives addressed how to ensure SWIB's workflow, processes and staff operate efficiently. In 2015, SWIB will focus on developing, implementing and maintaining a workforce plan that effectively translates SWIB's future direction into actual, tangible improvements to organizational structure, job roles and responsibilities, education and development, morale, culture and incentives.

State Investment Fund (SIF)

SWIB also manages the State Investment Fund (SIF), which consists of commingled cash balances of the state, its agencies, local governments and the WRS. The SIF investment goals are safety of principal, liquidity and rate of return. The fund's shorter-term cash management objectives reflect these goals.

State agencies deposit tax revenues, fees, federal aid payments and other revenues from over 50 state funds with the SIF until needed for state operating expenditures. WRS cash assets are invested in the SIF for transition and cash flow purposes and in some cases until longer-term investment opportunities with more favorable rates of return become available. Over 1,200 local governmental units deposit funds in the commingled Local Government Investment Pool (LGIP) until needed for operating expenditures.



SIF earnings are calculated and distributed monthly, based on the participant's average daily balance as a percent of the fund. Participants may deposit and withdraw funds daily. SIF assets were valued at \$7.2 billion on December 31, 2014, which included \$1.5 billion of WRS funds.

Investment Strategy

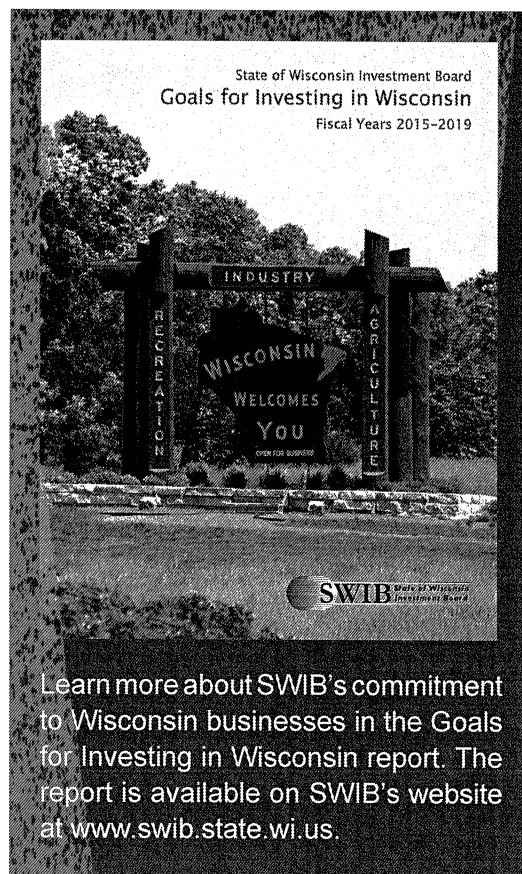
To effectively achieve its objectives for safety of principal, the investment strategy of the SIF depends largely on market and economic expectations. Investment staff constantly monitors global market and economic events and positions the fund accordingly. The SIF ended the year with a return of 0.09%, beating its benchmark of 0.05%. The SIF outperformed its benchmark for the one-, five- and ten-year periods.

Investments in Wisconsin

Investments in Wisconsin

Wisconsin is home to many successful businesses, ranging from small, family-owned companies passed on from one generation to another, to billion-dollar global operations. By finding opportunities in Wisconsin, the State of Wisconsin Investment Board (SWIB) is proud to have partnered with many of those businesses to help them write their success stories. SWIB's investments in Wisconsin have generated solid returns with acceptable levels of risk. Not only has this supported the state's economy by helping businesses create jobs and thrive in Wisconsin, but it has also benefitted trust funds managed by SWIB, including the Wisconsin Retirement System (WRS), which provides retirement benefits for more than 580,000 retired and active public employees.

SWIB's commitment to Wisconsin and its businesses is significant. Through two dedicated portfolios that provide debt financing and venture capital to growing businesses in the state, SWIB has invested nearly \$455 million in Wisconsin based companies. As of June 30, 2014, SWIB has total investments of over \$17 billion in companies with some level of employment and operations in Wisconsin. In the last five years, new investments in Wisconsin companies totaled over \$1 billion, with projections for new investments over the next five years to reach as much as \$1.7



Learn more about SWIB's commitment to Wisconsin businesses in the Goals for Investing in Wisconsin report. The report is available on SWIB's website at www.swib.state.wi.us.

