

**MILWAUKEE BOARD OF SCHOOL DIRECTORS EARLY RETIREMENT
SUPPLEMENT AND BENEFIT IMPROVEMENT PLAN**

STATEMENT OF INVESTMENT POLICY

AS AMENDED JUNE 24, 2004

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INTRODUCTION

The Milwaukee Board of School Directors (“the Board”) has developed this Statement of Investment Policy for the management and evaluation of its investment program for the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan. The Statement of Investment Policy serves the following purposes:

- Provides a written description of the Board’s expectations regarding its fund’s investment program.
- Establishes asset allocation targets, investment objectives and guidelines that are consistent with the Board’s goals for the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan.
- Establishes the degree of investment risk that the Board deems acceptable.
- Outlines criteria and procedures for the ongoing evaluation of the investment program.
- Provides a communication vehicle for the investment managers, Board members, and the administrative staff.

This statement is intended to be dynamic in nature. It will be updated and revised periodically to reflect changes in the capital market environment and in the Board’s investment program goals.

ASSET ALLOCATION POLICY

The asset allocation policy developed herein is based on an evaluation of the Board's ability to assume investment risk in its Fund in light of its goals and objectives. In arriving at the current asset allocation policy, the Board and its administrative staff evaluated the following factors:

- The Board's contribution and benefit payment expectations over the ten years through 2009.
- Historical and prospective risk and return characteristics associated with various asset classes.
- Diversification benefits achieved by investing in different asset classes.

Based on the above factors, the Board has determined that the following asset allocation policy is appropriate for the Fund. This asset allocation policy will be reviewed annually and will be modified, if appropriate, in light of changes in the goals of the Board.

The following asset allocations are intended to apply based on the market value of assets within each asset class.

Asset Class	Policy Target	Manager
Balanced	100% of the remaining assets after setting aside the amounts listed below	SWIB Fixed Fund
Fixed Income	The sum of the following: 1) Assets invested as part of the 1989 bond dedication programs. 2) Six months' benefit payments net of payments from the employee contribution accounts and payments from the 1989 bond dedication program, plus six months' administrative health expenses. 3) Assets relating to employee contributions.	M&I Investment Management Corporation
Equities	An amount equal to 150% of the amount in Fixed Income.	SWIB Variable Fund

The total portfolio will be rebalanced toward the Policy targets quarterly, based on balances at the end of quarter. This will result in the assets invested outside of the State of Wisconsin Investment Board Fixed Fund (SWIB) being allocated approximately 60% to Equities and 40% to Fixed Income. The equity allocation is assumed to be invested in the SWIB Variable Fund. The maximum allocation to equities for the assets invested outside of the SWIB Fixed Fund is 70%.

Asset Class Restrictions

Equity funds, which are composed of investments in common stock, other than investments in the State of Wisconsin Employee Trust Fund, will be subject to the statutory limitation that they may not exceed 50% of the market value of the Fund. However, this limit is subject to two exceptions. The 50% limitation on common stock ownership shall not be construed to do any of the following:

- Require the sale or other liquidation of a portion of a fund's holdings of common stock even though at any given time the market value of the common stock investments of the fund exceeds 50% of the total market value of the fund.
- Prevent the reinvestment of the proceeds of the sale or other disposition of common stocks in other common stocks even though at the time the market value of the common stock investments exceeds 50% of the total market value of the fund.

INVESTMENT MANAGER STRUCTURE AND RESPONSIBILITIES

The Board has determined that the following investment manager structure is the most appropriate, given current circumstances, to implement the asset allocation policy.

Asset Class	Manager Name
Balanced	SWIB Fixed Fund
Fixed Income	M&I Investment Management Corporation
Equity	SWIB Variable Fund

Fixed income investments to be used as a reserve for benefit payments during the next twelve months will be invested in accordance with the objectives and guidelines for Intermediate-term Fixed Income.

Responsibilities of the Investment Managers

Each investment manager will have the following responsibilities:

- Manage the portion of the Fund assets under its control in accordance with the investment policy objectives and guidelines.
- Exercise full investment discretion within the policies and guidelines to:
 - Select individual securities.
 - Adjust the maturity mix, where applicable.
 - Diversify the portfolio.
- Promptly inform the Board and/or the administrative staff regarding significant matters relating to the investments of the Fund. This includes, at a minimum, the following:
 - Substantive changes in investment strategy and portfolio structure.
 - Substantive changes in ownership, organizational structure, or professional staffing.
- Provide suggestions regarding possible modifications to the objectives and guidelines.

