

Joint Retirement Boards

SWIB

March 30, 2006



Agenda

- “Equities - A Year in Review”
Jackie Doeler
- “Equities – 2006 Outlook”
Chad Neumann
- “SWIB Highlights”
Gail Hanson



A Year in Review

Jackie Doeler

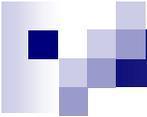
Healthcare Portfolio Manager

March 30, 2006



2005 Market Total Returns

Indices	Total Returns
S&P 500	4.9%
Russell 3000	6.1%
➤ Russell 1000	6.3%
➤ Russell 2000	4.6%
➤ Russell Mid Cap	12.6%

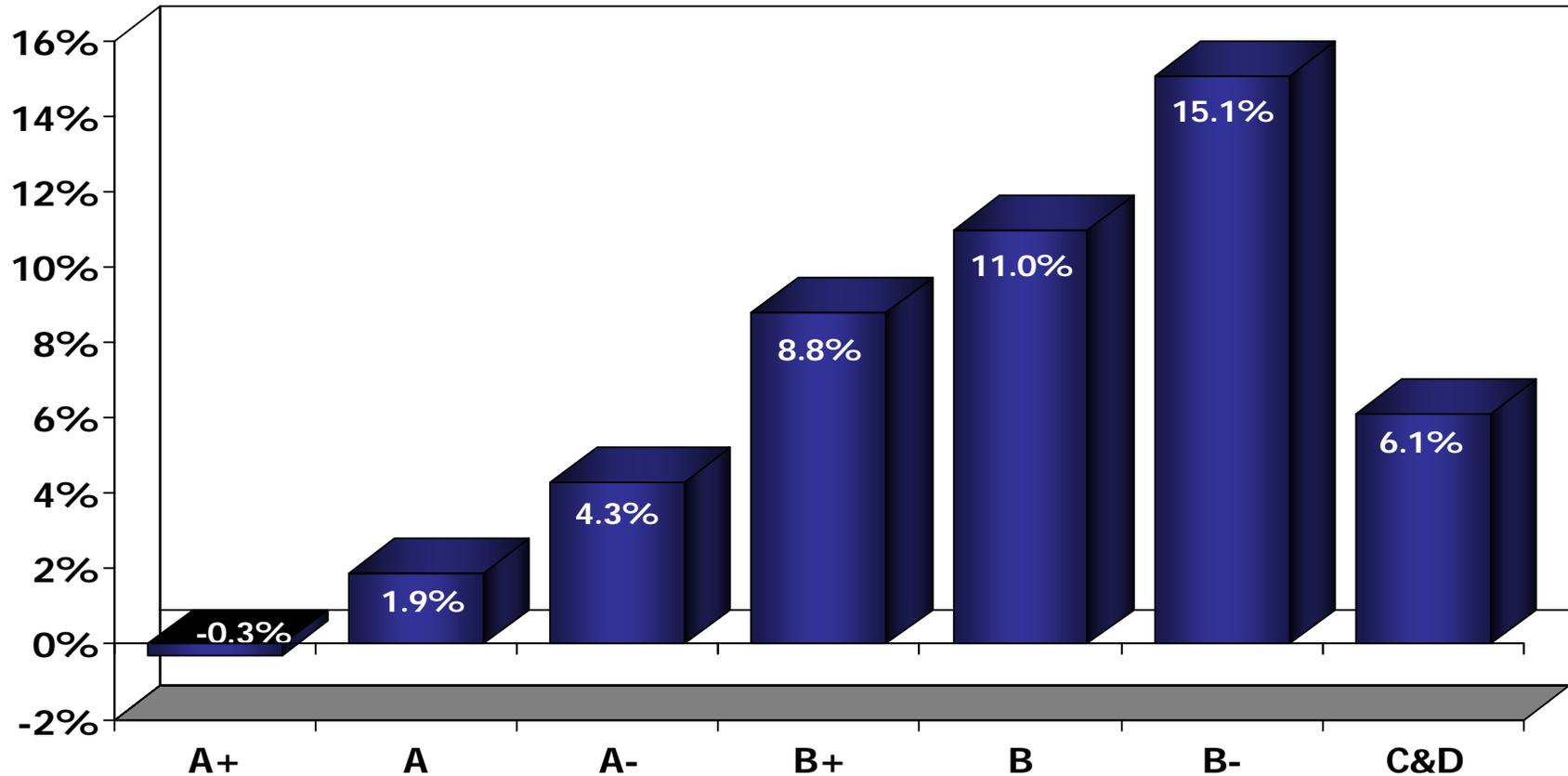


2005 S&P 500 Sector Total Returns

	2004	2005
Energy	31.5%	31.4%
Utilities	24.3%	16.8%
Financials	10.9%	6.5%
Healthcare	1.8%	6.4%
S&P 500	10.9%	4.9%
Materials	13.2%	4.4%
Consumer Staples	8.2%	3.6%
Industrials	18.1%	2.3%
Information Technology	2.6%	0.9%
Telecommunications	19.9%	-5.6%
Consumer Discretionary	13.3%	-6.3%

