



GALLIARD CAPITAL
MANAGEMENT

Experience. Consistency.
Performance.

State of Wisconsin Deferred Compensation Plan

September 2, 2009

Presenter:
Mike Norman
Principal

- Section I: Stable Value Market Update**
- Section II: Proposed Strategy Change**
- Section III: 2Q'09 State of Wisconsin Portfolio Review**



Section I

Stable Value Market Update

- **2008 flows into stable value strong**
 - Galliard flows consistent with industry growth – assets increase 20%
- **2009 flows slightly positive**
 - Strong inflows early in year have reversed as equity markets have recovered
- **Portfolio characteristics improving in 2009 across the industry**
 - MV/BV ratios – most in mid 90's (range from mid 80s to 102)
 - Blended yield/crediting rates (average 3%; range from 1% to 4%)

Stable Value continues to provide principal protection and competitive yields for retirement plan participants

Stable Value Market Update State of Wrap Providers

| <u>Name</u> | <u>S&P Credit Rating</u> | <u>Moody's Credit Rating</u> | <u>Accepting Deposits from Existing Clients</u> | <u>Accepting Deposits from New Clients</u> |
|---|----------------------------------|----------------------------------|---|--|
| J.P. Morgan Chase Bank | AA- | Aa1 | Yes | Yes |
| Metropolitan Life Ins. Co. (SA) | AA- | Aa2 | Yes | Yes |
| Prudential Life Ins. Co. | AA- | A2 | Yes | Yes |
| AIG Financial Products Corp. | A- | A3 | Yes | No |
| ING Life Ins. and Annuity Co. | AA- | A1 | Yes | No |
| Monumental Life Ins. Co./Transamerica Life Ins. & Annuity | AA- | A1 | Yes | No |
| State Street Bank and Trust Co. | AA- | Aa2 | Yes | No |
| Bank of America, N.A. | A+ | Aa3 | No | No |
| Natixis Financial Products, Inc. | A+ | Aa3 | No | No |
| Pacific Life Ins. Co. | AA- | A1 | No | No |
| Royal Bank of Canada | AA- | Aaa | No | No |
| Rabobank Nederland - <i>exiting</i> | AAA | Aaa | No | No |

With higher fees and stabilized environment, wrap capacity is beginning to improve



Section II

Proposed Strategy Change

Background

- Stable Value market is undergoing a fundamental change
 - Limited wrap provider capacity
 - Movement towards more restrictive/conservative guidelines
 - Higher wrap fees
 - Longer term – new entrants to the wrap market
- Interest rates likely to move higher

Recommendation

- Shorten overall target duration
- Position underlying portfolio for ease of obtaining new wrap providers

Benefits of Recommendation

- Lower MV/BV ratio volatility
- Increased rate responsiveness
- Opportunity to secure additional wrap provider coverage
- Modest return/blended yield impact

Current Stable Value Fund Structure

| | Liquidity Buffer | Actively Managed Fixed Income | |
|-------------------|--------------------------------|-------------------------------|---|
| Segment | Wells Fargo Stable Return Fund | Intermediate Portfolio | Broad Market Portfolio |
| Allocation | 24% | Galliard - 19% | Galliard - 20% PIMCO - 24% Aberdeen - 13% |
| Benchmark | Fund Benchmark | BarCap Int. Gov't/Credit | BarCap Aggregate |

Observations

- Global wrap structure with 3 providers: Natixis, J.P. Morgan, Monumental
- 3 fixed income managers – 57% managed to BarCap Aggregate Index, 19% managed to BarCap Intermediate Gov't/Credit Index
- Total Fund duration 3.44 yrs and blended yield (before fees) 4.69%

Proposed Stable Value Fund Structure

| | Liquidity Buffer | Actively Managed Fixed Income | | |
|--------------------------------|-----------------------------------|--------------------------------------|--------------------------|-------------------------------|
| Segment | Wells Fargo Stable Return Fund | Short Portfolio | Intermediate Portfolio | Broad Market Portfolio |
| Target Allocation Range | 15 - 25% | Galliard (20 - 30%) | Galliard (20 - 30%) | Aberdeen PIMCO (25-45%) |
| Benchmark | Fund Benchmark | BarCap 1-3 Yr Gov't | BarCap Int. Gov't/Credit | BarCap Aggregate |

Observations

- Secure additional wrap contract for short allocation
- Allocation to Galliard Broad Market Fund transitioned to Galliard Short Fund to reduce duration
- Total Fund duration closer to 3.0 year target and blended yield impact of approximately 30-50 bps depending on timing

Strategy Comparison

| | Current | Proposed |
|-----------------|---------|-----------------------------|
| Duration Target | 4.0 Yrs | 3.0 Yrs |
| Blended Yield | 4.69% | Approximately 4.20% - 4.40% |

Summary

- Gradually reduce duration to 3 year target
- Minimize blended yield impact
- New contract for additional placements

Longer Term Strategy

- Add 1 – 2 additional wrap providers to reduce exposure
- De-globalize wrap structure
- Keep multi-manager diversification

Recommended Guideline Revisions

- Target duration 3.0 yrs
- Maximum exposure to a wrap provider 35%
- Minimum quality of a wrap provider must be A-/A3 at time of initial placement
- Minimum weighted average quality of Fund must be maintained at A/A2



Section III

Galliard Capital Management, Inc.

