

- Section I: Stable Value Overview
- Section II: Stable Value Market Update
- Section III: Portfolio Review

**Wisconsin Department of  
Employee Trust Funds**

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*Section I*

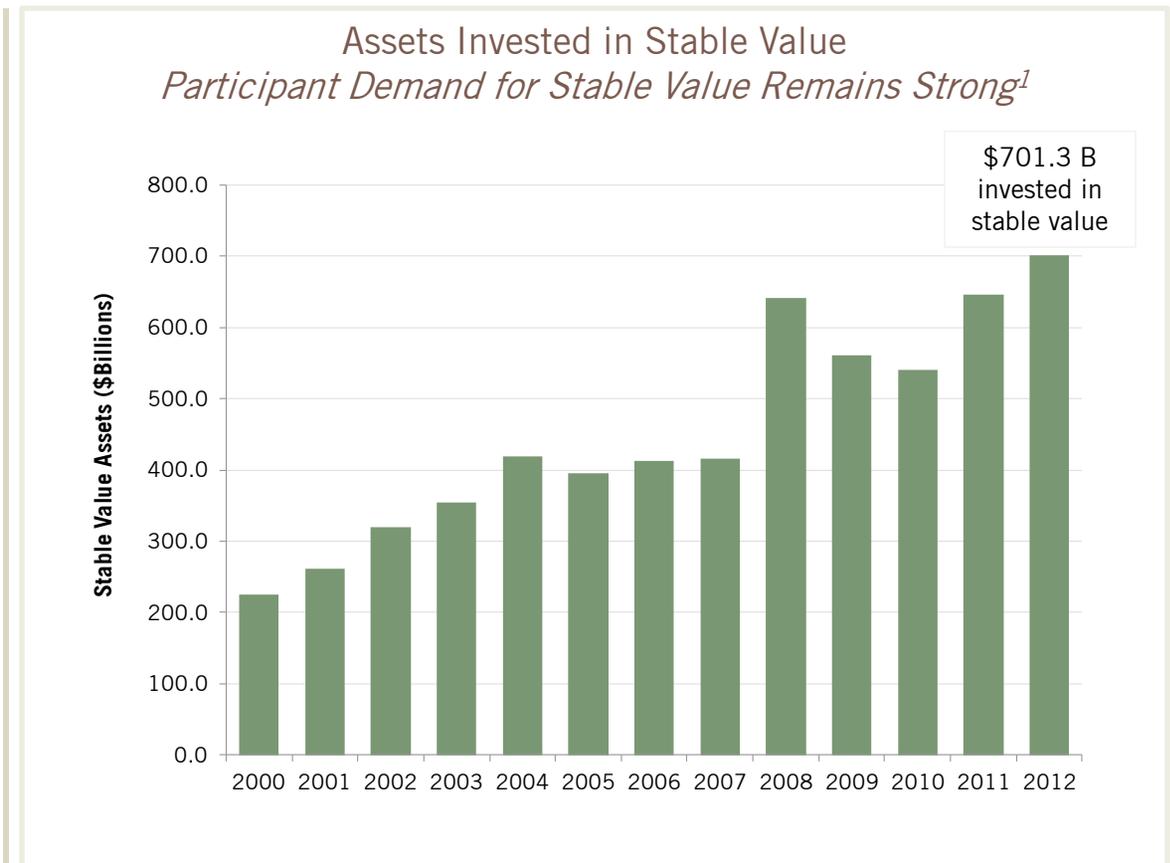
# Introduction to Stable Value Investing

## What is Stable Value?

### What is a Stable Value Product?

Introduced more than 30 years ago, stable value is a core investment option for 401(k) defined contribution plans, 403(b) retirement plans, and 457 deferred compensation plans.

- | Stable value is considered to be one of the lowest risk investment options available in retirement plans
- | Stable value seeks to produce, over time, higher returns than money market funds with less volatility than bond funds
- | Stable value may be appropriate for someone in or nearing retirement and/or seeking to safeguard principal or balance a portfolio having more aggressive investments

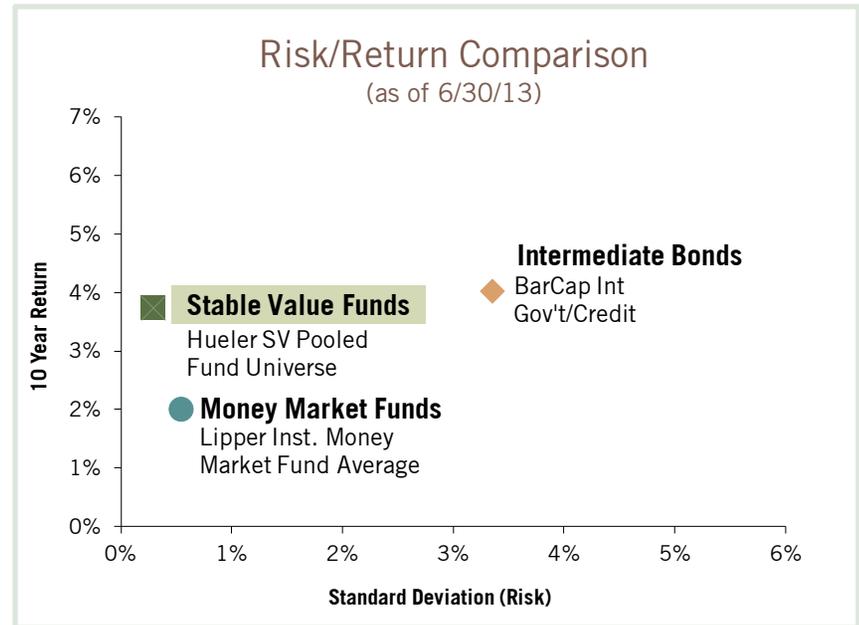
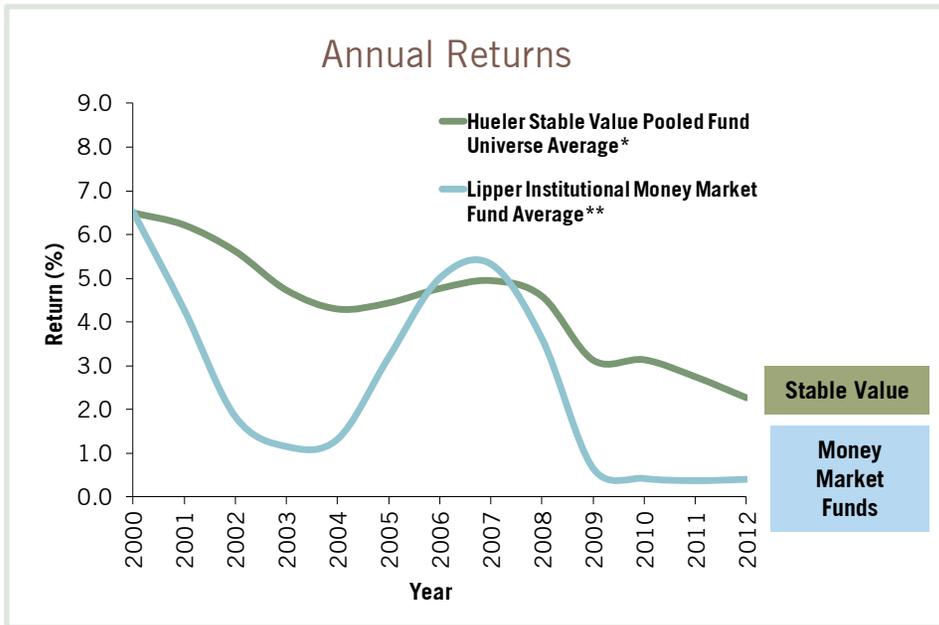