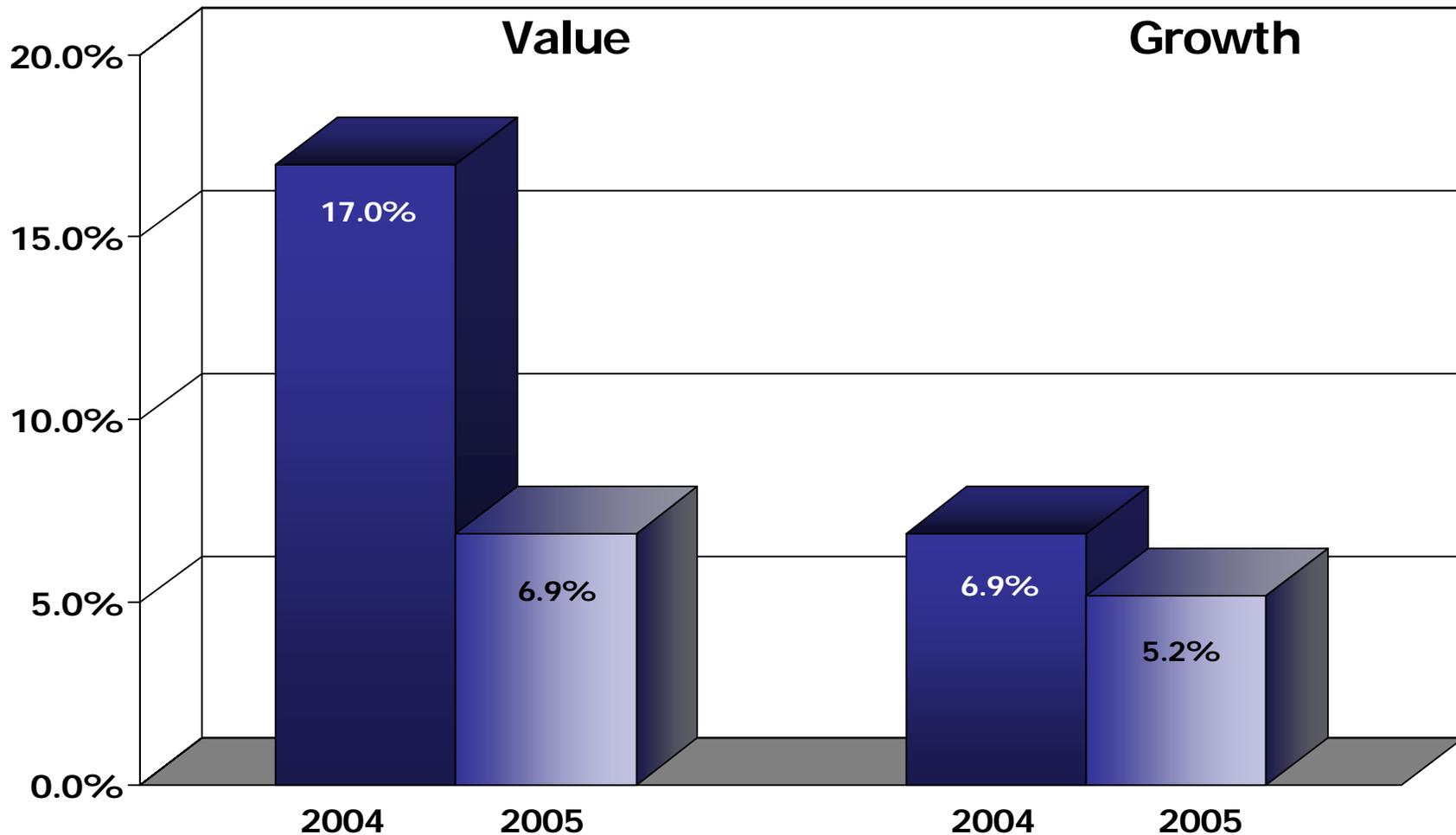
MLQS “Quality Indices”

Year to Date Price Performance Through 12/31/05



Value Outperformed Growth (Again)