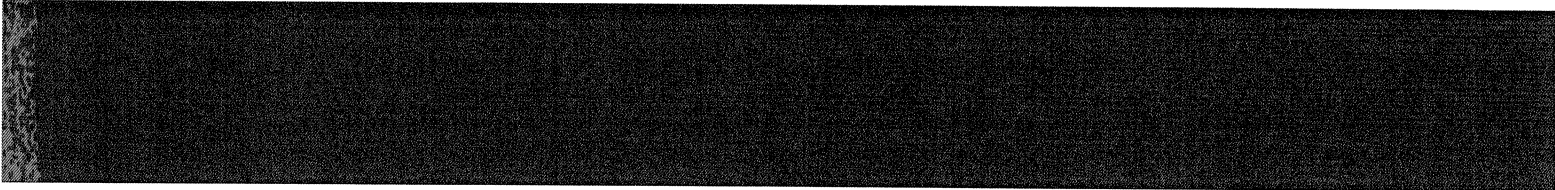
Total Wisconsin Investments by Asset Class June 30, 2014

Asset Class	Headquartered or Significant Presence ² in WI	Not Headquartered in WI - But 20+ WI Employees	Total Investment in WI
Private Equity/Private Debt	\$265,421,185	\$209,111,202	\$474,532,387
Fixed Income	112,757,495	2,114,969,936	2,227,727,431
Public Equities ³	310,020,300	14,239,565,125	14,549,585,425
Real Estate	12,299,889	0	12,299,889
Multi Asset	8,821,986	190,272,399	199,094,385
State Investment Fund ¹	<u>27,750,000</u>	<u>0</u>	<u>27,750,000</u>
Total	<u>\$737,070,855</u>	<u>\$16,753,918,662</u>	<u>\$17,490,989,517</u>

¹Includes commercial paper, certificates of deposit, and bankers' acceptances valued at par. Reflects maximum outstanding value per issue during the fiscal year.

²"Significant Presence" is defined as a company with 30% or more of their operation in Wisconsin.

³ Does not include liability exposure due to shorting.



billion. SWIB's economic impact goes beyond state-targeted investments. Approximately 75 percent of the more than \$4.2 billion in annuities paid out in 2013 to WRS participants came from investment returns. With 86 percent of retirees remaining in Wisconsin, the economic impact is statewide.

SWIB provides a biennial report – Section 25.17(7), Stats. – to the Governor and Legislature about investments made in Wisconsin and plans for future investment. The last report was submitted in December 2014, and included SWIB's non-binding, five-year plan for Wisconsin investments. The full report is available by contacting SWIB or visiting www.swib.state.wi.us.

Appendix A

CORE and VARIABLE FUND HOLDINGS BY ASSET CLASS

The following tables compare how the various categories of investments for the Core and Variable Trust Funds were managed within each asset class as of December 31, 2013 and 2014. Totals include exposure to futures and may not add correctly due to rounding.

Core Trust Fund Holdings By Portfolio				
	12/31/2013		12/31/2014	
	<u>\$ in Millions</u>	<u>% of Total</u>	<u>\$ in Millions</u>	<u>% of Total</u>
<u>Equities</u>				
Domestic				
Active Portfolios	\$10,173	12%	\$9,722	11%
Passive Index Funds	11,211	13	13,149	15
International				
Active Portfolios	10,332	12	9,903	11
Passive Index Fund	7,393	9	6,391	7
Emerging Markets	<u>4,556</u>	<u>5</u>	<u>4,501</u>	<u>5</u>
Total Equities	\$43,664	51%	\$43,665	49%
<u>Fixed Income</u>				
Investment Grade	15,339	18%	16,134	18%
High Yield	1,291	2	1,251	1
Global	4,956	6	5,053	6
Emerging Debt	1,201	1	1,282	1
Inflation Sensitive	<u>6,144</u>	<u>7</u>	<u>7,422</u>	<u>8</u>
Total Fixed Income	\$28,931	34%	\$23,720	27%
<u>Private Markets</u>				
Real Estate				
Real Estate Equity	5,709	7%	6,029	7%
Private Equity				
Private Equity Legacy	203	0	149	0
Private Equity	5,058	6	5,647	6
Private Equity Co-Invest	0	0	59	0
Current Return	430	1	453	1
WI Private Equity	163	0	235	0
WI Private Debt	<u>422</u>	<u>1</u>	<u>427</u>	<u>1</u>
Total Private Markets	\$11,985	14%	\$12,999	15%
<u>Multi-Asset</u>				
Alpha Strategies	2,265	3%	2,778	3%
Beta Strategies	2,051	2	3,012	3
Alpha Beta Pilot	103	0	107	0
Total Multi-Asset	\$4,419	5%	\$5,898	7%
<u>Cash</u>	\$853	1%	\$687	1%
<u>Total</u>	<u>\$89,852</u>	<u>104%</u>	<u>\$94,392</u>	<u>106%</u>

Variable Trust Fund Holdings By Portfolio				
	12/31/2013		12/31/2014	
	\$ in Millions	% of Total	\$ in Millions	% of Total
Equities				
Domestic				
Active Portfolios	\$1,486	21%	\$1,311	18%
Passive Index Funds	3,598	50	3,946	54
International				
Active Portfolios	1,065	15	1,022	14
Passive Index Fund	575	8	551	8
Emerging Markets	438	6	434	6
Total Equities	\$7,162	99.7%	\$7,264	99.6%
Multi-Asset	\$0	0	\$0	0
Cash	\$18	0.3%	\$27	0.4%
Total	\$7,180	100%	\$7,291	100%

Appendix B

RISK MANAGEMENT

As part of SWIB's ongoing risk management activities, SWIB routinely monitors risk within the areas outlined below.

