

Investing In the “New Normal”

Wisconsin Alliance of Cities
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State of Wisconsin Investment Board
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Agenda

- What About 2008?
- Where are We Today?
- Allocating the Assets
- Recent Changes at SWIB

S&P 500 Bear Markets, 1929-Present

(Sorted By Magnitude)

| <u>Dates</u> | <u>Decline</u> |
|--|---------------------|
| September 7, 1929 – June 1, 1932 | -86.2 |
| <i>October 9, 2007 – March 9, 2009?</i> | <i>-56.8</i> |
| March 6, 1937 - March 31, 1938 | -54.5 |
| March 24, 2000 – October 9, 2002 | -49.1 |
| January 11, 1973 – October 3, 1974 | -48.2 |
| November 9, 1938 – April 28, 1942 | -45.8 |
| November 29, 1968 – May 26, 1970 | -36.1 |
| August 25, 1987 – December 4, 1987 | -33.5 |
| May 29, 1946 – June 13, 1949 | -29.6 |
| December 12, 1961 – June 26, 1962 | -28.0 |
| November 28, 1980 – August 12, 1982 | -27.1 |
| February 9, 1966 – October 7, 1966 | -22.2 |
| August 2, 1956 – October 22, 1957 | -20.7 |
| July 16, 1990 – October 11, 1990 | -19.9 |
| September 21, 1976 – March 6, 1978 | -19.4 |
| July 17, 1998 – August 31, 1998 | -19.3 |