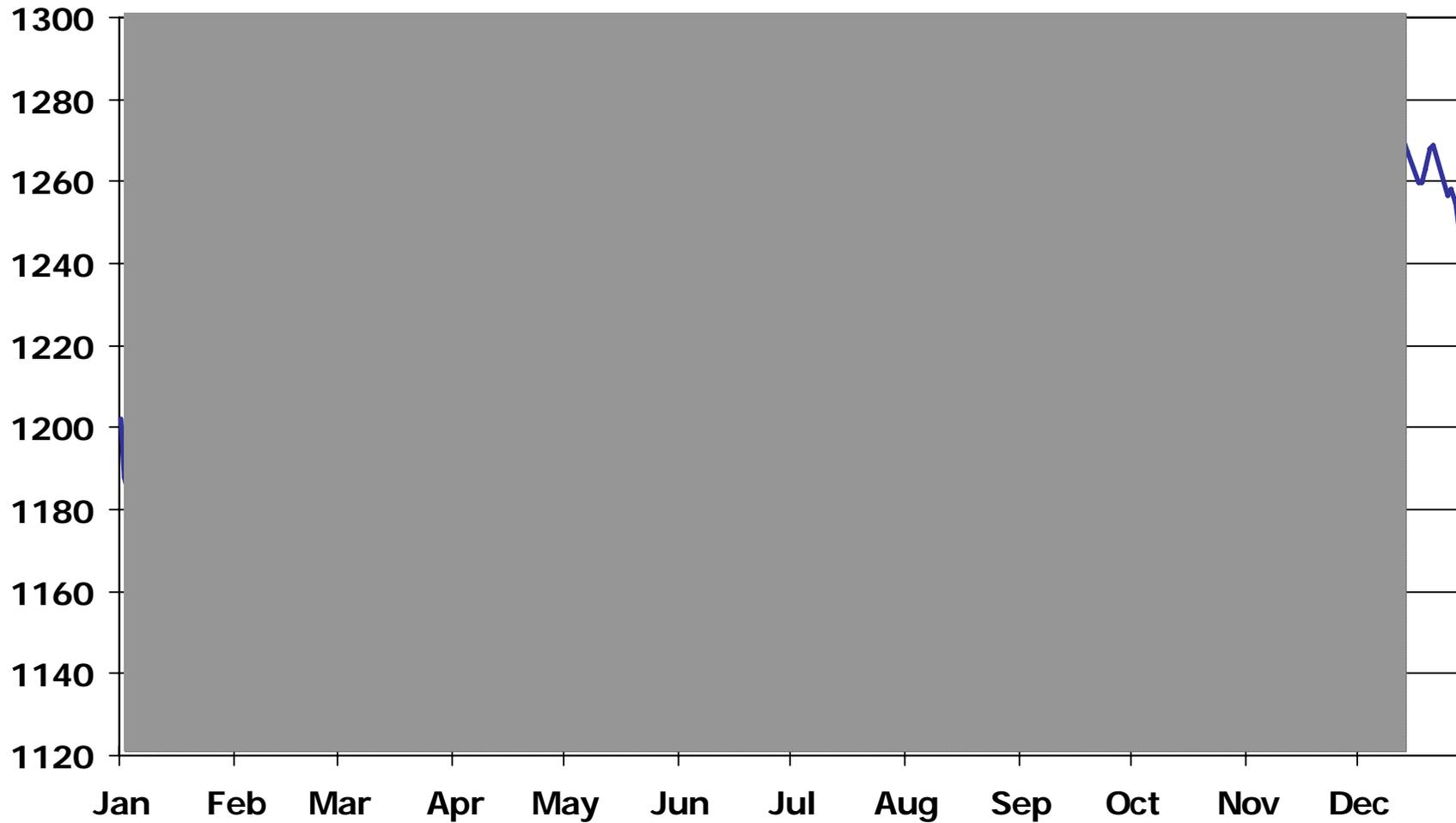
2004 & 2005 Russell 3000



2005 S&P 500 Index Returns

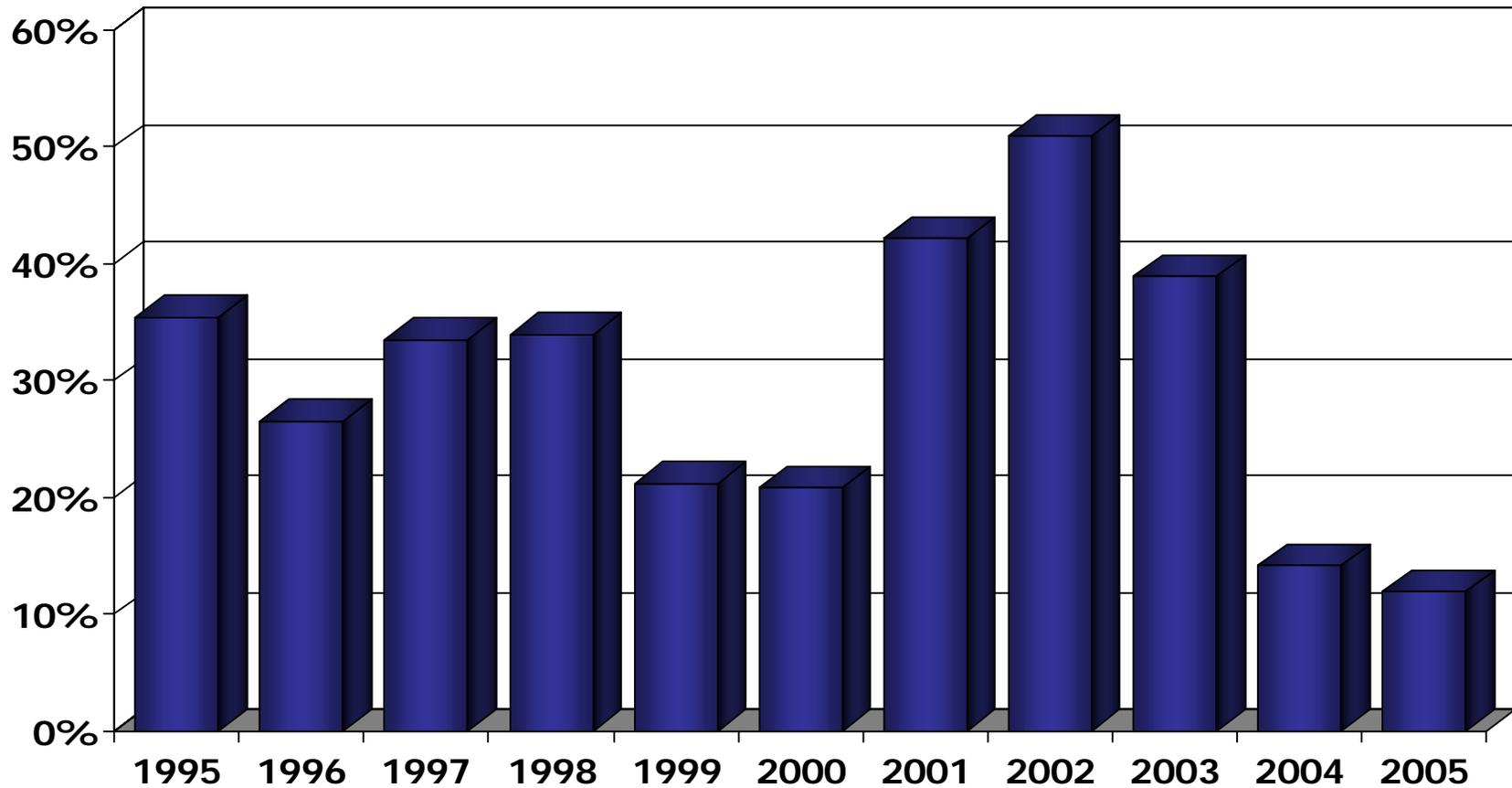


2005 S&P 500 Index Returns



S&P 500 Volatility

(Annual High minus Low) / % Low

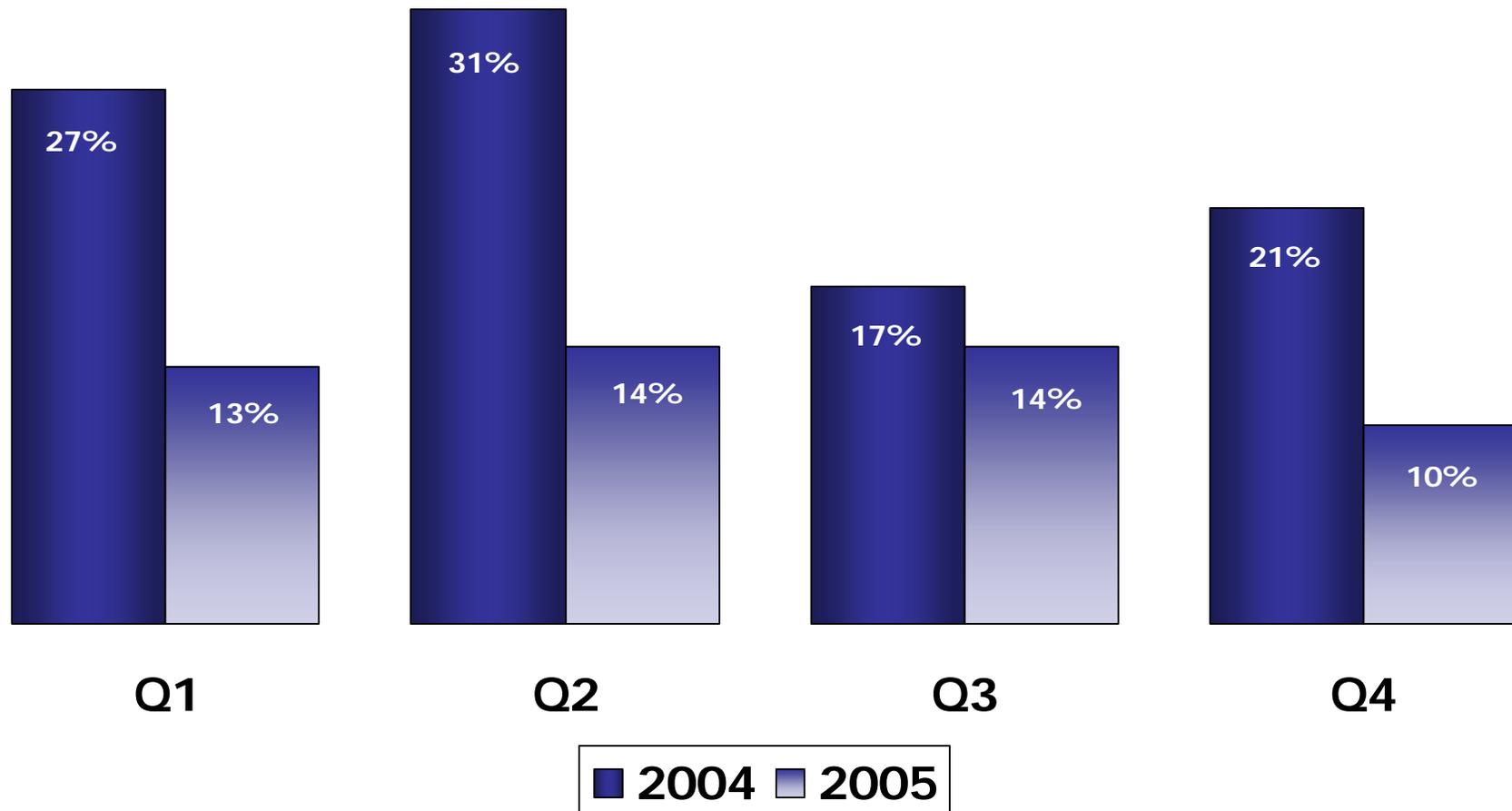




Headwinds of 2005

- **Slowing Corporate Earnings**
- Hurricanes
- Rising Oil Prices