<sup>1</sup> Stable Value Investment Association. As of 12/31/12

# Introduction to Stable Value Investing

## Returns Versus Competing Options

### Investment Performance Comparison



Stable value funds have historically delivered a very attractive return pattern versus money market funds.

Stable Value funds offer bond-like returns with less volatility than money market funds.

\*As of 12/31/12, the Hueler Analytics Stable Value Pooled Fund Universe represented investment strategies of \$110.2 billion in stable value assets across 15 pooled funds. The universe reports performance before investment management fees. Source: Stable Value Investment Policy Survey Covering Stable Value Assets as of year end 2011.

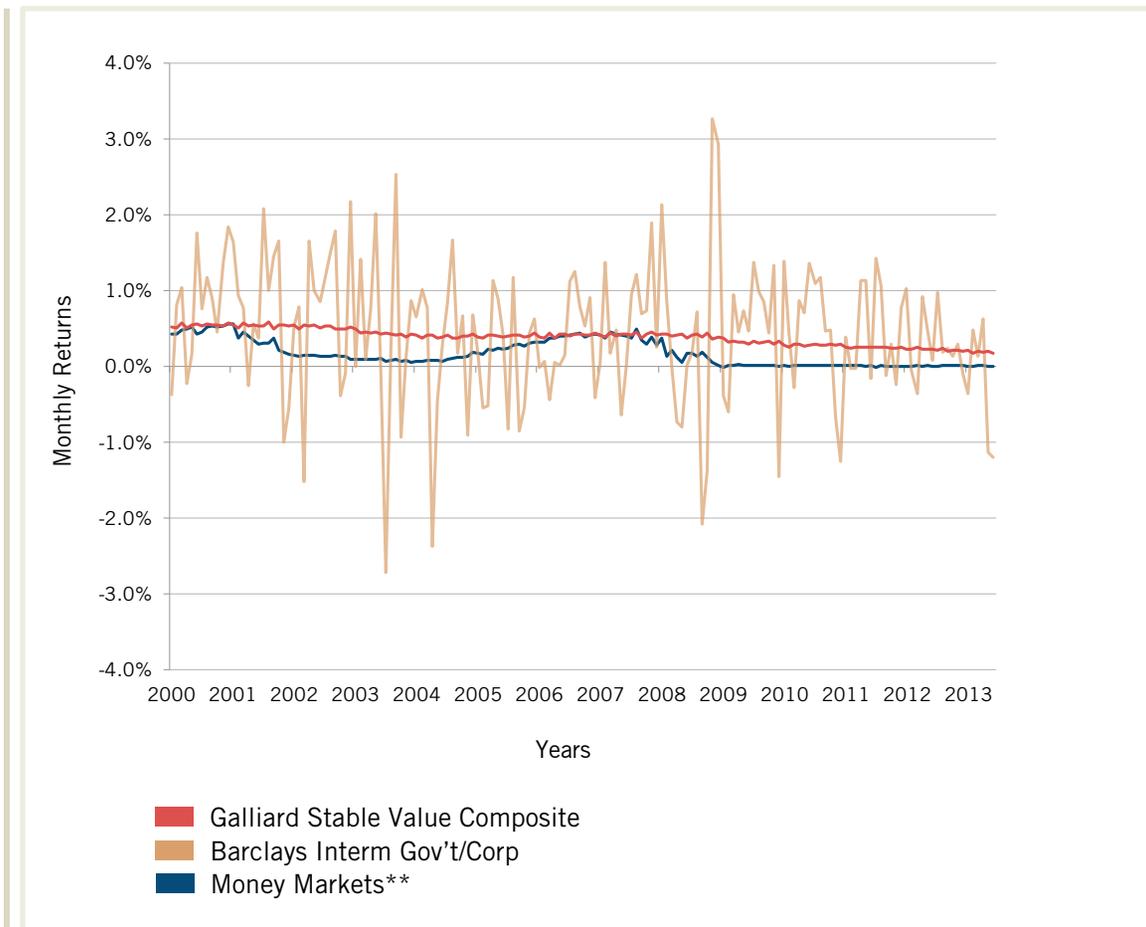
\*\*Lipper Institutional Money Market Fund performance has been increased by the average stable value fund fee of 35 basis points

# Introduction to Stable Value Investing

## Volatility Versus Competing Options

### Volatility of Return Comparison (as of 6/30/13)\*

Stable value portfolios have not experienced the monthly return volatility typical of like-duration fixed income products.