Proxy Voting

The Board delegates the responsibility for voting proxies to the individual investment managers. The Board expects proxies to be voted in the best interests of the plan participants.

INVESTMENT OBJECTIVES AND GUIDELINES

This section describes the specific objectives and guidelines established for each role within the investment manager structure. These objectives and guidelines will provide a basis for evaluating the effectiveness of the investment program and each manager over time.

Prohibited Transactions

- No separate account assets shall be invested in restricted (letter) stock or in private placements. This restriction is not meant to preclude purchases of securities issued under SEC Rule 144(a).
- No separate account assets shall be committed to short-sale contracts.
- No separate account assets shall be committed to complex derivative structures including, but not limited to: options, futures, swaps, inverse floating rate notes.

Compliance with Investment Policy Guidelines

The investment managers are responsible for maintaining their portfolios in compliance with the investment guidelines. Each manager is also responsible for monitoring the portfolio and reporting a deviation from the guidelines to the administrative staff within 30 days after the deviation occurs.

Investment Manager Selection Guidelines

Investment managers selected to manage a portion of the assets of the Trust Fund are expected to meet the following criteria:

- Actual investment performance for a period of at least five years in the asset class and investment management style for which a manager is selected.
- Assets under management of at least \$500 million.
- Insurance coverage as determined by Milwaukee Public Schools' Division of Insurance and Risk Management.
- Registration as an investment advisor under the Investment Advisors Act of 1940.

These investment manager selection guidelines do not apply to investments in the State of Wisconsin Employee Trust Funds.

INVESTMENT OBJECTIVES AND GUIDELINES

TOTAL FUND

Investment Objectives

Time Horizon	Performance Standards Relative to: Benchmark Index Inflation	
One market cycle (approximately 3-5 years)	Annualized return exceeds the return on a benchmark index	N/A
More than one market cycle (approximately 7+ years)	Annualized return exceeds the return on a benchmark index	Annualized return exceeds the CPI plus 6%

Investment Guidelines

- The investment guidelines governing each asset class/manager will together constitute the Total Fund guidelines.
- The Board is responsible for the overall asset allocation of the Total Fund. Each manager will be responsible for adhering to the guidelines for its portion of the Total Fund assets only.

Benchmark Index

As of January 1, 2000, the benchmark index is comprised as follows:

- 35% S&P 500
- 10% Russell 2000
- 15% EAFE
- 40% Lehman Brothers Aggregate Bond Index

BALANCED

Manager

SWIB Fixed Fund

Investment Objectives

Time Horizon	Performance Standards Relative to: Benchmark Index	Inflation
One market cycle (approximately 3-5 years)	Annualized return exceeds the return on the Benchmark Index	N/A
More than one market cycle (approximately 7+ years)	Annualized return exceeds the return on the Benchmark Index	Annualized return exceeds the CPI plus 6%

Investment Guidelines

The State of Wisconsin Investment Board's investment guidelines are described in a document, *INVESTMENT POLICY, OBJECTIVES, AND GUIDELINES*, dated March 6, 2002 (updated from October 14, 1999).

Benchmark Index

- 39% Russell 3000
- 18% Morgan Stanley All Country World Index ex. US
- 34% Lehman Brothers Aggregate Bond Index
- 4% NCREIF (National Council of Real Estate Fiduciaries)
- 5% "15%" Rate of Return

DEDICATED BONDS

Manager

M&I Investment Management Corporation

Investment Objectives

To provide payments of principal and interest from the portfolios which approximately match the expected benefit payments for participants included in the 1984 and 1989 bond dedication programs.

Investment Guidelines

- Appropriate investments consist of marketable debt securities including U.S. Treasuries and U.S. Government Agencies, mortgages, corporate, money market instruments and other fixed income securities as deemed appropriate by the investment manager.
- Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BBB (Standard and Poor's), or, if unrated, must be deemed equivalent to investment grade quality by the investment manager. The average portfolio quality must be A or better. Unrated U.S. Treasury and U.S. Government Agency securities are permissible and will be treated as AAA rated for purposes of quality calculations.
- Individual security holdings (excluding cash equivalents and fixed income issues either issued or guaranteed by the U.S. Government or one of its agencies) should not exceed 7% of the portfolio, measured at market value at the time of purchase.