Second Quarter 2009



About Galliard

- Registered Investment Advisor
- Incorporated 1995
- Headquartered in Minneapolis, MN
- Wholly-owned subsidiary of Wells Fargo & Company
- Institutional fixed income and stable value investment specialists
- Over \$46.5 billion in assets under management
- Three founding partners
John Caswell, CFA
Richard Merriam, CFA
Karl Tourville

State of Wisconsin Client Team



Mike Norman
Principal
612.667.3219
michael.d.norman@galliard.com



Leela Scattum
Principal
612.667.3215
leela.j.scattum@galliard.com



Karl Tourville
Managing Partner
612.667.8033
karl.p.tourville@galliard.com

Economic Summary

Economic Overview

Second Quarter 2009

Improvement in the Rate of Decline

- Real GDP growth fell -5.5% annually during the first quarter, an improvement from the fourth quarter's annual rate of -6.3% (Fig. 1).
- Personal consumption expenditures, particularly on durable goods, contributed positively to Real GDP during the quarter (Fig. 2). Contributions of private domestic investment and net exports continued to be negative.
- While widespread job losses continued throughout the quarter, the pace slowed: 1.3 million jobs were lost during the second quarter versus 2.1 million during the first quarter (Fig. 3).

Fig. 1: U.S. Real GDP Growth (QOQ % Chg)

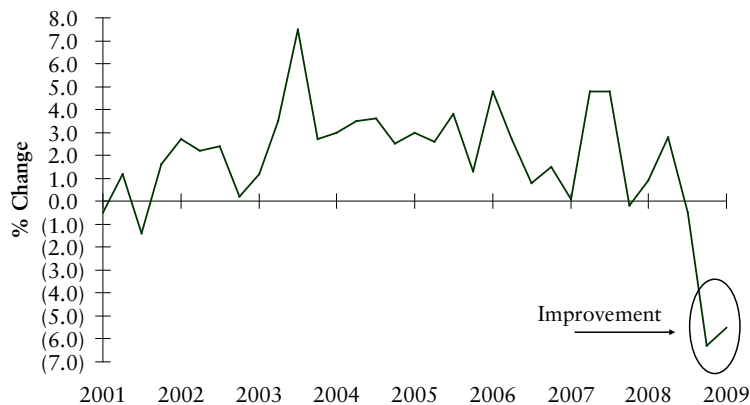


Fig. 2: Personal Consumption Contribution to Real GDP

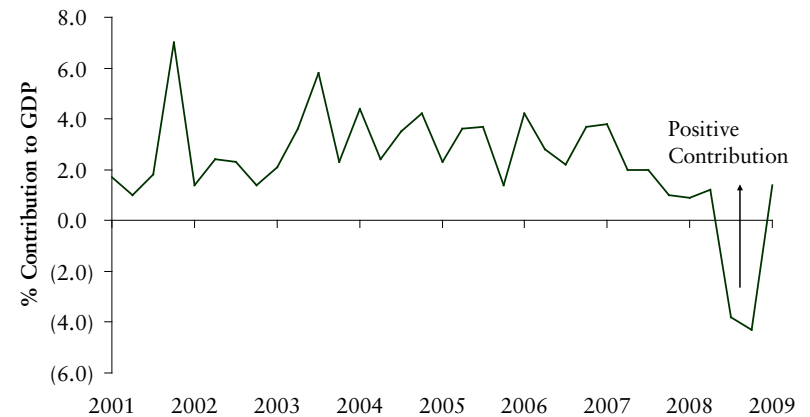
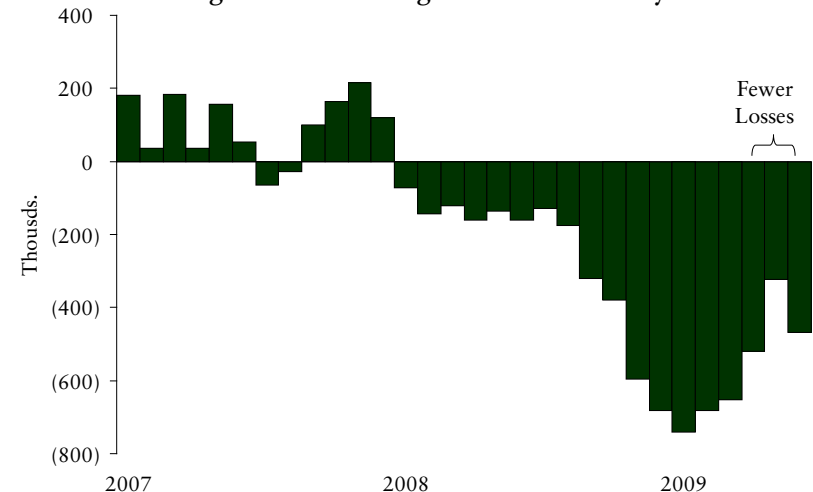


Fig. 3: Total Change in Non Farm Payrolls



Economic Overview

Second Quarter 2009

Some Positive Economic News

- U.S. stock markets rebounded from the low levels of the first quarter (Fig. 1) and the credit markets showed further signs of stabilization.
- Both the ISM Manufacturing and Non-Manufacturing Indices rose in June. Levels currently indicate a slower rate of contraction (Fig. 2).
- Lower mortgage rates and rising affordability have helped housing markets. Existing home sales improved 2.4% month-over-month in May; sales remain down year-over-year, but less so than in previous months (Fig. 3).