\*Source: Morningstar EnCorr

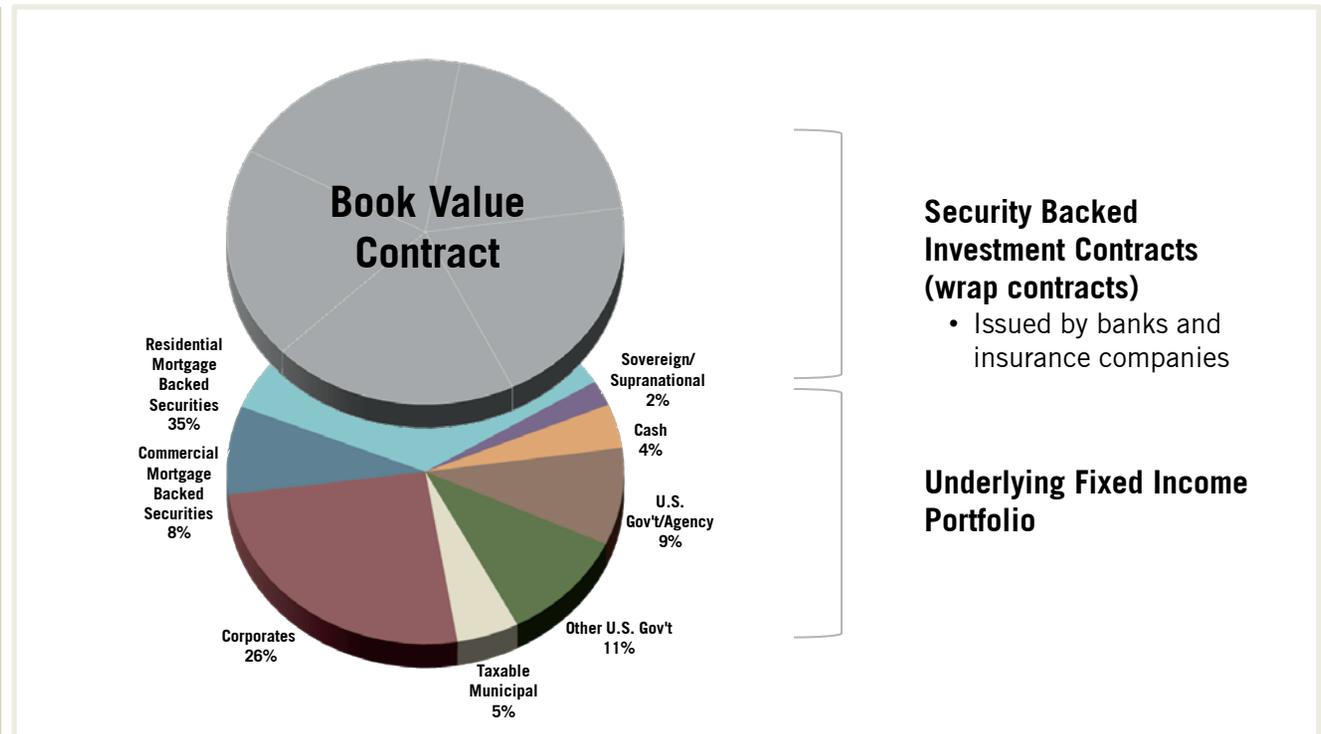
\*\* Barclays U.S. 1-3 Year Treasury Bill

# Introduction to Stable Value Investing

## Composition of Security Backed Investment Contracts

### Security Backed Investment Contract (Wrap Contract)

A fixed income bond portfolio combined with an investment contract issued from a bank or insurance company

