SWIB’s Job

Make Money

Manage Risk

Control Cost
# 2012 Investment Performance

<table>
<thead>
<tr>
<th></th>
<th>YTD</th>
<th>Five Years</th>
<th>Ten Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core Fund</strong></td>
<td>13.7%</td>
<td>3.2%</td>
<td>8.4%</td>
</tr>
<tr>
<td><strong>Benchmark</strong></td>
<td>12.8%</td>
<td>2.8%</td>
<td>8.1%</td>
</tr>
<tr>
<td><strong>Variable Fund</strong></td>
<td>16.9%</td>
<td>1.3%</td>
<td>8.0%</td>
</tr>
<tr>
<td><strong>Benchmark</strong></td>
<td>16.7%</td>
<td>0.9%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>
## Performance by Asset Class

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark</th>
<th>Actual Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Core Fund</td>
<td>12.8%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Public Equities</td>
<td>16.8%</td>
<td>17.4%</td>
</tr>
<tr>
<td>Public Fixed Income</td>
<td>5.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Inflation Protection</td>
<td>7.0%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>11.5%</td>
<td>15.2%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>14.1%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Multi-Asset Strategies</td>
<td>12.0%</td>
<td>12.2%</td>
</tr>
</tbody>
</table>
Performance Compared to Peers

- Core Fund performance is above average*
  - Performance is above peer median for all periods over the last five years
  - Fund has a favorable risk/reward tradeoff
- Core Fund has exceeded its benchmark for the one-, three-, five- and ten-year periods

*Callan report based on Core Fund cumulative performance during five-year period ending Sept. 30, 2012.
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Managing Investment Risk

- Key to reducing risk is diversification of assets
- 85% of our risk comes from the stock market
- Have reduced allocation from 55% to 50% in equities
- Half has gone into bond-like investments;
- Also use hedge funds to reduce risk
SWIB’s Job

- Make Money
- Manage Risk
- Control Cost
How Costs Compare with Peers*

- SWIB is a low-cost fund compared to other large U.S. public pension funds.
  - Greater use of internal management lowers cost
  - Without internal management, costs would increase by $22 million annually
  - SWIB uses less and pays less for external management services
- Over the long-term, low-cost pension funds realize greater net returns

*Core Fund investment benchmarking results for five-year period ending Dec. 31, 2011.
Internal/External Assets & Costs

Cost to externally manage 43% of assets under management represents 85% of SWIB’s total costs. Internal management is less expensive.

CY 2011 Costs = $259 million
Staffing and Compensation

- Qualified staff are the key ingredient

- SWIB operates in a very competitive environment

- Compensation program incorporates a pay-for-performance element
Compensation

- Compensation consultant advises Trustees
- SWIB compensation is at the industry median
- Primary focus on five-year results, not one-year
- In 2012, SWIB generated $583 million extra
Wisconsin Private Debt Portfolio

- $1.8 billion invested since 1983
- Senior & subordinated loans to Wisconsin companies
- Provide financing not available through other financial institutions
- Loans used to expand production, acquisition financing, ownership recapitalizations or bank refinancing
Organic Valley

- SWIB provided financing for a state-of-the-art distribution center for Organic Valley
- Distribution center fueled growth in revenues, allowed for wider reach and provided returns for the WRS
- Other past Wisconsin partners include Lakeside Foods, Marshfield Clinic, QuadGraphics, Harley Davidson and many more
Venture Capital Portfolio

- Core strategy launched in 1999/2000
- $305 million committed to date
  - 8 funds & 19 companies
  - 12 active companies
- Catalyst Portfolio launched in 2010/2011
4490 Ventures

- In March, SWIB and WARF jointly announced 4490 Ventures

- $30 million fund focused on information technology companies

- SWIB’s goal is to generate returns

- Wisconsin has a growing technology sector and SWIB and WARF are in a unique position to capitalize
Looking Forward

- Another year of benefit reductions for about half our members
- Last year of smoothing 2008 losses
- Depending on investment results in 2013 it is possible we could see positive dividend in 2014
- Last 5 years of returns:
  - 2008: -26.2%
  - 2009: 22.4%
  - 2010: 12.4%
  - 2011: 1.4%
  - 2012: 13.7%
  - 2013: ???
Forecast for the Future

- Steady improvement in U.S. employment
- Eurozone still a concern
- Oil is high but not spiking
- Inflation is modest
- U.S. deficit has narrowed
Forecast for the Future

- Housing appears to have turned the corner
- Corporate profits & cash flow are high
- Biggest issue: Will Washington deal with fiscal situation responsibly?

- The bottom line: Is the glass half empty or half full?
Half Full or Half Empty?
Thank You

Questions?