Fig. 1: S&P 500 Index

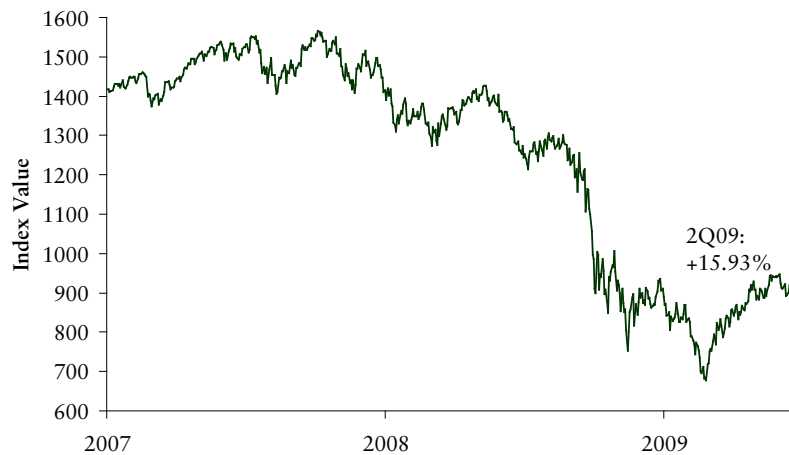


Fig. 2: ISM Manufacturing and Non-Manufacturing Indices

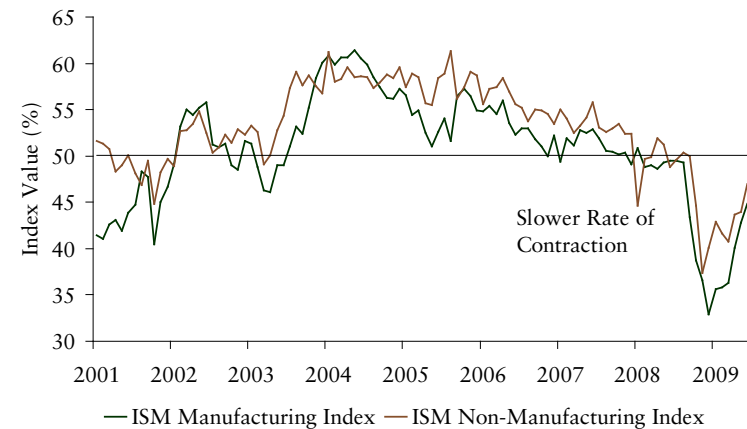
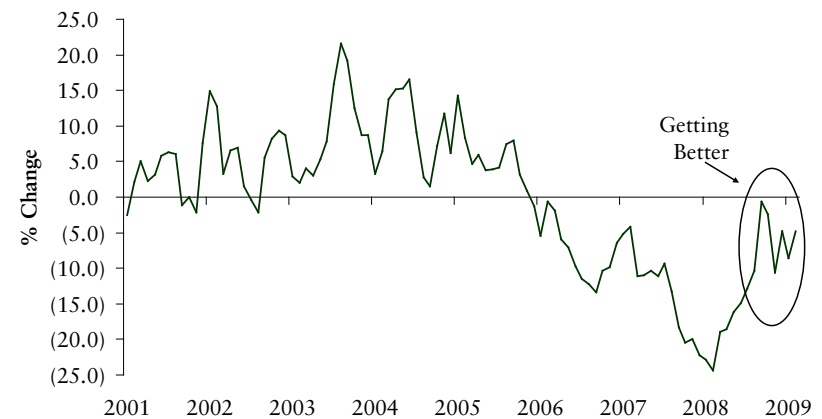


Fig. 3: Existing Home Sales Index (YOY % Chg)



Economic Overview

Second Quarter 2009

Economic Outlook – Stabilization in Sight

- Economic improvements during the second quarter came in the form of slower rates of contraction rather than positive growth. **We are hopeful that economic growth will resume during the second half of this year as fiscal spending programs stimulate spending and job creation.**
- We have lost over six million jobs and \$15 trillion of wealth since the beginning of 2007. **When actual economic growth does return, we expect it to be modest by recent historic standards as consumers remain cautious, working down debt levels and building savings.**
- Short-term interest rates should remain low for some time to allow the financial system to heal through profit improvement and stimulate purchases of homes, autos, and capital goods.
- Concern remains over the long-term impact of the Federal Reserve's unprecedented actions to stabilize the financial system and Government spending programs. **While we believe that sound policies must be put in place to deal with this in the future, the near term inflation outlook remains stable.**

Fixed Income Market Review

Second Quarter 2009

- U.S. Treasury yields continued to move higher during the second quarter as the yield curve steepened further (Fig. 1).
- Returns on Treasuries were negative for the quarter as interest rates increased; all other major fixed income sectors posted positive total returns as credit spreads improved (Fig. 2).
- Spread sectors generated positive excess returns versus comparable duration Treasuries during the quarter. Excess returns over the past 12 months are mixed, with non-Government sectors still underperforming (Fig. 3).