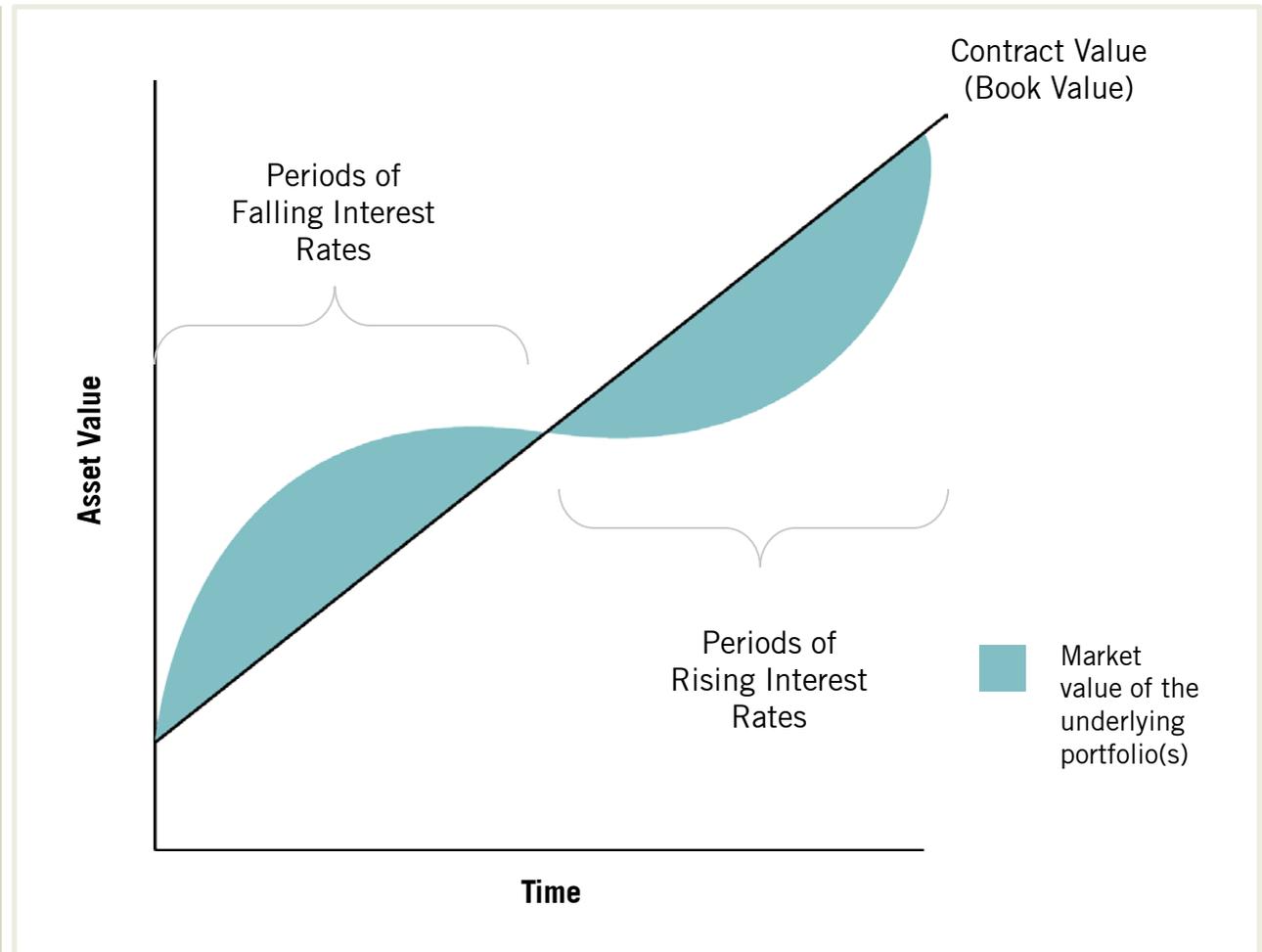


The Security Backed Investment Contract is designed to facilitate participants' ability to transact at book value (principal plus accrued interest)

# Mechanics of Stable Value Investing

## The Role of the Crediting Rate

Security backed investment contracts provide a relatively consistent return profile during periods of rising or falling interest rates. The contracts tend to smooth the impact of fluctuating interest rates and their effect on bond prices by amortizing the gains or losses over the duration of the portfolio.



Objective of Stable Value Investing: Minimize volatility (changes) in the Fund's yield, while protecting principal



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*Section II*

# Stable Value Market Update

## Wrap Capacity

### Wrap Market Update

- | Much improvement in wrap capacity with 18 providers currently in the market
- | Currently, predominantly insurance companies providing new capacity, some of which require affiliate investment management
- | Wrap capacity from Bank of America and Natixis (who are exiting) is actively being replaced by new entrants and providers increasing their capacity
- | Galliard has available capacity with new and existing providers and is actively on-boarding new entrants\*
  - Established providers increasing capacity
    - American General Life
    - ING
    - MetLife
    - New York Life
    - Prudential
    - Royal Bank of Canada
  - Recent entrants increasing capacity
    - Bank of Tokyo\*\*
    - Mass Mutual
    - Reinsurance Group of America
    - TIAA-CREF
  - Providers expected to enter in the coming year
    - Lincoln Financial\*\*
    - Nationwide Life

### Galliard continues to successfully transition Stable Value Portfolios in this environment:

- | Generated over \$32 billion in new wrap capacity since 2008
- | Galliard has available capacity with new and existing providers and is continually active in on-boarding new providers for additional capacity
- | Galliard continues to generate capacity through customized solutions

Galliard's conservative approach, proven track record and strong relationships within the wrap market have allowed us to deliver client solutions in a challenging market

\*As of 6/30/13

\*\* Pending Galliard approval

## Stable Value Market Update

### Galliard Wrap Issuer Summary

#### As of September 2013:

Name	Accepting Deposits from New Clients*	Accepting Deposits from Existing Clients*	Contract Type**	Asset Management***	S&P Credit Rating	Moody's Credit Rating
American General Life	Yes	Yes	SBIC	Galliard	A+	A2
ING Life Ins. and Annuity Co.	Yes	Yes	SBIC	Galliard, ING, PIMCO, Dodge & Cox	A-	A3
MassMutual Life Ins. Co.	Yes	Yes	SAGIC	Babson	AA+	Aa2
Metropolitan Life Ins. Co.	Yes	Yes	SAGIC	Galliard, PIMCO	AA-	Aa3
Monumental Life Ins. Co.	Yes	Yes	SBIC	Galliard, PIMCO, Dodge & Cox	AA-	A1
New York Life	Yes	Yes	SBIC & SAGIC	New York Life	AA+	Aaa
Prudential Life Ins. Co	Yes	Yes	SBIC	Galliard, Prudential, Jennison	AA-	A1
RGA Reinsurance Company	Yes	Yes	SBIC	Galliard	AA-	A1
Royal Bank of Canada	Yes	Yes	SBIC	Galliard	AA-	Aa3
TIAA-CREF	Yes	Yes	SAGIC	TIAA-CREF	AA+	Aaa
State Street Bank and Trust Co.	No	No	SBIC	Galliard, PIMCO	AA-	Aa2
Pacific Life Ins. Co.	No	No	SBIC	Galliard, PIMCO	A+	A1
United of Omaha	No	No	SBIC	Galliard	A+	A1
Bank of America, N.A. - <i>exiting</i>	No	No	SBIC	Galliard	A	A3
Natixis Financial Products, Inc. - <i>exiting</i>	No	No	SBIC	Galliard, PIMCO	A	A2

\*Providers accepting deposits on a case by case basis

\*\* Security Backed Investment Contract (SBIC) or Separate Account GIC (SAGIC)

\*\*\*Within Galliard Strategies



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*Section III*

# State of Wisconsin Deferred Compensation Program

Third Quarter 2013

<b>Galliard Inception Date</b>	July 1, 1998	
<b>Investment Objective</b>	To maintain safety of principal and a stable crediting rate, while generating a competitive return.	
<b>Benchmark</b>	5 Year Constant Maturity Treasury Yield	
<b>Stable Value Portfolio Components</b>	<u>Components</u>	<u>Allocation Range</u>
	<b>Stable Value Funds</b>	5-50%
	- Wells Fargo Stable Return Fund	
	<b>Managed Synthetics</b>	50-95%
<b>Key Portfolio Guidelines</b>		
<b>Portfolio Duration</b>	3.0 Years ± 1 year	
<b>Minimum Portfolio Quality</b>	A (contract level)/AA- (underlying portfolio level)	
<b>Minimum Issuer Quality</b>	A- (contract level) at time of purchase	

# Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Third Quarter 2013

## Annualized Investment Performance\*

*Periods Ending September 30, 2013*

	<u>3Q'13</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>
<b>Portfolio (before inv. Mgmt. fees)</b>	0.53	1.76	2.44	2.97	3.57	4.43
<b>Portfolio (net of inv. Mgmt. fees)</b>	0.49	1.64	2.27	2.79	3.39	4.24
<b>5 Year Constant Maturity Treasury Yield</b>	0.37	0.81	0.99	1.15	1.55	2.73

## Calendar Year Performance

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Portfolio (before inv. Mgmt. fees)</b>	2.81	3.31	4.13	4.50	5.44
<b>Portfolio (net of inv. Mgmt. fees)</b>	2.63	3.13	3.93	4.32	5.26
<b>5 Year Constant Maturity Treasury Yield</b>	0.76	1.52	1.93	2.19	2.79

### *Market Indices*

<b>Merrill Lynch 3 Mo. T-Bill</b>	0.11	0.10	0.13	0.21	2.06
<b>Consumer Price Index</b>	2.26	2.96	1.50	2.72	0.09

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

# Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Third Quarter 2013

## Portfolio Characteristics

Total Assets	\$617,396,049	Blended Yield (Before fees)*	1.95%
Average Holdings Quality**	A1/A+	Effective Duration	2.69 years
Number of Contract Issuers	4	Market/Book Value Ratio	101.36%

\*Blended yield is before investment management fees and after wrap fees.

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the contracts and cash held by the portfolio as rated by S&P and Moody's.

## Sector Distribution

<u>Portfolio Distribution</u>	<u>Contract Value (\$)</u>	<u>% of Portfolio</u> <u>09/30/2013</u>	<u>% of Portfolio</u> <u>06/30/2013</u>
Money Market*	38,453,699	6.2	3.7
Stable Value Funds	59,083,097	9.6	9.8
Security Backed Contracts	519,859,253	84.2	86.4
Short Portfolio	229,959,452	37.2	38.6
Intermediate Portfolio	289,899,800	47.0	47.8
<b>Total</b>	<b>\$617,396,049</b>	<b>100.0%**</b>	<b>100.0%**</b>

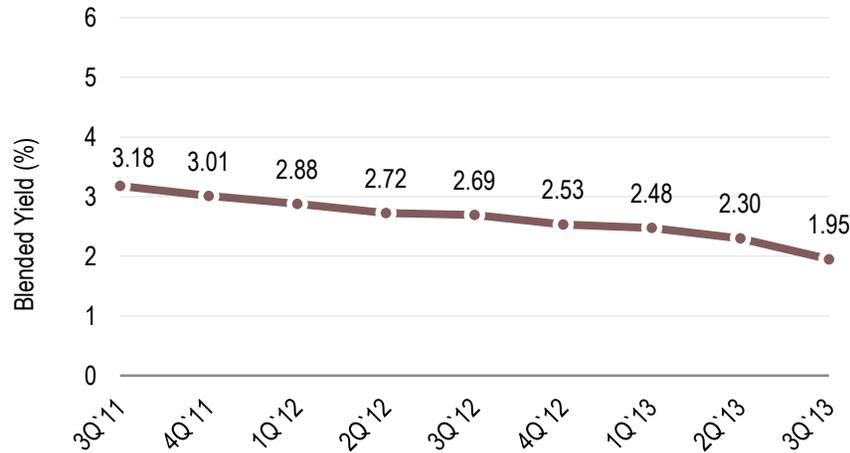
\*Includes Receivables and Payables

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

# Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

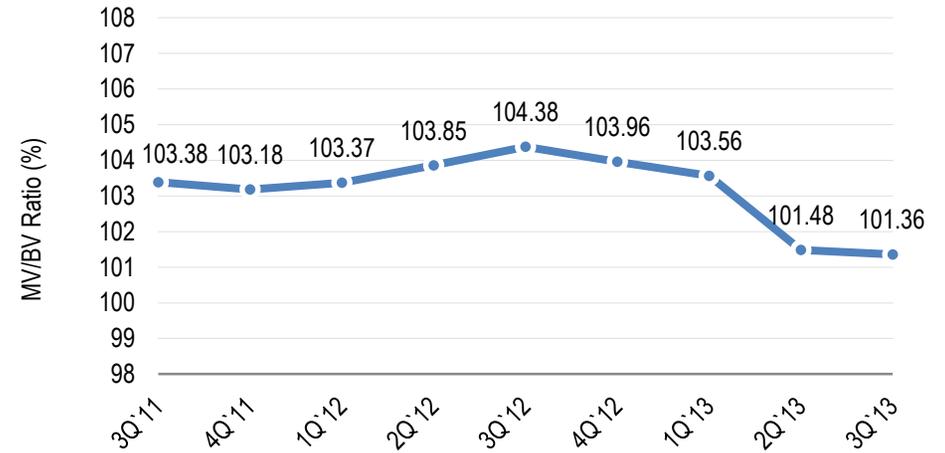
Third Quarter 2013

Historical Blended Yield\*

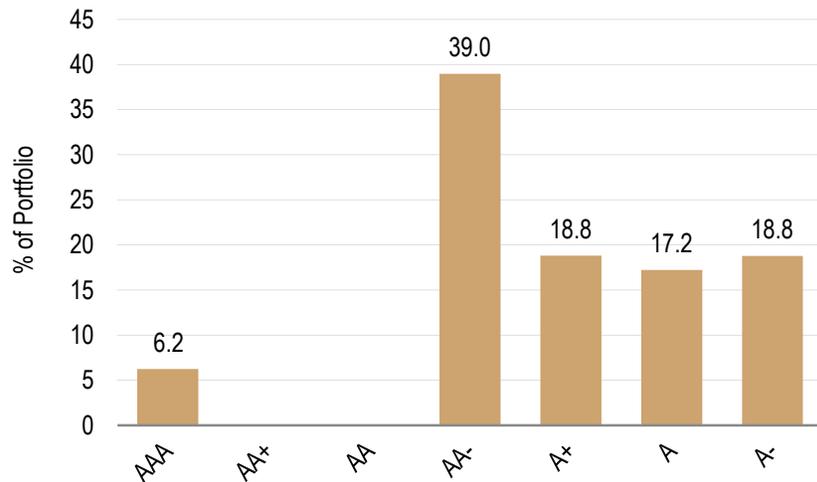


\*As of quarter end. Blended yield is before investment management fees and after wrap fees.