INTERMEDIATE-TERM FIXED INCOME

Manager

M&I Investment Management Corporation

Investment Objectives

Time Horizon	Performance Standards Relative to:	
	Benchmark Index	Inflation
One market cycle (approximately 3-5 years)	Annualized return exceeds the return on the Lehman Brothers Intermediate Government/Corporate Bond Index	N/A
More than one market cycle (approximately 7+ years)	Annualized return exceeds the return on the Lehman Brothers Intermediate Government/Corporate Bond Index	Annualized return exceeds the CPI plus 3%

Investment Guidelines

- Appropriate investments consist of marketable debt securities including U.S. Treasuries and U.S. Government Agencies, mortgages, corporate, money market instruments and other fixed income securities as deemed appropriate by the investment manager.
- Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BBB (Standard and Poor's), or, if unrated, deemed equivalent to investment grade quality by the investment manager. The average portfolio quality must be A or better. Unrated U.S. Treasury and U.S. Government Agency securities are permissible and will be treated as AAA rated for purposes of quality calculations.
- Individual security holdings (excluding cash equivalents and fixed income issues either issued or guaranteed by the U.S. Government or one of its agencies) should not exceed 7% of the portfolio, measured at market value at the time of purchase.
- The portfolio duration will be within a range of 50% to 150% of the duration of the benchmark index.

EQUITY

Manager

SWIB Variable Fund

Investment Objectives

Time Horizon	Performance Standards Relative to: Benchmark Index Inflation	
One market cycle (approximately 3-5 years)	Annualized return exceeds the return on the Benchmark Index	N/A
More than one market cycle (approximately 7+ years)	Annualized return exceeds the return on the Benchmark Index	Annualized returns exceed the CPI plus 7.5%

Investment Guidelines

The State of Wisconsin Investment Board's investment guidelines are described in a document, *INVESTMENT POLICY, OBJECTIVES AND GUIDELINES*, dated March 6, 2002 (Updated from October 14, 1999).

Benchmark Index

80% Russell 3000
20% Morgan Stanley All Country World Index ex. US

EVALUATION AND REVIEW PROCESS

The Board and its administrative staff will review the performance of the investment managers and their adherence to the restrictions and policies applicable to assets under management on an annual basis. The administrative staff will bring to the Board's attention any deviation from the objectives and guidelines when such are noted.

On at least an annual basis, each manager will be expected to provide the administrative staff with:

- A written review of their investment performance and portfolio structure.
- A written summary of any deviations from the investment policy guidelines.
- A summary of its key investment decisions and any modifications to their investment style.
- A written review of organizational changes.

While the relationship with investment managers is expected to continue, the Board reserves the right to terminate its relationship with any retained investment manager at any time it determines it is appropriate to do so. In addition, the Board reserves the right to remove assets, in part, from any manager.

The administrative staff and the Board will review the overall investment program at least every three to five years. Key issues will include:

- Changes in the Board's financial goals or financial expectations.
- Current trends and developments in the capital markets and manager community.

APPENDIX

Description of the State of Wisconsin Investment Board Asset Classes and Investment Styles

The Domestic Equities Portfolios: *The Domestic Equities Portfolios are constructed of publicly traded equities, using primarily common stocks and convertible bonds. The Portfolios are broadly diversified. Stock partnership interests and other publicly traded equity securities are purchased over-the-counter or on stock exchanges. These portfolios include the Large-Cap Issue Selection portfolio, the Mid-Cap portfolio, the Target portfolio and the Small-Cap portfolio.*

International Equities Portfolio: The International Equities Portfolio is constructed of publicly traded non-U.S. equity securities of primarily non-emerging market countries, including ADR's, and is broadly diversified across both geography and industry groups. The portfolio was established in 1989 as part of the Board's International Investment Program. This portfolio (the internal portfolio) was created in conjunction with several other international portfolios, which are managed for SWIB by outside managers under separate, contractual arrangements. The investment authority for such managers parallels the authority set forth herein.