Comparison with Other Funds

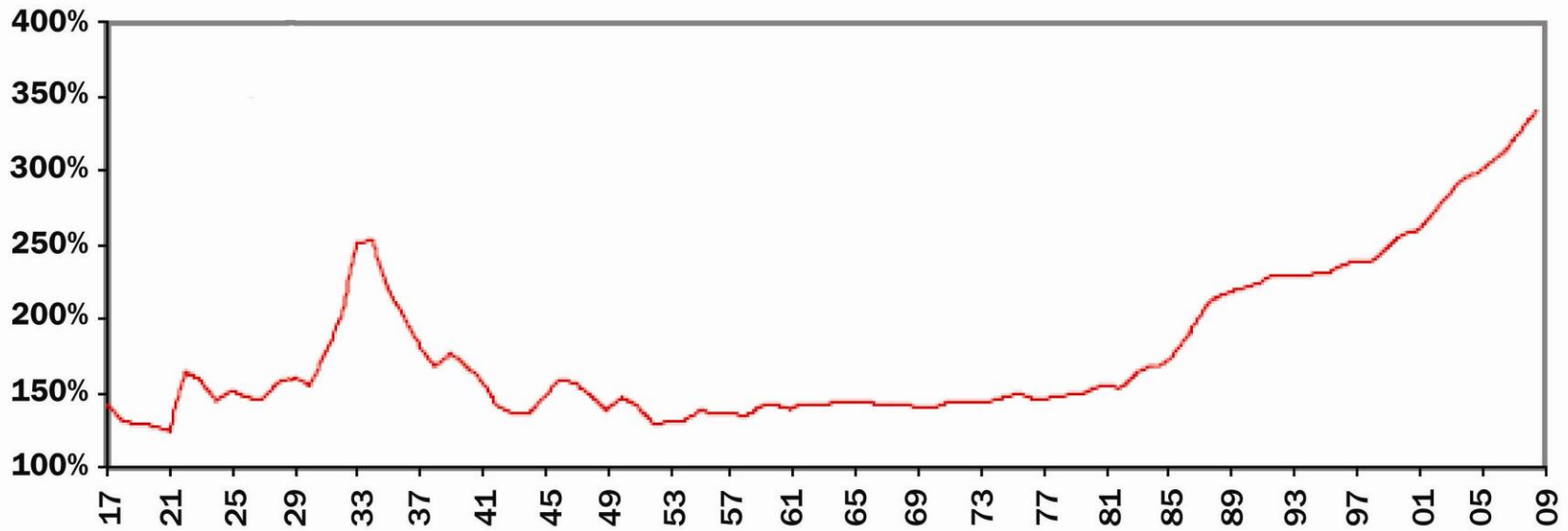
Calendar Year 2008

| | Median Fund | Core Fund | Rank |
|---|-------------|-----------|--------------------|
| Core Trust Fund vs. Public Funds >\$10B* | -26.6% | -26.2% | 44th percentile |
| Core Trust Fund vs. Public Funds >\$1B* | -25.9% | -26.2% | 55th percentile |
| Mellon Universe | -26.8% | -26.2% | 38th percentile |