Fig. 2: Fixed Income Total Return By Sector (%)
(Barclays Capital Intermediate & Long Indices)

| | U.S. Treasury | | Govt. Related | | Corporate | | High Yield | |
|--------------|---------------|------|---------------|------|-----------|------|------------|--------|
| | QTR | 1 YR | QTR | 1 YR | QTR | 1 YR | QTR | 1 YR |
| Intermediate | (2.14) | 6.12 | 0.47 | 7.17 | 9.12 | 3.84 | 22.14 | (2.68) |
| Long | (7.14) | 7.36 | 0.19 | 3.72 | 14.75 | 4.03 | 31.74 | (0.25) |
| | MBS | | | | ABS | | | |
| | QTR | | 1 YR | | QTR | | 1 YR | |
| Securitized | 0.70 | | 9.38 | | 7.64 | | 3.87 | |

Fig. 1: U.S. Treasury Yield Curve

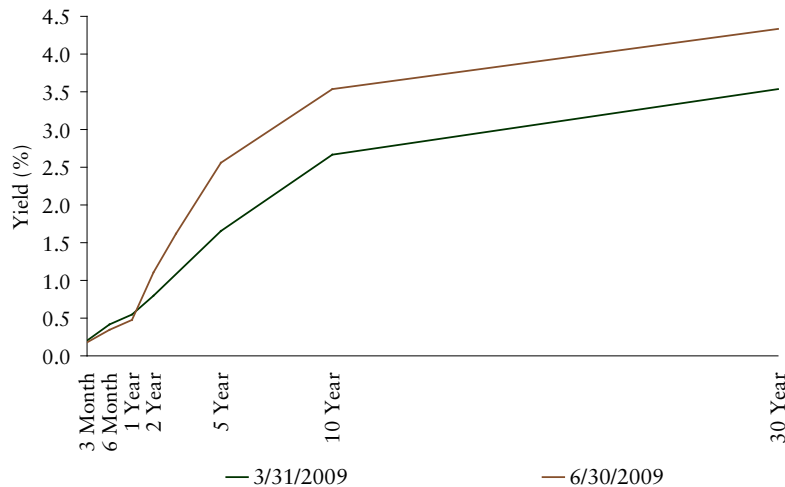
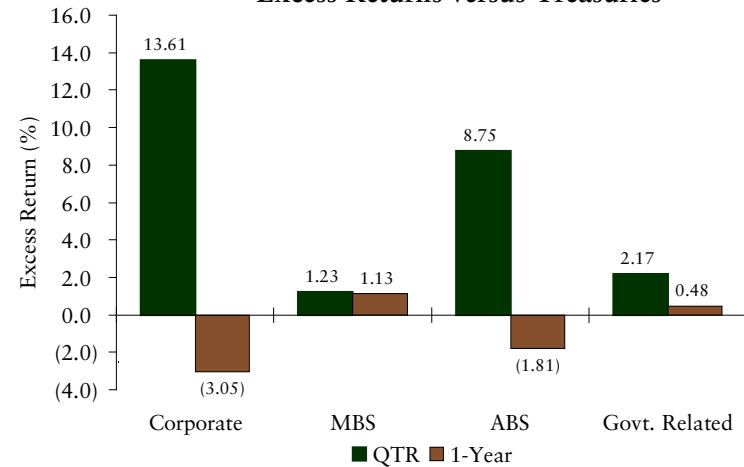