Core Fixed Income Portfolio: The Core Portfolio consists of bonds purchased in public markets and is broadly diversified in terms of credit, maturities, and sectors. It includes government, corporate, and Yankee Bonds. Included within the Core Portfolio are two sub portfolios. The first is a "Hedge" portfolio consisting of Treasury securities which allows the Core Portfolio to be fully invested. The second is the High Yield portfolio consisting of investments in high yield bonds.

Market Evaluation Portfolio: The Market Evaluation Portfolio (MEP) consists of dollar denominated primarily investment grade bonds purchased in public markets. MEP is broadly diversified across sectors including government, agency, corporate, and Yankee. Its average duration is expected to be maintained within the intermediate/long spectrum established by the policy committee.

Intermediate Duration Portfolio: The Intermediate Duration Portfolio invests in U.S Treasury and Agency securities primarily in the three to seven year range. The portfolio, formerly known as the reserve asset portfolio, invests assets from the Fixed Trust Fund in U.S. Treasury debt and U.S. government agency debt issues. The portfolio may be invested across a broad range of maturities, allowing the portfolio to take advantage of varying interest rate environments as conditions warrant.

Source: INVESTMENT GUIDELINES, October 14, 1999, SWIB

Global Bond Portfolio: The Global Bond Portfolio invests in fixed income obligations of governments, government-related entities and corporations around the world, including the U.S. Only countries rated “Free” or “Partly Free” by Freedom House Index is eligible.

Non-Traditional Investments: The Non-Traditional Portfolio represents a broadly diversified portfolio, invested in a wide variety of “non-traditional” investments which may not fall within current parameters or traditional SWIB asset classes. The traditional portfolio is intended to be global in nature and focus on unconventional investment instruments which have been undervalued due to complex or novel structuring, indeterminate risk exposures and other factors creating market efficiencies. It is anticipated that the portfolios will be invested in both public and private equities and fixed income investments, partnership and other fund investments and a variety of structured and derivative investments.

Private Placement Portfolio: The Private Placement Core Portfolio consists primarily of fixed income investments generally made outside the public securities markets to public and private entities. The investments are negotiated either directly between the borrower and SWIB, or between the borrower and SWIB as a member of a lending group. The investments are intermediate to long-term in maturity, may be secured or unsecured depending on underlying credit, and may be made where the credit is based upon a guarantor or lessee of real or personal property, or other forms of credit enhancement.

Leveraged Buy-out Portfolio: The Leverage Buy-out Portfolio consists of interests in leveraged buy-out funds, and, direct ownership positions (generally non-control) in U.S. corporations. Investments can be made in limited partnerships, Limited Liability Corporations, or in debt, equity or both, of operating or holding companies. Typically, fund investments are structured as limited partnership interests, though ownership structures may also be utilized.

Venture Capital Portfolio: The Venture Capital Portfolio consists of an allocation for investment in venture capital partnerships and corporations (Funds) each of which would be expected to hold a diverse portfolio of underlying investments. The venture Funds, in turn, invest at various stages of a new company’s development, generally prior to a public offering of a company’s stock. The portfolio is expected to have a higher number of failed investments within the funds, which should be offset by a higher number of companies with major successes than would generally be found in public markets.

Source: INVESTMENT GUIDELINES, October 14, 1999, SWIB

Small Investment Pool: The Small Investment Pool was established as a limited pool to facilitate prompt turnaround on investment decisions involving certain small investments in existing Wisconsin portfolio companies or in new funds. Potential investment returns must reflect the level of risk involved and investments must meet the same standards applied to other private placement loans, investments or funds of the type being made. Approved investments must be reported to the Alternative Investments Committee at the next following meeting. There is a \$25 million cumulative cap on investments yet-to-be-reported to the Alternative Investments Committee.

Real Estate Portfolio: The Real Estate and Mortgage Portfolio contains investments in mortgages, commingled real estate investment pools and various types of direct ownership in estate assets, either solely or in joint ventures and partnerships.

Real Estate Mortgage Program: This portfolio will consist of investments in real estate mortgage whole loans on a participation basis only. Each individual investment will involve at least one other party who will serve three distinct functions: loan originator, lead underwriter, and joint investor with SWIB. This portfolio will be a collaborative effort between the Real Estate Division and the Private Placements Division. Real Estate will be primarily responsible for reviewing the underwriting of the collateral done by the lead investor. Private Placements will be responsible for reviewing the anticipated investment return.

Source: INVESTMENT GUIDELINES, October 14, 1999, SWIB