*Trust Universe Comparison System

Two Decades Escalating Debt

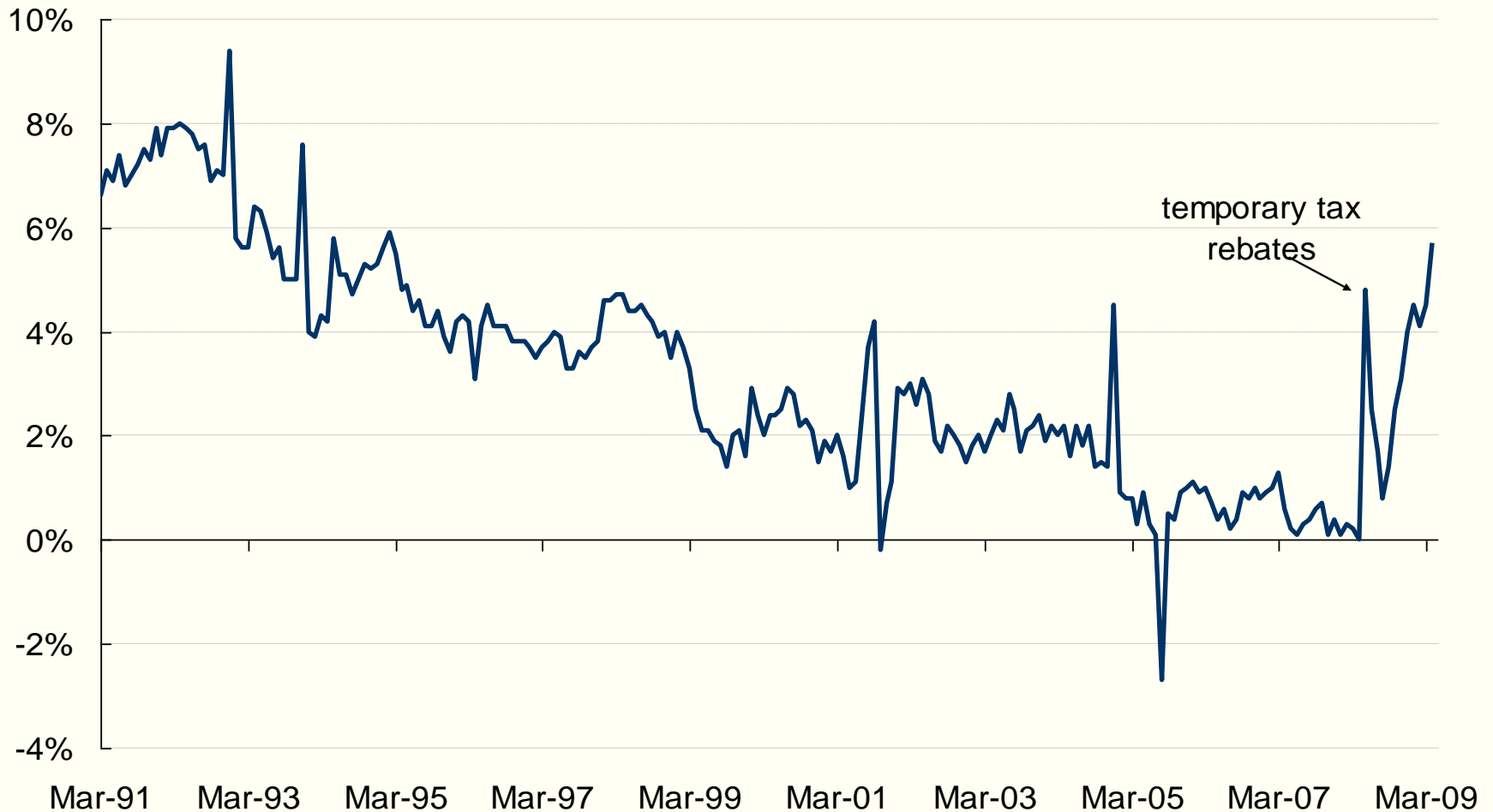
Total US Debt % GDP



Sources: Global Financial Data & BW Estimates

Source: Bridgewater Associates

US Personal Savings Rate



Source: Lombard Street Research

Index Returns 2009

| Index | As of 6/30/09 |
|-------------------------------------|----------------------|
| United States | |
| S&P 500 | 3.2% |
| Russell 1000 | 4.3% |
| Russell 2000 | 2.6% |