Fig. 3: Barclays Capital Excess Returns versus Treasuries



Portfolio Review

Portfolio Overview

Second Quarter 2009

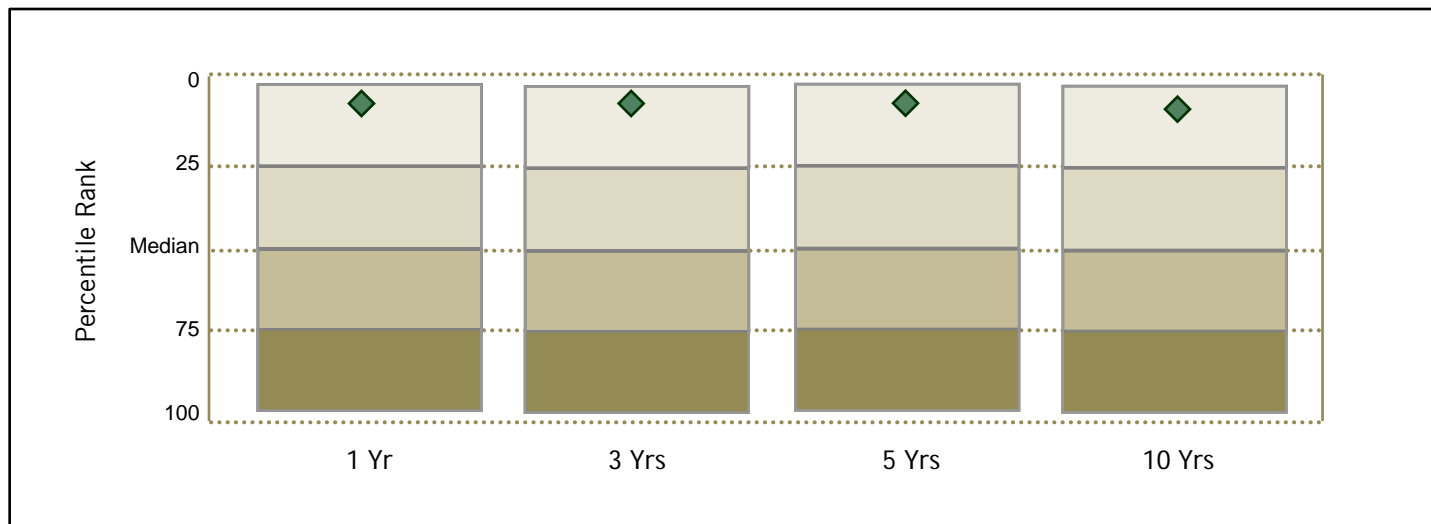
| Relationship Manager | Mike Norman | | | | | | | | | | | | | | | | | | |
|--|--|-------------------|---------------|---------------------------|------------|----------------------------------|--|-----------------------------------|------------|--------------------|--|-----------------------------------|-----|------------------------|-----|-----------------|-----|--------------|-----|
| Galliard Inception Date | July 1, 1998 | | | | | | | | | | | | | | | | | | |
| Investment Objective | To maintain safety of principal and a stable crediting rate, while generating a competitive return. | | | | | | | | | | | | | | | | | | |
| Benchmark | 5 Year Constant Maturity Treasury Yield | | | | | | | | | | | | | | | | | | |
| Stable Value Portfolio Components | <table><thead><tr><th><u>Components</u></th><th><u>Target</u></th></tr></thead><tbody><tr><td>Stable Value Funds</td><td>20%</td></tr><tr><td>- Wells Fargo Stable Return Fund</td><td></td></tr><tr><td>Security Backed Contracts*</td><td>80%</td></tr><tr><td>Targeted Benchmark</td><td></td></tr><tr><td>- Galliard Intermediate Bond Fund</td><td>20%</td></tr><tr><td>- Galliard Income Fund</td><td>20%</td></tr><tr><td>- Aberdeen Fund</td><td>15%</td></tr><tr><td>- PIMCO Fund</td><td>25%</td></tr></tbody></table> | <u>Components</u> | <u>Target</u> | Stable Value Funds | 20% | - Wells Fargo Stable Return Fund | | Security Backed Contracts* | 80% | Targeted Benchmark | | - Galliard Intermediate Bond Fund | 20% | - Galliard Income Fund | 20% | - Aberdeen Fund | 15% | - PIMCO Fund | 25% |
| <u>Components</u> | <u>Target</u> | | | | | | | | | | | | | | | | | | |
| Stable Value Funds | 20% | | | | | | | | | | | | | | | | | | |
| - Wells Fargo Stable Return Fund | | | | | | | | | | | | | | | | | | | |
| Security Backed Contracts* | 80% | | | | | | | | | | | | | | | | | | |
| Targeted Benchmark | | | | | | | | | | | | | | | | | | | |
| - Galliard Intermediate Bond Fund | 20% | | | | | | | | | | | | | | | | | | |
| - Galliard Income Fund | 20% | | | | | | | | | | | | | | | | | | |
| - Aberdeen Fund | 15% | | | | | | | | | | | | | | | | | | |
| - PIMCO Fund | 25% | | | | | | | | | | | | | | | | | | |
| Key Portfolio Guidelines | | | | | | | | | | | | | | | | | | | |
| Portfolio Duration | 4.0 Years | | | | | | | | | | | | | | | | | | |
| Minimum Portfolio Quality | AA- (contract level) | | | | | | | | | | | | | | | | | | |

**Wells Fargo collective trust funds

Galliard Performance

Performance versus Peers

PEER GROUP STATISTICS AND RANKING vs. eA STABLE VALUE FIXED INCOME UNIVERSE*



| | 1 Yr | | 3 Yr | | 5 Yr | | 10 Yr | |
|---|--------|------|--------|------|--------|------|--------|------|
| | Return | Rank | Return | Rank | Return | Rank | Return | Rank |
| State of Wisconsin ◆ | 4.90 | 5th | 5.19 | 5th | 5.21 | 5th | 5.71 | 9th |
| eVestment Alliance Universe Median | 3.74 | | 4.59 | | 4.56 | | 5.18 | |
| Value Added | +1.16 | | +0.60 | | +0.65 | | +0.53 | |

The State of Wisconsin portfolio has consistently outperformed the median manager by more than 50bps per year

*Source eVestment Alliance. Data as of 6/30/09.

Stable Value Portfolio Review

Second Quarter 2009

Annualized Investment Performance*

Periods Ending June 30, 2009

| | <u>2Q'09</u> | <u>YTD</u> | <u>1 Yr</u> | <u>3 Yr</u> | <u>5 Yr</u> | <u>10 Yr</u> |
|---|--------------|------------|-------------|-------------|-------------|--------------|
| Portfolio (before inv. mgmt. fees) | 1.00 | 2.11 | 4.90 | 5.19 | 5.21 | 5.71 |
| Portfolio (net of inv. mgmt. fees) | 0.97 | 2.04 | 4.73 | 5.01 | 5.03 | 5.50 |
| 5 Year Constant Maturity Treasury Yield | 0.55 | 0.99 | 2.33 | 3.49 | 3.73 | 4.06 |

Calendar Year Performance

| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Portfolio (before inv. mgmt. fees) | 5.44 | 5.30 | 5.39 | 5.19 | 5.18 |
| Portfolio (net of inv. mgmt. fees) | 5.26 | 5.11 | 5.20 | 4.99 | 4.97 |
| 5 Year Constant Maturity Treasury Yield | 2.79 | 4.35 | 4.74 | 4.05 | 3.44 |
| Market Indices | | | | | |
| Merrill Lynch 3 Mo. T-Bill | 2.06 | 5.03 | 4.83 | 3.06 | 1.33 |
| Consumer Price Index | 0.09 | 4.08 | 2.54 | 3.42 | 3.26 |

* Returns for periods of less than one year are not annualized.