- Increasing Fed Funds Rate

Quarterly Earnings Growth Rates





Headwinds of 2005

- Slowing Corporate Earnings
- **Hurricanes**
- Rising Oil Prices
- Increasing Fed Funds Rate

Hurricanes of 2005





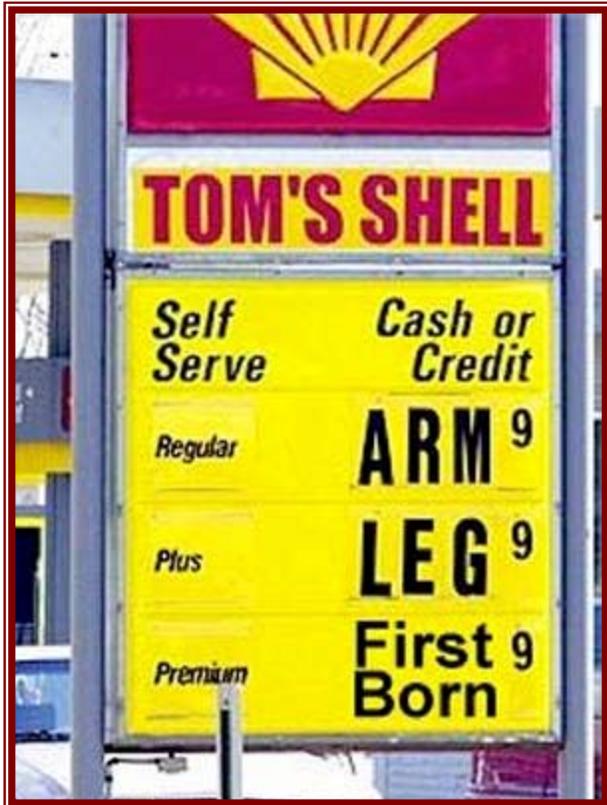
Headwinds of 2005

- Slowing Corporate Earnings
- Hurricanes
- **Rising Oil Prices**
- Increasing Fed Funds Rate