| Barclays Capital Gov't/Credit Index | 0.6% |
| International | |
| MSCI Developed (ex US) | 9.3% |
| MSCI Emerging Markets | 36.0% |
| Salomon World Gov't Bonds | -1.5% |

SWIB's 2009 Performance

Preliminary June 30, 2009

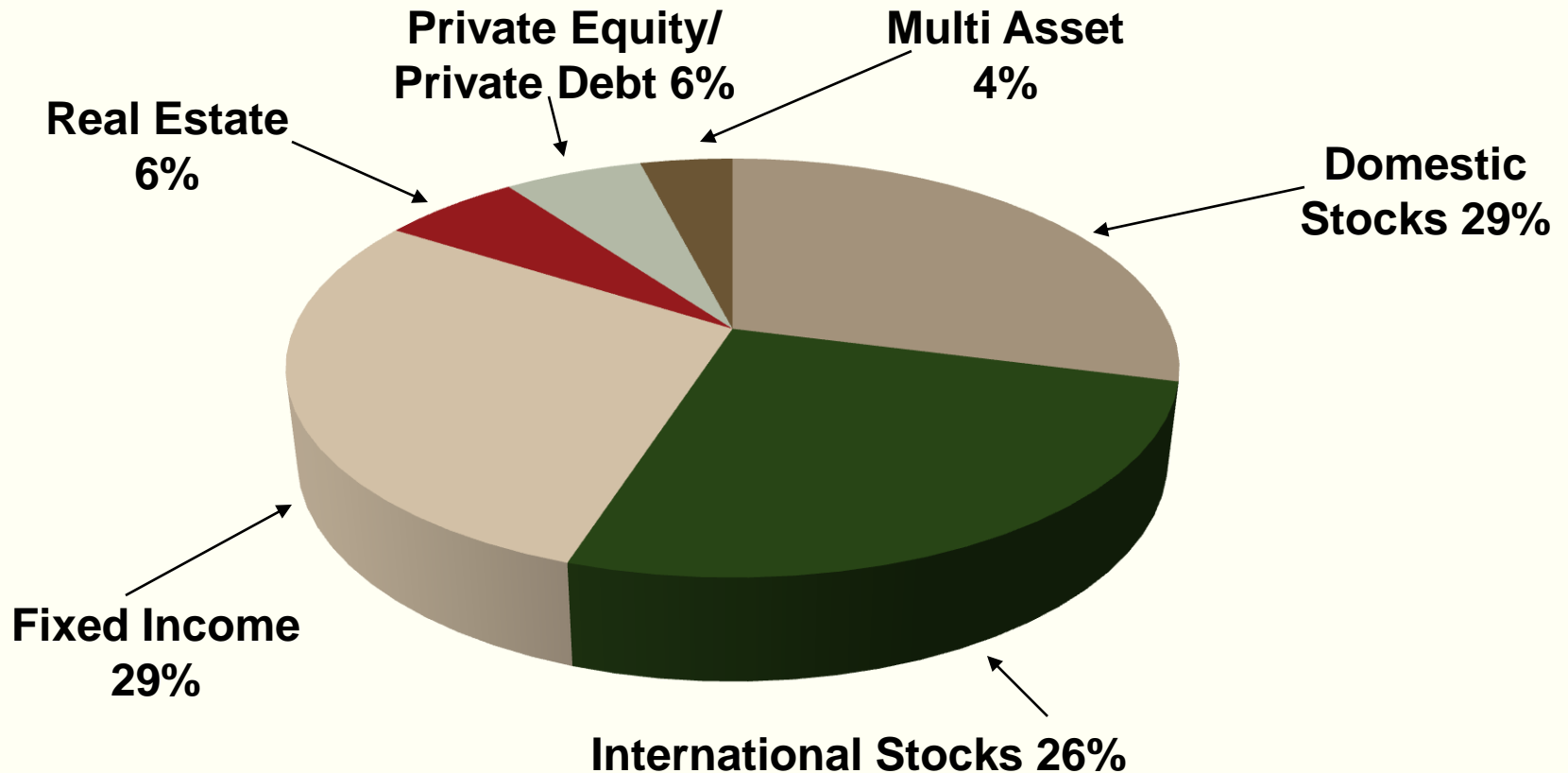
| | |
|-------------------------------|------|
| Core Trust Fund | 4.6% |
| Core Trust Fund Benchmark | 3.7% |
| Variable Trust Fund | 8.1% |
| Variable Trust Fund Benchmark | 7.0% |