Stable Value Fund Review

Second Quarter 2009

Portfolio Characteristics

| | | | |
|----------------------------|---------------|--|-------|
| Total Assets | \$447,801,544 | Blended Yield (Before fees) * | 3.99% |
| Weighted Average Quality | Aa3/AA- | Effective Duration (Years) | 3.51 |
| Market/Book Value Ratio | 97.60% | *Gross yield is before investment management fees and after wrap fees. | |
| Number of Contract Issuers | 3 | | |

Sector Distribution

| <u>Portfolio Distribution</u> | <u>Contract Value (\$)</u> | <u>% of Portfolio</u> <u>06/30/2009</u> | <u>% of Portfolio</u> <u>03/31/2009</u> |
|-------------------------------|----------------------------|--|--|
| Stable Value Funds* | 108,557,883 | 24.2 | 23.9 |
| Security Backed Contracts | 339,243,661 | 75.8 | 76.1 |
| Broad Market Portfolio | 339,243,661 | 75.8 | 76.1 |
| Total | \$447,801,544 | 100.0%** | 100.0%** |

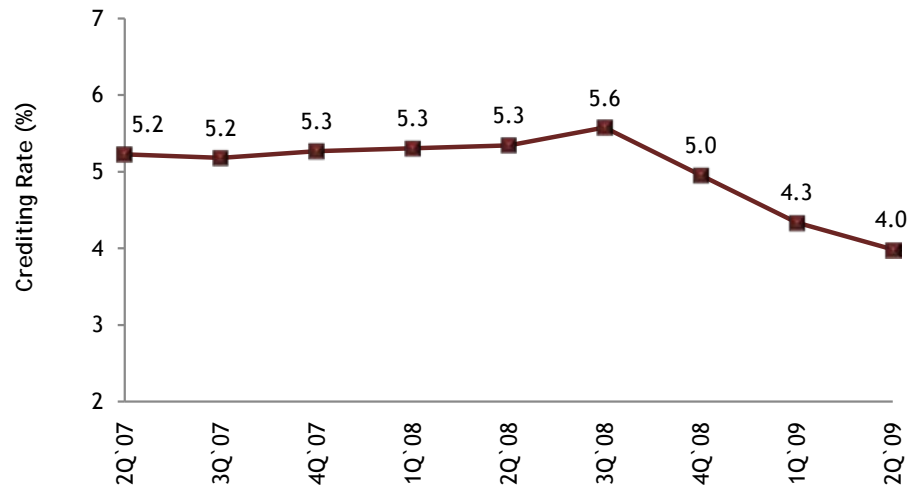
*Includes Stable Value Collective Funds, Receivables, and Payables