Funding WRS Liabilities: The most basic measure of risk for several trust funds under management is the ability to pay promised benefits. The WRS actuary and SWIB's asset allocation consultant both agree that the WRS is well-positioned to meet its current and future obligations.

Volatility: Minimizing year-to-year fluctuation in the Core Fund's returns helps to stabilize required contributions to the WRS and dividends paid to retirees.

Interest Rate Risk: SWIB uses multiple methods to monitor and mitigate interest rate risk. One example is an investment in Treasury Inflation Protected Securities (TIPS).

Currency Risk: Foreign currency exposure in the trust funds occurs primarily in the international stock and bond holdings and, to a lesser extent, from private markets. International and global portfolio managers make currency hedging decisions. International currency risk is further managed by diversifying across international regions, economies, sectors and individual investments.

Derivatives: SWIB may use derivatives as an investment strategy to reduce risk in the Core and Variable portfolios. All derivative instruments are subjected to risk analysis and monitoring processes at the portfolio, asset class and fund levels. Where derivatives are permitted, guidelines stipulate allowable instruments and the manner in which they are to be used. The following are the types of derivatives used in 2013: foreign currency spot and forward contracts, futures contracts and options.

Tracking Error/Active Risk: Tracking error measures the volatility of excess return versus the benchmark. It is an indication of how the fund or portfolio is positioned relative to the benchmark. This also helps measure the extent to which the performance of any one portfolio within the trust fund could affect the performance of the entire fund. The Trustees have adopted an active risk objective of 120 basis points, plus or minus 60 basis points, for both Core and Variable Funds. SWIB staff monitors tracking error on an ongoing basis and perform attribution analysis to understand in detail where deviations from the benchmark are occurring.

Soft Risk Parameters: Investment guidelines include "soft risk parameters," supplementary guidelines within which a portfolio is expected to operate over time. The Investment Committee, composed of SWIB executive and investment staff, monitors portfolios on a regular basis for compliance with parameters. The Investment Committee discusses the rationale and outlook for any exceptions.

Swap: An agreement in which counterparties exchange cash flow of one party's financial instrument for those of the other party's financial instrument.

Appendix C

MANAGEMENT OF VARIOUS FUNDS

Goals and strategies for the following funds are set by the various fund administrators. SWIB takes guidance from the administrators of the funds on how the assets should be managed, and SWIB executes the investment strategies.

Historical Society Endowment Fund: The Historical Society Endowment Fund supports current and anticipated initiatives and operations of the State Historical Society. The investment objective of the Historical Society Endowment Fund is to maintain a mix of equities and fixed income providing long-term growth in capital and income generation.

State Life Insurance Fund: The State Life Insurance Fund offers low cost life insurance to Wisconsin residents. The investment objective of the fund is to maintain a diversified portfolio of high quality public bonds which will preserve principal, maximize investment income, and minimize costs to policyholders. Liabilities from the Fund's insurance contracts are factored into investment decisions.

Injured Patients and Families Compensation Fund: The Injured Patients and Families Compensation Fund provides excess medical malpractice coverage for Wisconsin health care providers and to compensate injured claimants. SWIB is responsible for managing the fund's assets to meet the maturity and liquidity needs established by the Board of Governors. The investment objective of the fund includes a balance between capital appreciation, preservation of capital, and current income.

Tuition Trust Fund- EdVest: Edvest is a prepaid college tuition program. A portion of the program is managed by SWIB. The investment objectives of the fund are to maintain sufficient cash balances and invest in fixed income instruments that meet current and long-term liabilities.

Local Government Property Insurance Fund: The Local Government Property Insurance Fund provides a vehicle through which any local governmental unit in Wisconsin may insure its property against damage or destruction. The investment objective of the Fund is to ensure safety of principal and maximization of return within liquidity needs established by Office of the Commissioner of Insurance. This is accomplished using a laddered portfolio of fixed income securities.



Telephone - (608) 266-2381

Fax - (608) 266-2436

Office - 121 E. Wilson St., Madison, WI 53703

Mail - PO Box 7842, Madison, WI 53707-7842

Website - www.swib.state.wi.us

Beneficiary Hotline - (608) 267-0957 or (800) 424-7942

Email - info@swib.state.wi.us