Competing Headlines – 6/17/2009

Same Day; Same News Service; Side-by-Side

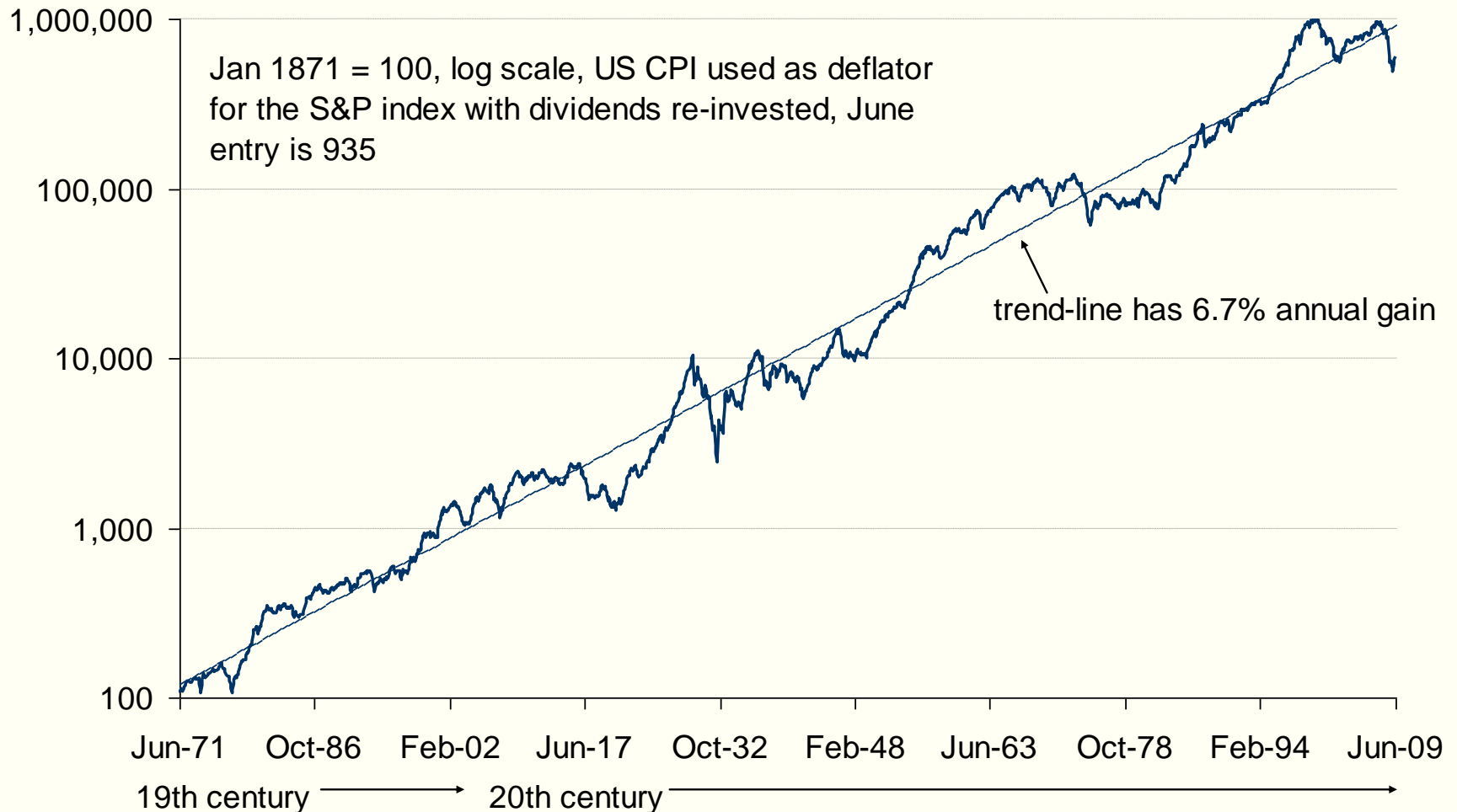
- *The Recession Is Over, Schwab's Sonders Says*
- *Second-Half Recovery Is "Nonsensical": Economy Still Descending, Ritholtz Says*