**Total % of portfolio may not add to 100% due to rounding

Stable Value Fund Review

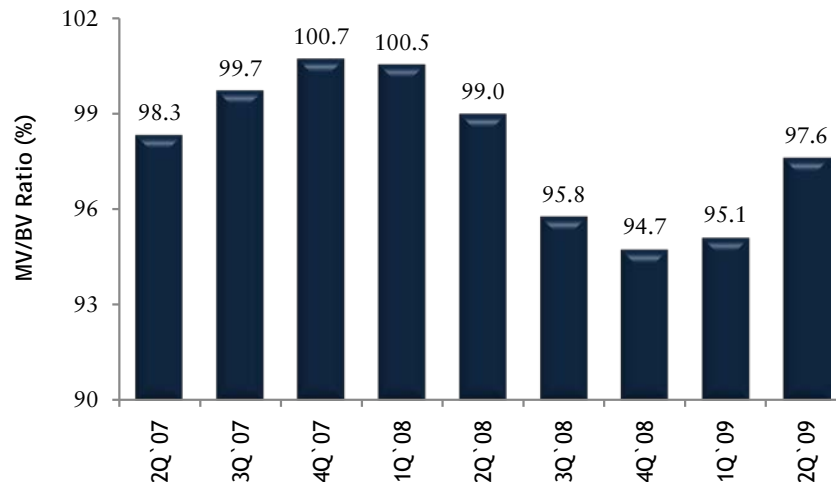
Second Quarter 2009

Historical Crediting Rates*

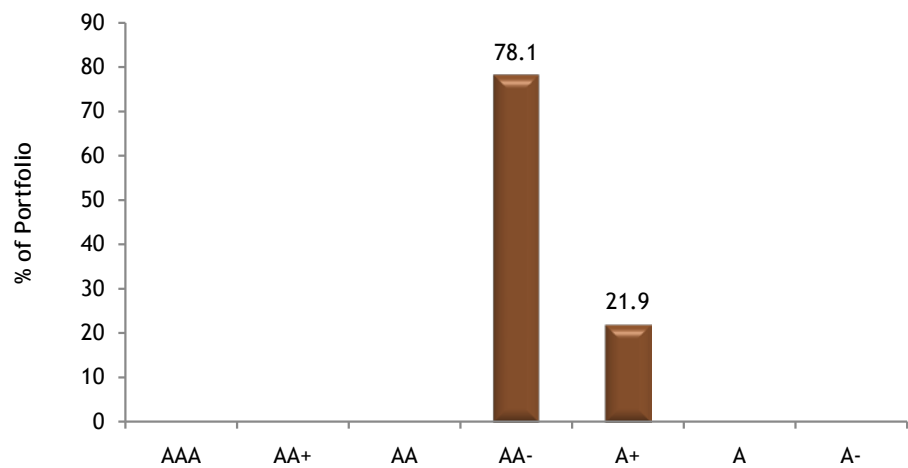


*As of quarter end. Before fees.