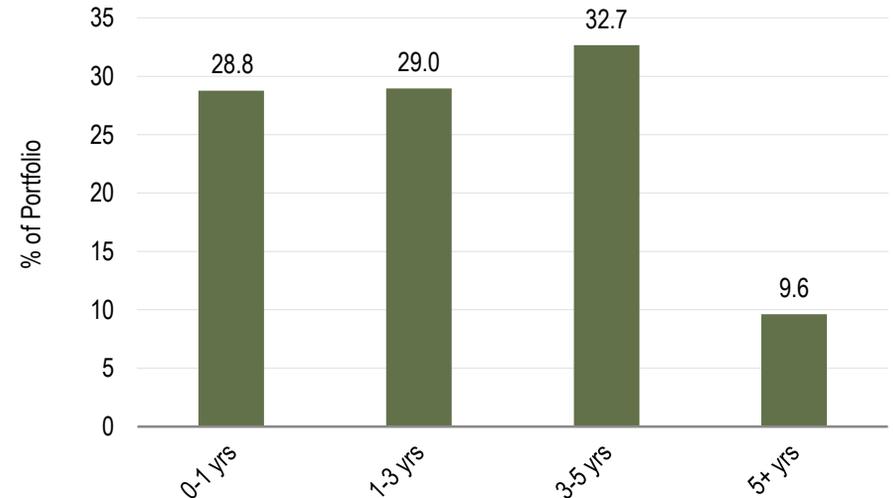
Market Value to Book Value Ratio\*



Contract Quality Distribution\*



Underlying Duration Distribution\*\*



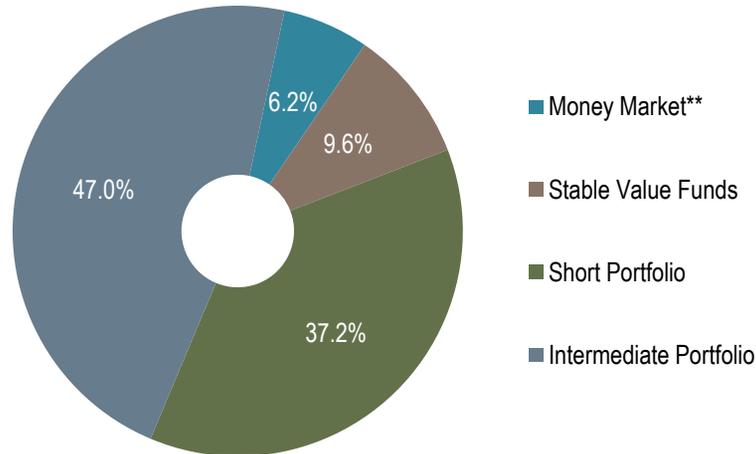
\*Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

\*\*Total % of portfolio may not add to 100% due to rounding. Duration distribution of the externally managed portfolios is provided by the external manager.

# Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Third Quarter 2013

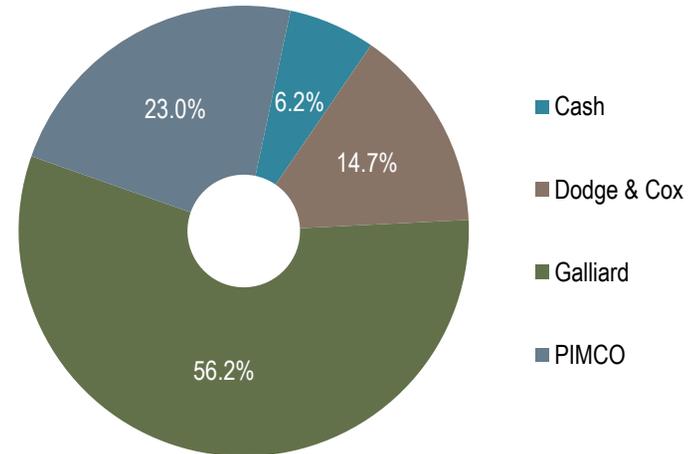
Portfolio Distribution\*



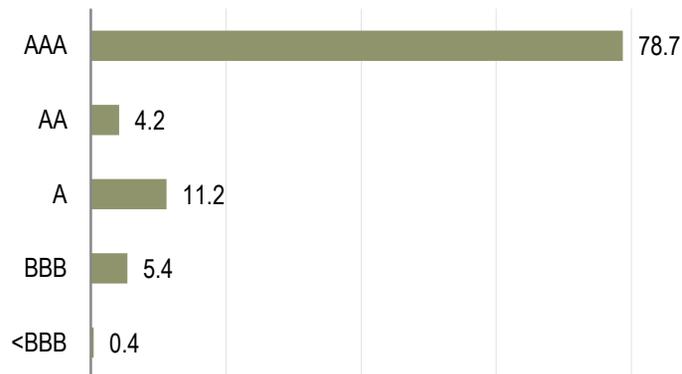
\*Book value

\*\*Includes Receivables and Payables

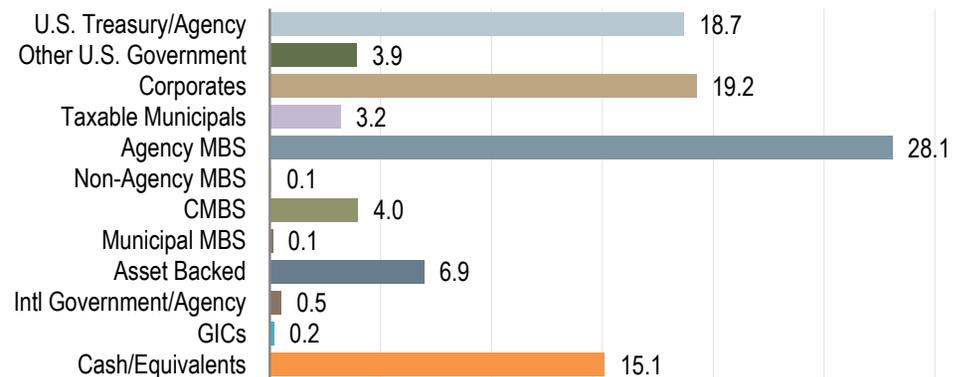
Manager Distribution\*



Underlying Fixed Income Credit Quality\*



Underlying Fixed Income Asset Allocation\*\*



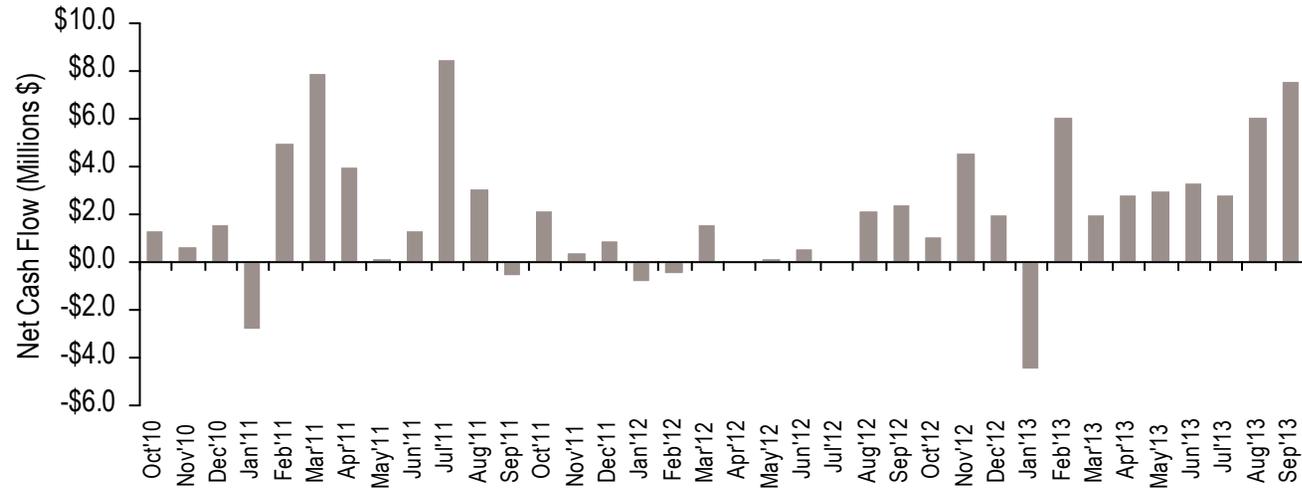
\*Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology

\*\*Market value. Total % of portfolio may not add to 100% due to rounding. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology.

# Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Third Quarter 2013

## Historical Cashflows



	YTD	2012	2011	2010	2009
Beginning Assets	\$578.7	\$550.5	\$504.0	\$463.6	\$422.7
Net Cash Flow (\$)*	\$29.1	\$13.6	\$30.2	\$21.8	\$22.0
Net Cash Flow (%)	5.03%	2.47%	5.99%	4.70%	5.20%
Estimated Investment Earnings	\$9.6	\$14.6	\$16.3	\$18.7	\$18.9
Ending Assets**	\$617.4	\$578.7	\$550.5	\$504.0	\$463.6

\* Contributions, Withdrawals and Investment Transfers

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

# Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Third Quarter 2013

## Issuer Rating Summary

	<u>S &amp; P Rating</u>		<u>Moody's Rating</u>	
	<u>9/30/2013</u>	<u>6/30/2013</u>	<u>9/30/2013</u>	<u>6/30/2013</u>
ING Life Ins. and Annuity Co.	A-	A-	A3	A3
Monumental Life Ins. Co.	AA-	AA-	A1	A1
Natixis Financial Products Inc.	A	A	A2	A2
Prudential Ins. Co. of America	AA-	AA-	A1	A2

### ING Life Ins. and Annuity Co.

- Stability is expected in the operating results and credit quality ratings over the near term
- Over 27% of equity is now publically held, also taking steps to accelerate the spin off timeline
- Capital levels modestly improved in the first half of 2013

### Monumental Life Ins. Co.

- Capital levels remain below average, but solid earnings in 2Q13 more than offset the 1Q13 dividends
- Investment performance volatile
- Part of a large diverse insurance group

### Natixis Financial Products Inc.

- Earnings are much improved from the financial crises but are now under pressure again along with asset quality. Capital levels remain pretty healthy with an estimated Basel III Tier 1 common ratio of 9.7%
- After downgrades in 2012, Natixis is now rated A2/A (stable/stable); credit ratings continue to reflect support from parent Groupe BPCE
- Recent sale of its ownership in the BPCE Group's two retail banks provided incremental capital, but removed a stable source of on-going earnings

### Prudential Ins. Co. of America

- A leading diversified U.S. life insurer
- Surplus continues to show solid growth
- Higher than industry average investment risk with exposure to commercial real estate, non-Agency CMOs, equities and high yield bonds

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For institutional investors only.

# State of Wisconsin Deferred Compensation Program Portfolio Review

## Transaction Report

07/01/2013 - 09/30/2013

Asset ID	Issuer	Par Amount	Maturity*	Trade Date	Settle Date	S&P Rating	Moody's Rating
<b>Purchases</b>							
<b>Security Backed Contracts</b>							
<b>Intermediate Portfolio</b>							
600996CB6	Monumental Life Ins. Co.	4,000,000	N.S.M.	09/03/2013	09/03/2013	AA-	A1
600996CC4	Monumental Life Ins. Co.	53,182,359	N.S.M.	09/03/2013	09/03/2013	AA-	A1
<b>Total Intermediate Portfolio</b>		<b>57,182,359</b>					
<b>Total Security Backed Contracts</b>		<b>57,182,359</b>					
<b>Total Purchases</b>		<b>57,182,359</b>					
<b>Sales</b>							
<b>Security Backed Contracts</b>							
<b>Intermediate Portfolio</b>							
600996CD2	Monumental Life Ins. Co.	57,182,359	N.S.M.	09/03/2013	09/03/2013	AA-	A1
<b>Total Intermediate Portfolio</b>		<b>57,182,359</b>					
<b>Total Security Backed Contracts</b>		<b>57,182,359</b>					
<b>Total Sales</b>		<b>57,182,359</b>					