Core Fund Target Allocation



Asset Allocation Targets for 2009

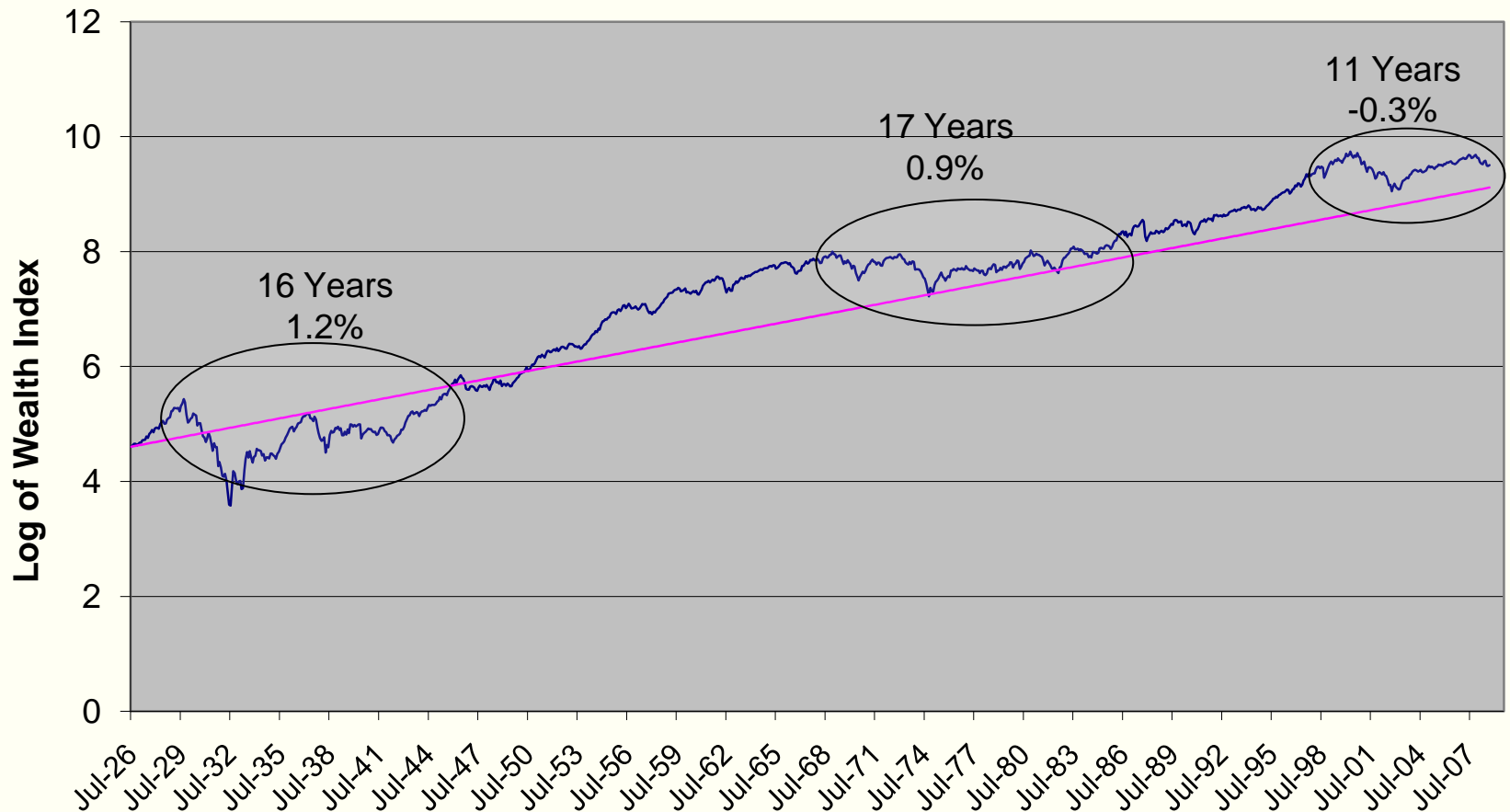
Long Trend in Stock Market Value



Source: Lombard Street Research

Equity Risk Premium

July 1926 to August 2008



Note: The equity risk premium, is the value-weighted return on all NYSE, AMEX, and NASDAQ stocks (from CRSP) minus the one-month Treasury bill rate (Ibbotson Associates). http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/Data_Library/f-f_bench_factor.html

Asset Allocation Considerations

- Returns Dominated by Equities
- WI Act 212 (passed 2008) Provided Ability to Better Diversify – for example:
 - Relax “long-only” constraints
 - Global market availability
 - Active currency management
- Incremental Approach to Change

Strategic Asset Allocation

| | CTF* 2008 | CTF* Step 1 2009 | CTF* Step 2 (Hypothetical) |
|-----------------|------------------|-----------------------------|---------------------------------------|
| Equities | 58% | 55% | 50% |
| Fixed Income | 30% | 29% | 28% |
| Private Markets | 10% | 12% | 14% |
| Multi-Asset | 2% | 4% | 8% |

* Core Trust Fund

2009 Allocation Review

- Consultant Round Table
- April Discussion with SWIB Trustees
 - Strategic discussion
 - Planning future process
- Input from ETF Actuary
- Further Analytical Input
- October Workshop
 - Two year strategic planning
 - Input from consultants & economic professionals
- Adoption by Board in December/January

Recent Internal Changes

- 20 Additional Positions Authorized 2007
 - 14 hired
 - 6 frozen
- Internal Management
 - 20.7% end of 2007 to 37.6% end of 2008
 - Substantial fee savings
- Staffed Large Cap Portfolio More Appropriately
 - Outperformed benchmark by ~\$200 million 2008
- Expanded Opportunistic Strategies
 - Outperforming by ~\$190 million YTD