2005 Crude Oil Prices



2005 Gas Prices

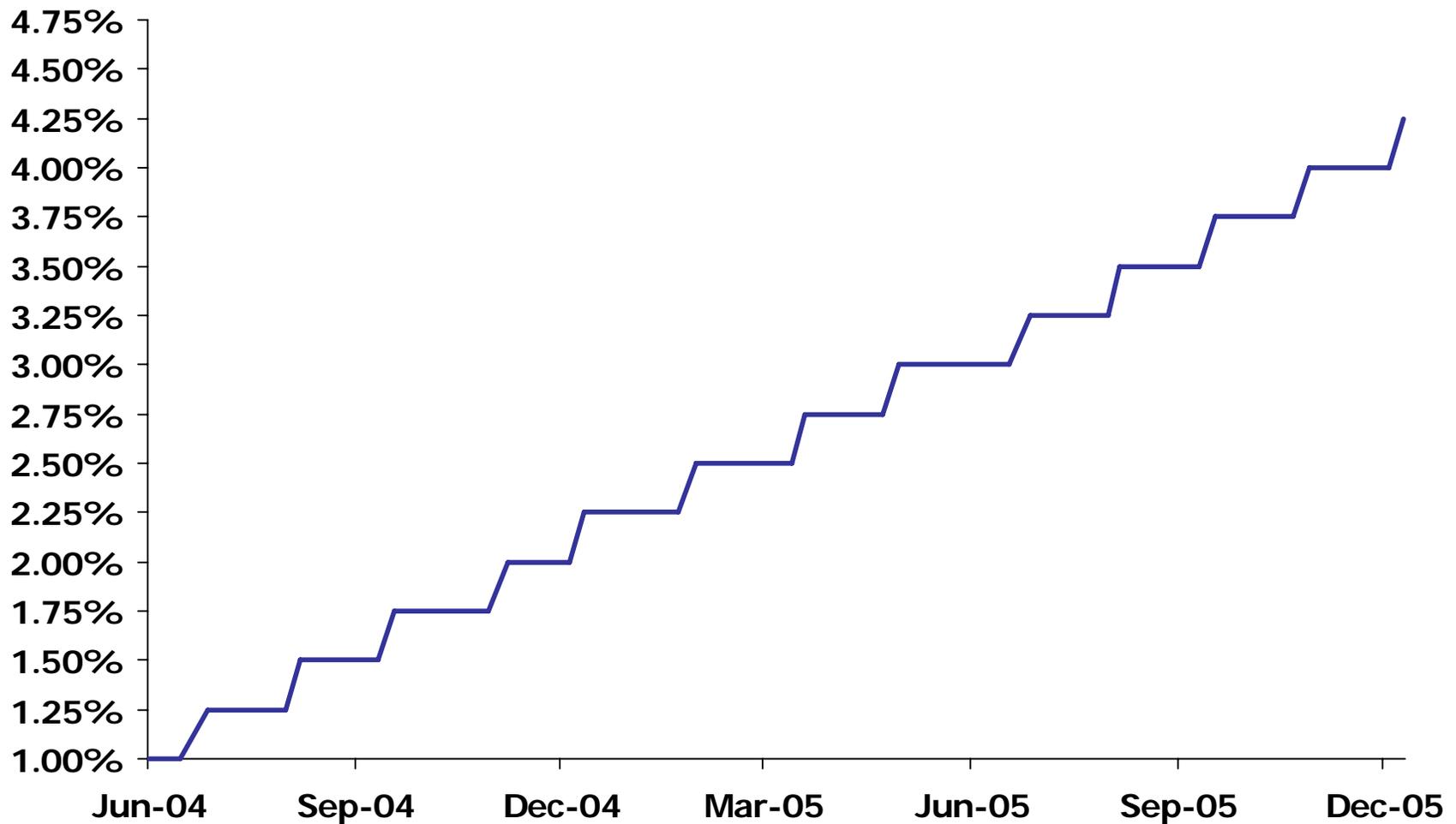




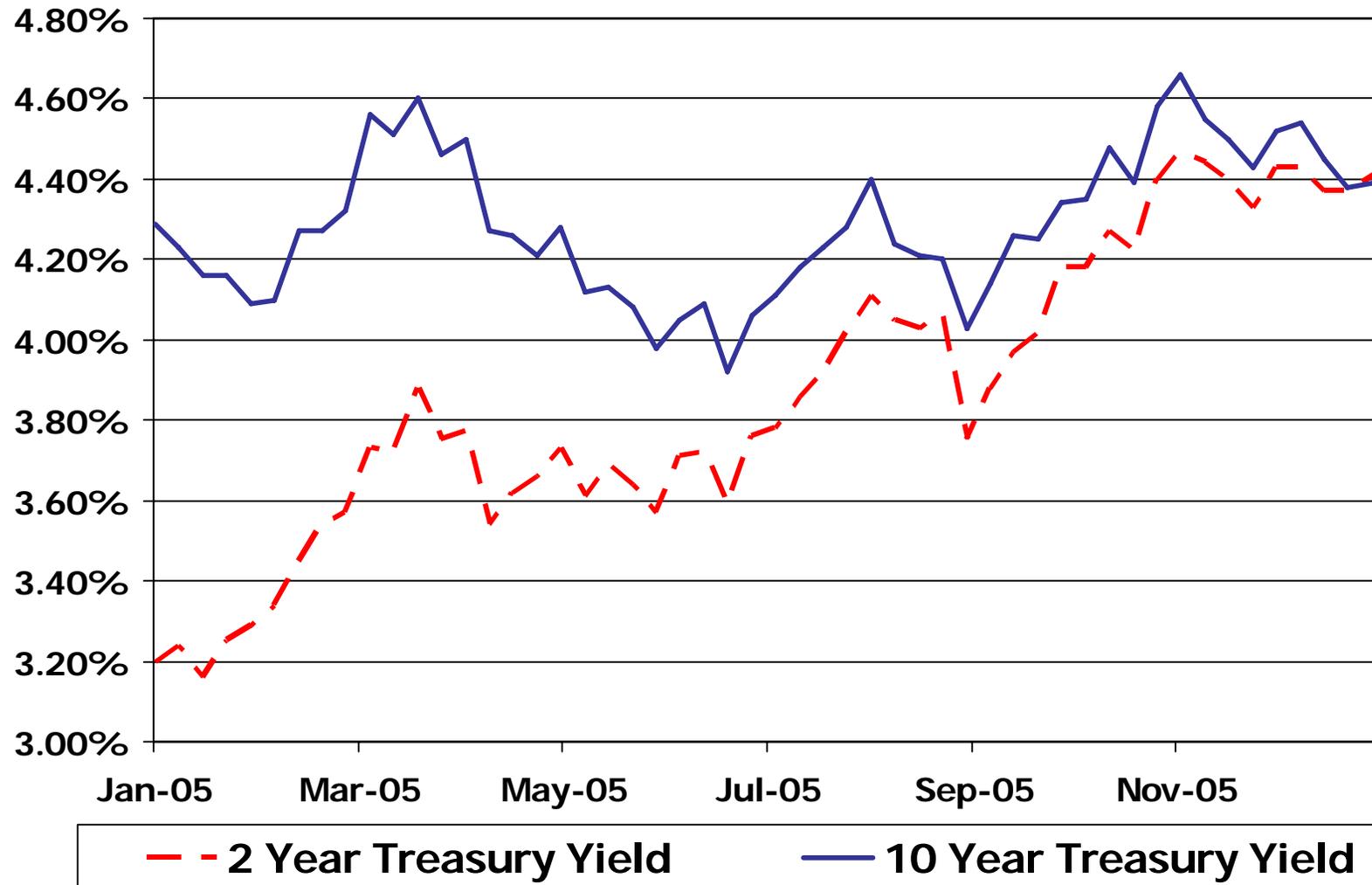
Headwinds of 2005

- Slowing Corporate Earnings
- Hurricanes
- Rising Oil Prices
- Increasing Fed Funds Rate

