



# The SWIB Report

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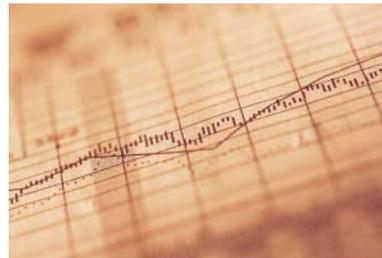
Calendar Year - to - Date  
Preliminary Returns

Ending 1/31/08

<b>Core Fund</b>	<b>-3.7%</b>
Benchmark	-3.7
<b>Variable Fund</b>	<b>-6.5%</b>
Benchmark	-6.7

## Core Fund returns 8.7% in uncertain markets

While the US stock market experienced its worst fourth quarter performance in recent years, the Core Retirement Fund still ended 2007 with a positive return of 8.7%. The Variable Fund had a return of 5.6% for the year.



“The good news is that both trust funds had positive performance during very difficult markets,” said Keith Bozarth, executive director. “The mortgage crisis, rising oil prices and a weak dollar contributed to a great deal of volatility throughout the year and a disappointing fourth

quarter for the stock market.”

“The turbulent second half of the year was especially difficult for financial stocks, home builders and real estate investment trusts (REITS). However, the Core Fund was well diversified. Real estate equity and private equity turned in impressive results,” said David Villa, chief investment officer.

“There is every indication that these difficult conditions will continue in 2008, which makes SWIB’s diversified, long-term strategy all the more important,” Bozarth added.

### More Uncertainty Ahead

Nearly two months into the New Year the outlook for financial markets remains uncertain. Both the Core and Variable Funds had negative returns for the month of January, tracking the downturn in the markets.

The past five years of positive returns in the stock market may have caused us to forget that markets can produce negative absolute returns. In 20 of the past 25 years, the Core Fund had a positive return. On average, about once every five years the investment return for the Core Fund has

Core Fund continued on page 2

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# Outlook continued from page 1

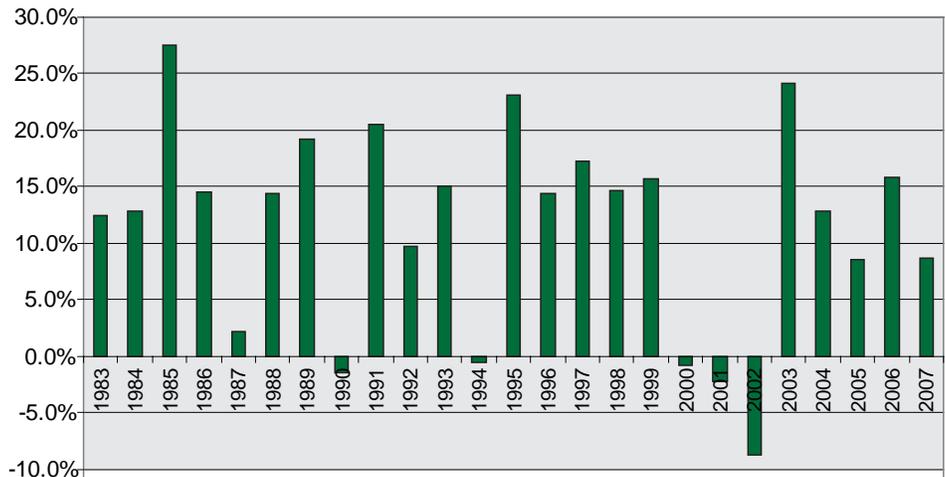
been negative. Because US stocks comprise the largest type of holding in the Core Fund, (totaling 32% of the asset allocation) years in which the stock market returns have been negative have tended to be years in which the total Core Fund return has also been negative. Because the Core Fund is a balanced fund, investments in fixed income, real estate, private equity and private debt are designed to help lessen the impact of stock market downturns.

A negative return year for the Core Fund has typically been followed by several years of positive returns, with the notable recent exception of 2000 to 2002, when the US stock market experienced a three-year decline for the first time since 1939-1941. During a two-year period in the 1970s, the S&P 500 dropped by about 37%.

## Part of an Economic Cycle

The stock market also has

**Core Fund Annualized Returns As of December 31**



had significant downturns or negative annual returns after four or five years of strong market returns. It is generally viewed as bringing overpriced stocks back to a level closer to companies' actual values.

SWIB invests for the long term, making investments with the view that they may experience downturns for a time over the course of a market cycle. For the long term, however, we expect such investments will have a positive return. In addition, Core

Fund returns are smoothed over five years, which helps lessen the impact of market volatility on retirement accounts and contributions from employers and employees that help fund retirement benefits.

SWIB's portfolio managers do consider the effects of a down market in their daily buy and sell decisions. In fact, a long-term investor like SWIB can often find attractive investment opportunities during market corrections.

## Asset Targets

	2007	2008
<u>Core Trust Fund</u>		
Domestic Stocks	36%	32%
International Stocks	22%	26%
Fixed Income	30%	30%
Real Estate	5%	5%
Private Equity/Debt	5%	5%
Multi-Asset	2%	2%
<u>Variable Trust Fund</u>		
Domestic Stocks	79%	69%
International Stocks	20%	30%
Multi-Asset	1%	1%

## International stocks increased in asset allocation changes

Every two years, SWIB completes a comprehensive review of its mix of assets. Asset targets for 2008 were set in January. Studies have shown that asset allocation -- choosing the mix of assets -- accounts for 80% to 90% of the difference in returns among pension funds. Selection of individual investments within each asset class accounts for the rest.

Targets are based on expected returns and risk levels for each asset class in conjunction with the cash flow needs of the retirement system.