Market Value to Book Value Ratio

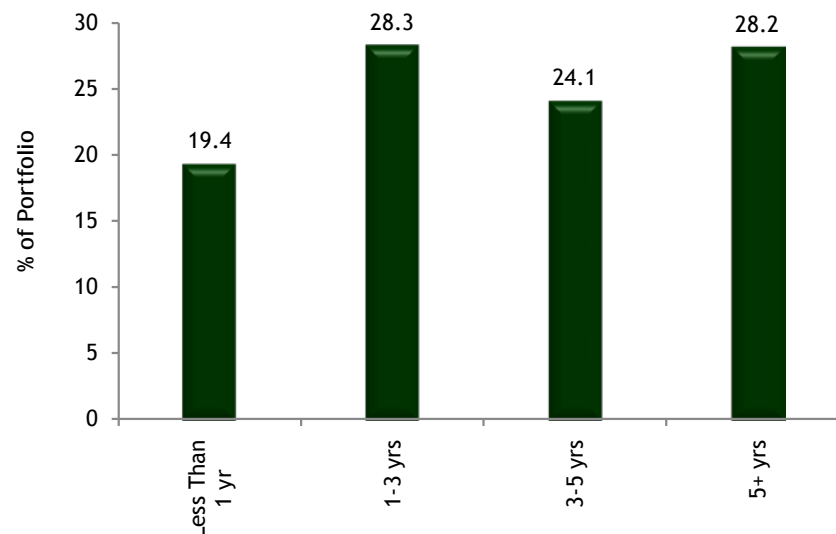


Contract Quality Distribution*



*Total % of portfolio may not add to 100% due to rounding

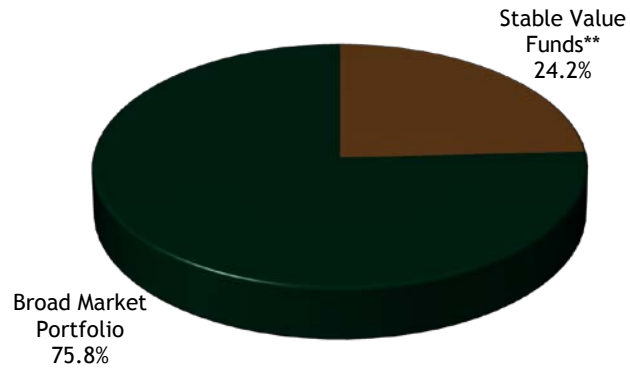
Duration Distribution*



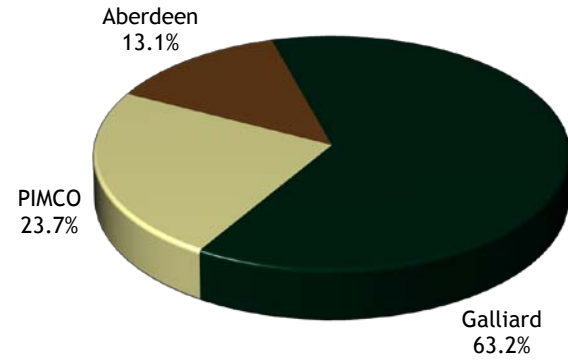
Stable Value Fund Review

Second Quarter 2009

Portfolio Distribution*



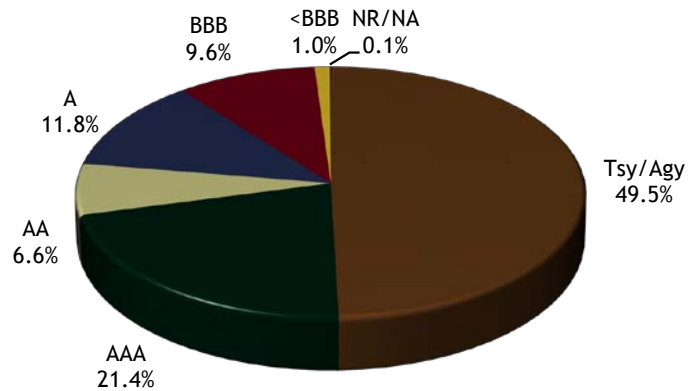
Manager Distribution*



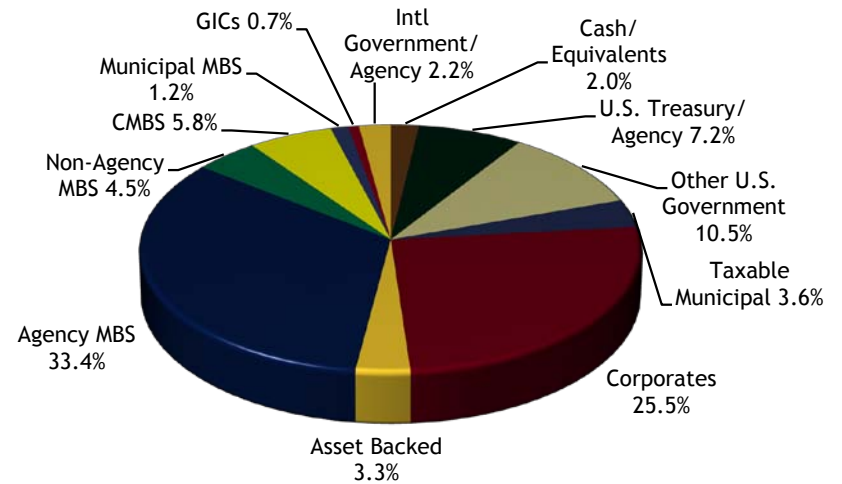
*Book value

**Includes Stable Value Collective Funds, Receivables, and Payables

Underlying Fixed Income Credit Quality*



Underlying Fixed Income Asset Allocation*



*Market value. Total % of portfolio may not add to 100% due to rounding

Stable Value Fund Review

Historical Cashflows



| | <u>YTD</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--------------------------------------|------------|-------------|-------------|-------------|-------------|-------------|
| Beginning Assets | \$422.7 | \$373.1 | \$355.3 | \$323.6 | \$281.3 | \$236.7 |
| Net Cash Flow (\$) * | \$16.3 | \$29.1 | -\$0.3 | \$14.6 | \$27.4 | \$32.3 |
| Net Cash Flow (%) | 3.86% | 7.80% | -0.08% | 4.51% | 9.74% | 13.65% |
| Estimated Investment Earnings | \$8.8 | \$20.5 | \$18.1 | \$17.1 | \$14.9 | \$12.2 |
| Ending Assets** | \$447.8 | \$422.7 | \$373.1 | \$355.3 | \$323.6 | \$281.3 |

* Contributions, Withdrawals and Investment Transfers

**Cashflows may not net to final assets due to rounding

Stable Value Fund Review

Second Quarter 2009

Issuer Rating Summary

| | <u>S & P Rating</u> | | <u>Moody's Rating</u> | |
|---------------------------------|-------------------------|------------------|-----------------------|------------------|
| | <u>6/30/2009</u> | <u>3/31/2009</u> | <u>6/30/2009</u> | <u>3/31/2009</u> |
| J.P. Morgan Chase Bank N.A. | AA- | AA- | Aa1 | Aa1 |
| Monumental Life Ins. Co. | AA- | AA | A1 | A1 |
| Natixis Financial Products Inc. | A+ | A+ | Aa3 | Aa3 |

J.P. Morgan Chase Bank N.A.

- Largest US bank, systematically critical
- Sufficient capital levels; recently posted strong earnings
- Passed stress test, raised equity, paid back TARP

Monumental Life Ins. Co.

- Some exposure to problem investments
- Capital levels somewhat below average
- Parent (Aegon) received capital infusion from the Dutch government

Natixis Financial Products Inc.

- Parents merging (7/31/09) to create France's second largest retail bank
- Ratings significantly benefit from affiliation with parent companies
- Received capital from French government

State of Wisconsin Deferred Compensation Plan Portfolio Review
Portfolio Holdings

6/30/2009

| Security Description | Contract Value (\$) | % of Portfolio | Crediting Rate / Yield (%) | Maturity | Effective Duration (yrs) | Moody's Rating | S&P Rating |
|--|---------------------|----------------|----------------------------|-----------|--------------------------|----------------|------------|
| Money Market | | | | | | | |
| Cash Receivable / (Payable) | -257,919 | -0.1 | 3.05 | | 0.10 | Aaa | AAA |
| Total Money Market | -257,919 | -0.1 | 3.05 | | 0.10 | Aaa | AAA |
| Stable Value Funds | | | | | | | |
| Wells Fargo Stable Return Fund G | 108,815,802 | 24.3 | 3.05 | | 1.00 | Aa3 | AA- |
| Total Stable Value Funds | 108,815,802 | 24.3 | 3.05 | | 1.00 | Aa3 | AA- |
| Security Backed Contracts | | | | | | | |
| Broad Market Portfolio | | | | | | | |
| Natixis Financial Products Inc. | 98,135,883 | 21.9 | 4.29 | 9/30/2013 | 4.31 | Aa3 | A+ |
| J.P. Morgan Chase Bank N.A. | 120,553,889 | 26.9 | 4.28 | 9/30/2013 | 4.31 | Aa1 | AA- |
| Monumental Life Ins. Co. | 120,553,889 | 26.9 | 4.29 | 9/30/2013 | 4.31 | A1 | AA- |
| Total Broad Market Portfolio | 339,243,661 | 75.8 | 4.29 | | 4.31 | Aa3 | AA- |
| Total Security Backed Contracts | 339,243,661 | 75.8 | 4.29 | | 4.31 | Aa3 | AA- |
| Total Fund | 447,801,544 | 100.0 | 3.99 | | 3.51 | Aa3 | AA- |