Fed Funds Rate Change



Yield Curves





Summary

- Market Not as Robust as Expected
- Energy & Utilities Best Sectors Again
- Slower Earnings Growth Than 2004
- Lots of Headwinds for the Markets

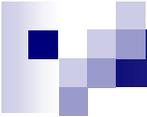


2006 Outlook

Chad Neumann

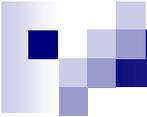
Small Cap Diversified Portfolio Manager

March 30, 2006



S&P 500 Sector Performance

Sectors	Earnings Growth	
	Beginning 2005E	Ending 2005E
Energy	-1.0%	44.4%
Industrials	17.3%	23.2%
Information Technology	20.6%	18.0%
Materials	19.0%	17.5%
Telecommunications	3.2%	15.3%
S&P 500	9.6%	13.5%
Utilities	14.2%	9.7%
Healthcare	8.0 %	8.3%
Financials	7.5%	6.2%
Consumer Staples	5.1%	2.9%
Consumer Discretionary	9.8%	-4.5%

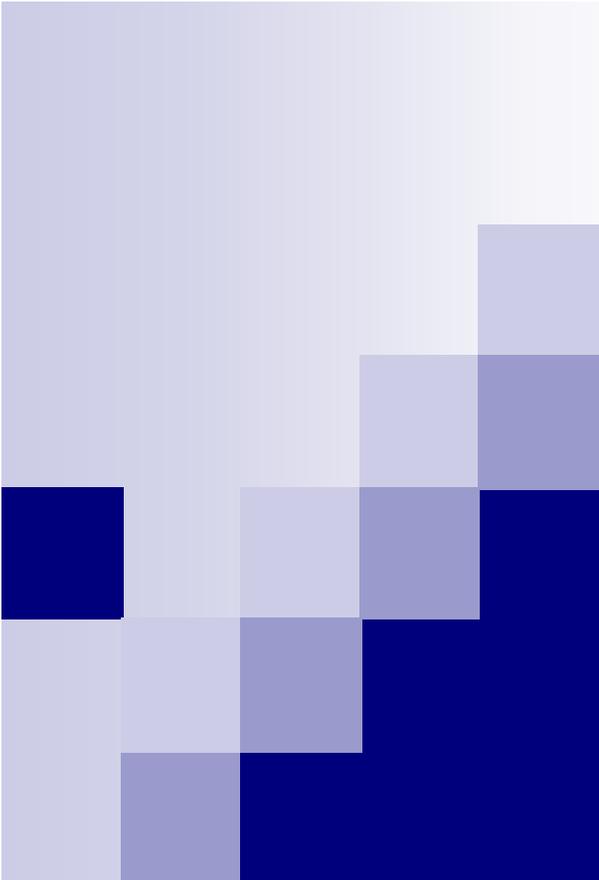


S&P 500 Sector Performance

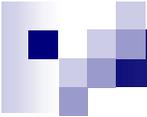
Sectors	Earnings Growth	
	Ending 2005	Beginning 2006E
Energy	44.4%	8.6%
Industrials	23.2%	13.2%
Information Technology	18.0%	12.9%
Materials	17.5%	7.9%
Telecommunications	15.3%	9.1%
S&P 500	13.5%	11.1%
Utilities	9.7%	16.5%
Healthcare	8.3 %	11.5%
Financials	6.2%	8.7%
Consumer Staples	2.9%	6.4%
Consumer Discretionary	-4.5%	20.6%

2005 S&P 500 Sector Returns

2005 SWIB Forecast	2005 Returns	2006 SWIB Forecast
Healthcare Consumer Staples Industrials	Energy 31.4% Utilities 16.8% Financials 6.5% Healthcare 6.4%	Healthcare Information Technology Industrials Consumer Staples
Information Technology Consumer Discretionary Energy Materials	S&P 500 4.9%	Financials Consumer Discretionary
Telecom Services Financials Utilities	Materials 4.4% Consumer Staples 3.6% Industrials 2.3% Information Technology 0.9% Telecom Services -5.6% Consumer Discretionary -6.3%	Energy Materials Telecom Services Utilities

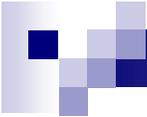


Going Forward...



SWIB Estimates

	Estimates 2005	Actual 2005
Real GDP	+ 2.0 – 3.5%	+ 3.5%
Consumer Price Index	+ 2 – 3%	+ 3.5%
Operating Earnings	+ 0 – 5%	13.5%
S&P 500	+ 5 – 8%	4.9%



SWIB Forecast

	Estimates 2005	Actual 2005	Estimates 2006
Real GDP	+ 2.0 – 3.5%	+ 3.5%	+ 2.5 – 3.0%
Consumer Price Index	+ 2 – 3%	+ 3.5%	+ 2 – 4%
Operating Earnings	+ 0 – 5%	13.5%	+ 4 – 8%
S&P 500	+ 5 – 8%	4.9%	+ 6 – 9%



What's Wall Street Saying

- Environment of Low Returns Persists
- Expect Positive Returns
- Anticipate Low Volatility (Again)