\*N.S.M. = No Stated Maturity

# State of Wisconsin Deferred Compensation Program Portfolio Review

## Portfolio Holdings

September 30, 2013

Asset ID	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Yield (%)	Maturity*	Effective Duration (yrs)	S&P Rating	Moody's Rating	Wrap Fee (bps)
<b>Money Market</b>												
FUNDAVAIL	Cash Receivable / (Payable)		-375,916	-375,916	100.0	-0.1	0.20		0.10	AAA	Aaa	
9983008\$P	WF Short Term Investment Fund S		38,829,615	38,829,615	100.0	6.3	0.20		0.10	AAA	Aaa	
<b>Total Money Market</b>			<b>38,453,699</b>	<b>38,453,699</b>	<b>100.0</b>	<b>6.2</b>	<b>0.20</b>		<b>0.10</b>	<b>AAA</b>	<b>Aaa</b>	
<b>Stable Value Funds</b>												
949907109	Wells Fargo Stable Return Fund G		59,083,097	59,083,097	100.0	9.6	1.62		2.23	AA	Aa3	
<b>Total Stable Value Funds</b>			<b>59,083,097</b>	<b>59,083,097</b>	<b>100.0</b>	<b>9.6</b>	<b>1.62</b>		<b>2.23</b>	<b>AA</b>	<b>Aa3</b>	
<b>Security Backed Contracts</b>												
<b>Short Portfolio</b>												
75999UNG9	ING Life Ins. and Annuity Co.	Galliard	65,230,852	66,034,667	101.2	10.6	1.90	N.S.M.	2.02	A-	A3	20.0
149993PY7	Natixis Financial Products Inc.	Galliard	106,413,228	106,870,169	100.4	17.2	1.37	N.S.M.	2.02	A	A2	21.0
744999ZU0	Prudential Ins. Co. of America	Galliard	58,315,372	59,203,401	101.5	9.4	2.12	N.S.M.	2.02	AA-	A1	20.0
<b>Total Short Portfolio</b>			<b>229,959,452</b>	<b>232,108,237</b>	<b>100.9</b>	<b>37.2</b>	<b>1.71</b>		<b>2.02</b>	<b>A</b>	<b>A2</b>	
<b>Intermediate Portfolio</b>												
75999UNG9	ING Life Ins. and Annuity Co.	PIMCO	50,772,746	51,398,400	101.2	8.2	1.90	N.S.M.	3.87	A-	A3	20.0
600996CB6	Monumental Life Ins. Co.	Dodge & Cox	90,471,621	92,823,783	102.6	14.7	2.91	N.S.M.	3.24	AA-	A1	20.7
600996CC4	Monumental Life Ins. Co.	PIMCO	90,938,099	93,302,979	102.6	14.7	2.46	N.S.M.	3.87	AA-	A1	20.0
744999ZU0	Prudential Ins. Co. of America	Galliard	57,717,335	58,596,256	101.5	9.3	2.12	N.S.M.	3.79	AA-	A1	20.0
<b>Total Intermediate Portfolio</b>			<b>289,899,800</b>	<b>296,121,418</b>	<b>102.1</b>	<b>47.0</b>	<b>2.44</b>		<b>3.66</b>	<b>A+</b>	<b>A1</b>	
<b>Total Security Backed Contracts</b>			<b>519,859,253</b>	<b>528,229,655</b>	<b>101.6</b>	<b>84.2</b>	<b>2.11</b>		<b>2.93</b>	<b>A+</b>	<b>A2</b>	
<b>Total Fund</b>			<b>617,396,049</b>	<b>625,766,451</b>	<b>101.4</b>	<b>100.0</b>	<b>1.95</b>		<b>2.69</b>	<b>A+</b>	<b>A1</b>	

\*N.S.M. = No Stated Maturity

## Appendix - State of Wisconsin Deferred Compensation Program

Third Quarter 2013

### Total Annual Fund Operating Expenses

Total Annual Operating Expenses are deducted directly from the Fund's net asset value and reduce the rate of return of the investment option.

Expense	Expense Ratio 9/30/13	Per \$1000
Galliard Investment Management Fees	0.092%	\$0.92
Subadvisor Management Fees	None	None
Investment Contract Fees*	0.171%	\$1.71
Acquired Fund Fees and Other Subadvisor Investment Management Expenses	0.095%	\$0.95
-Investment Contract Fees	0.016%	\$0.16
-Other Acquired Fund Fees and Subadvisor Investment Management Expenses	0.078%	\$0.78
12b-1 Distribution Fee	None	None
Other Expenses	None	None
<b>Total Annual Fund Operating Expense**</b>	<b>0.358%</b>	<b>\$3.58</b>

\*Changes have occurred to the fee schedule structure since the prior period and have been previously communicated. Please contact your Galliard representative if you have additional questions.

\*\*Total Annual Fund Operating Expense will be reflected in the Fund's net asset value.

# Galliard Capital Management

## Fixed Income and Stable Value Specialists



### Fixed Income and Stable Value Specialists

- | Currently managing \$85.5 Billion
- | 101 professionals on staff<sup>^</sup>
- | Second largest stable value manager\*
- | Ranked 26<sup>th</sup> in overall institutional assets \*\*
- | Ranked 13<sup>th</sup> largest active domestic fixed income manager \*
- | Ranked 12<sup>th</sup> largest defined contribution manager \*\*
- | Ranked 71<sup>st</sup> total worldwide institutional assets under management \*\*

<sup>^</sup> Number of employees as of October 21, 2013

\* *Pensions & Investments*, Largest Money Managers Report, May 28, 2012. The ranking is based on U.S. Institutional, tax-exempt assets in millions, as of December 31, 2011.

\*\* *Pensions & Investments*, Largest Money Managers Report, May 27, 2013. The ranking is based on U.S. Institutional, tax-exempt assets managed internally in millions, as of December 31, 2012.

Our client focus and organizational stability have been the key to our long term success