2006 Issues

- Economic Slowdown May Occur
- Housing Market Cools
- Consumer Spending Slows

Inverted Yield Curve = Recession

U.S. 10-Year Treasury Yield minus 2-Year Treasury Yield





Fed Tightening Cycle

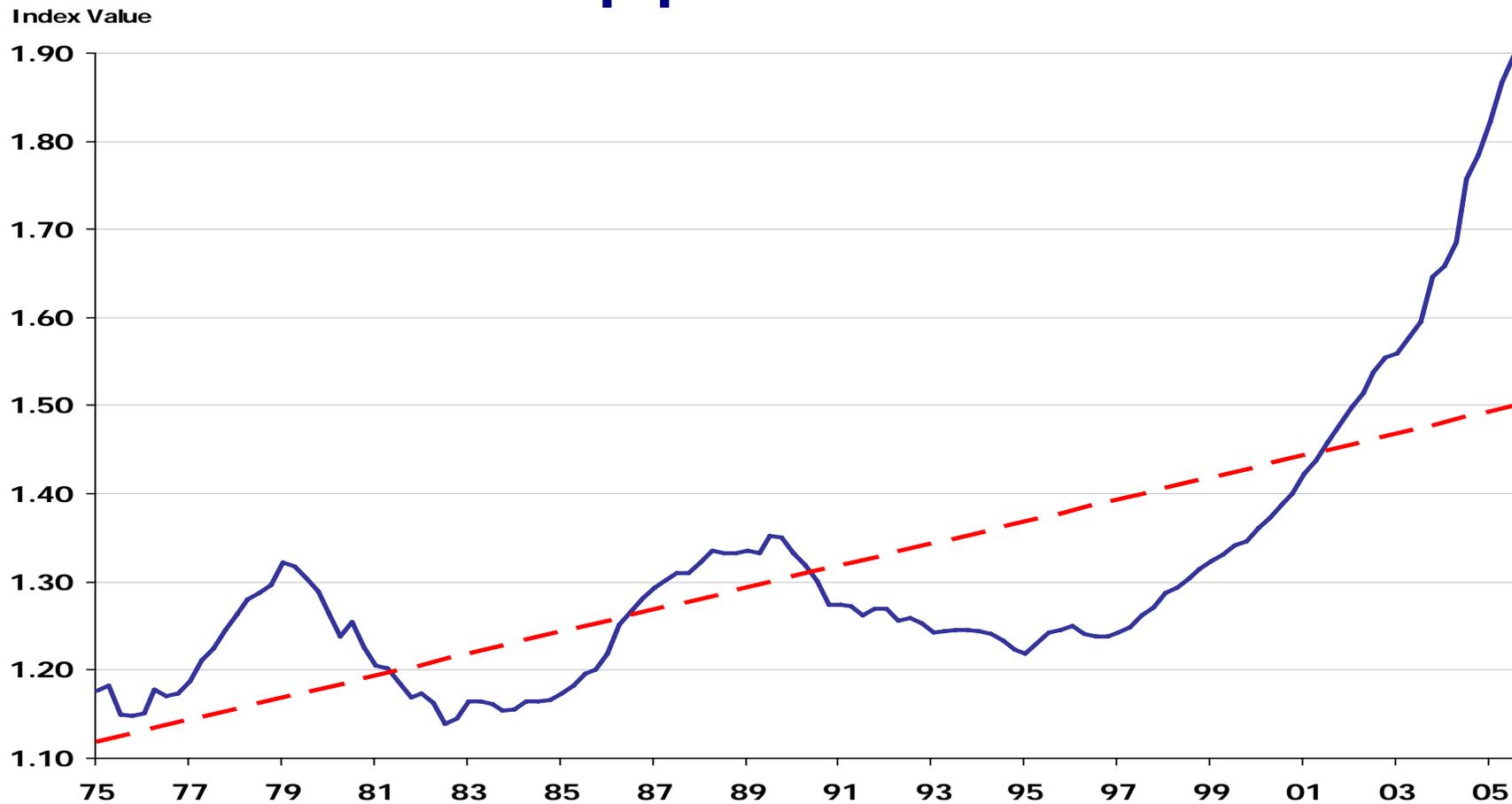
<u>Year</u>	<u>Financial Crisis</u>
1970	Penn Central
1974	Franklin National
1980	First Penn / Latin America
1984	Continental Illinois
1987	Black Monday
1990	S&L Crisis
1994	Mexico
1997	Pac Rim / Russia / LTCM
2000	Nasdaq Collapse
2006	???



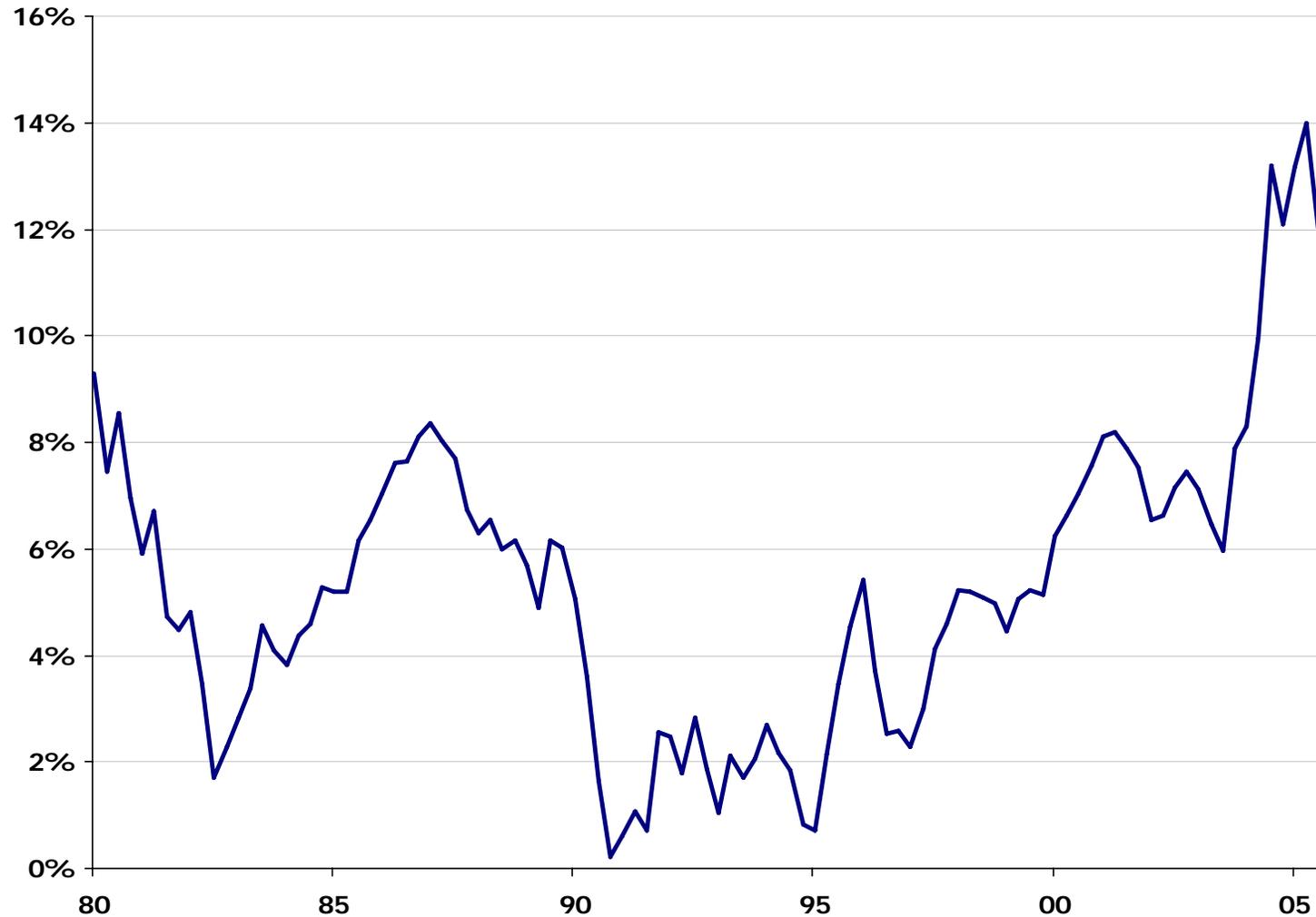
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Unsustainable Housing Appreciation



Housing Appreciation Slowing

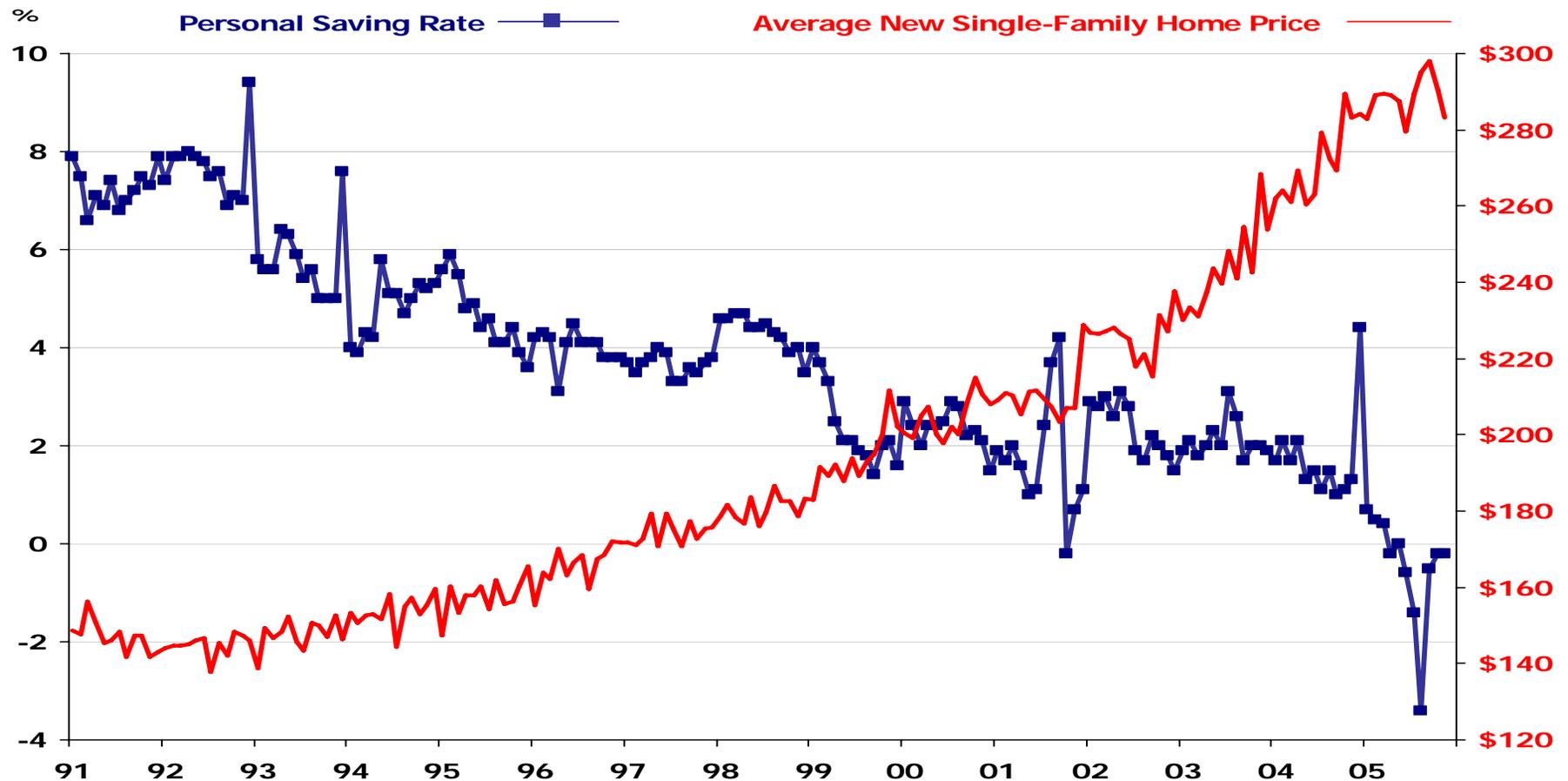




2006 Issues

- Economic Slowdown May Occur
- Housing Market Cools
- Consumer Spending Slows

Saving Rate Plunged as Home Prices Soared



Source: Census Bureau, Bureau of Economic Analysis/Haver Analytics



SWIB Highlights

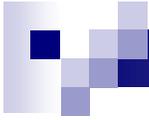
Gail Hanson
Deputy Executive Director

March 30, 2006



SWIB Highlights

- Performance
 - December 31, 2005
 - February 28, 2006
- Incentive Compensation for 2005
- Strategic Initiatives for 2006
- Recruitments



QUESTIONS