

Portfolio Review For:

State of Wisconsin Deferred Compensation Program

Third Quarter 2015



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GALLIARD
CAPITAL MANAGEMENT, INC.

Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Third Quarter 2015

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The information contained in this report is for informational purposes only. It is intended to provide a summary of portfolio performance and characteristics, and an accounting based view of transactions and holdings. This is a standardized report and is not intended to be used for compliance purposes. Individual portfolio compliance requirements may not be captured in this report.



Section I

State of Wisconsin Deferred Compensation Program

Third Quarter 2015

Galliard Inception Date	July 1, 1998						
Investment Objective	To provide 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>Allocation Range</u></th></tr></thead><tbody><tr><td>Cash Equivalents & Buffer Fund</td><td>5-50%</td></tr><tr><td>Managed Synthetics</td><td>50-95%</td></tr></tbody></table>	<u>Components</u>	<u>Allocation Range</u>	Cash Equivalents & Buffer Fund	5-50%	Managed Synthetics	50-95%
<u>Components</u>	<u>Allocation Range</u>						
Cash Equivalents & Buffer Fund	5-50%						
Managed Synthetics	50-95%						
Key Portfolio Guidelines							
Portfolio Duration	3.0 Years \pm 1 year						
Minimum Portfolio Quality	A (contract level)/AA- (underlying portfolio level)						
Minimum Issuer Quality	A- (contract level) at time of purchase						

Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

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Annualized Investment Performance*

Periods Ending September 30, 2015

	<u>3Q'15</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)**	0.52	1.49	1.98	2.11	2.56	3.78
Portfolio (net of inv. Mgmt. fees)***	0.48	1.36	1.80	1.94	2.39	3.60
5 Year Constant Maturity Treasury	0.39	1.13	1.53	1.37	1.32	2.32

Calendar Year Performance

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Portfolio (before inv. Mgmt. fees)**	1.91	2.27	2.81	3.31	4.13
Portfolio (net of inv. Mgmt. fees)***	1.73	2.10	2.63	3.13	3.93
5 Year Constant Maturity Treasury	1.64	1.17	0.76	1.52	1.93

Market Indices

Merrill Lynch 3 Mo. T-Bill	0.03	0.07	0.11	0.10	0.13
Consumer Price Index	0.76	1.51	1.74	2.96	1.50

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

** Returns are net of book value contract fees only.

*** Returns are net of book value contract, Galliard investment management fees, and, if applicable, external manager fees and Wells Fargo collective fund administrative fees.

Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

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Portfolio Characteristics

Total Assets	\$599,162,047	Blended Yield (Before fees)*	2.00%
Average Holdings Quality**	A1/A+	Effective Duration	2.68 years
Number of Contract Issuers	5	Market/Book Value Ratio	101.30%

*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>09/30/2015</u>	<u>% of Portfolio</u> <u>06/30/2015</u>
Cash & Equivalents*	7,770,643	1.3	1.9
Stable Value Funds	43,064,802	7.2	7.2
Security Backed Investment Contracts	548,326,602	91.5	91.0
Short Portfolio	278,863,931	46.5	46.3
Intermediate Portfolio	269,462,672	45.0	44.6
Total	\$599,162,047	100.0%**	100.0%**

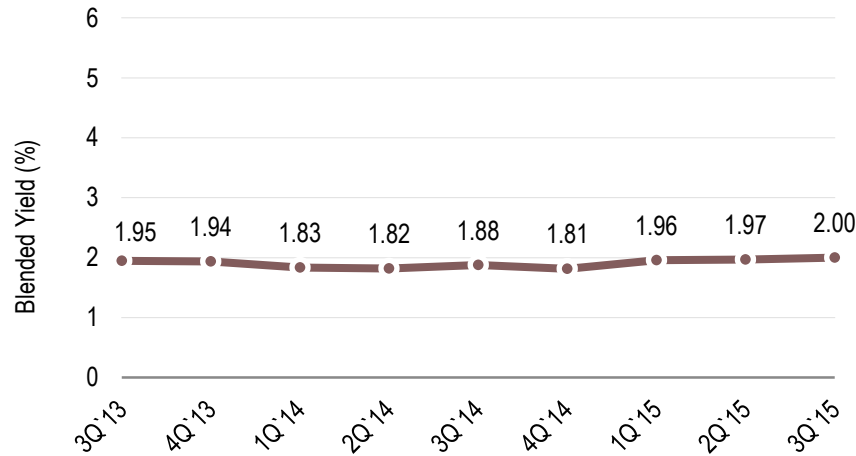
*Includes Receivables and Payables

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

Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

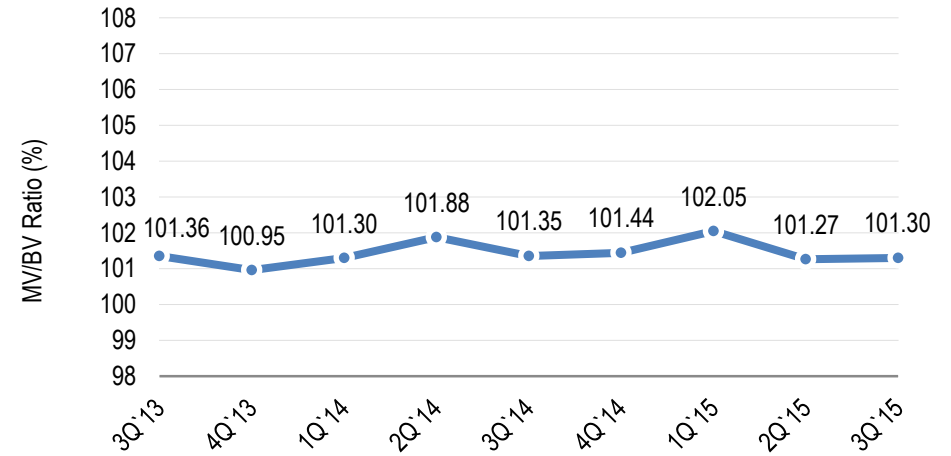
Third Quarter 2015

Historical Blended Yield*

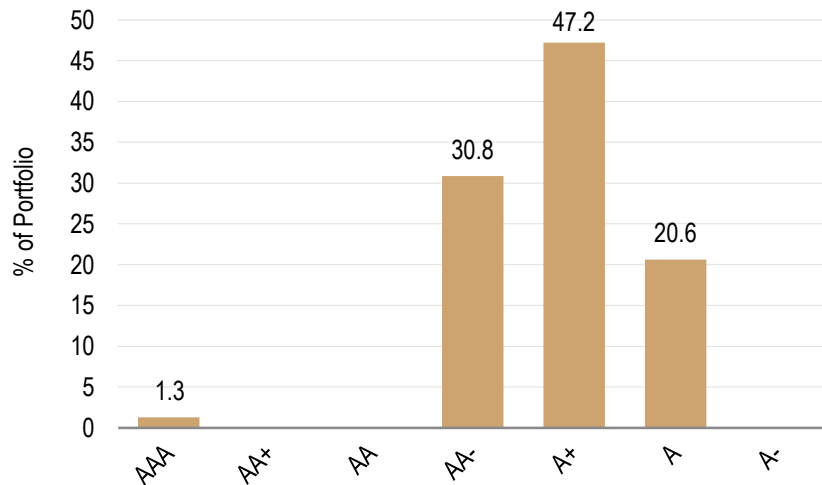


*As of quarter end. Blended yield is before investment management fees and after wrap fees.

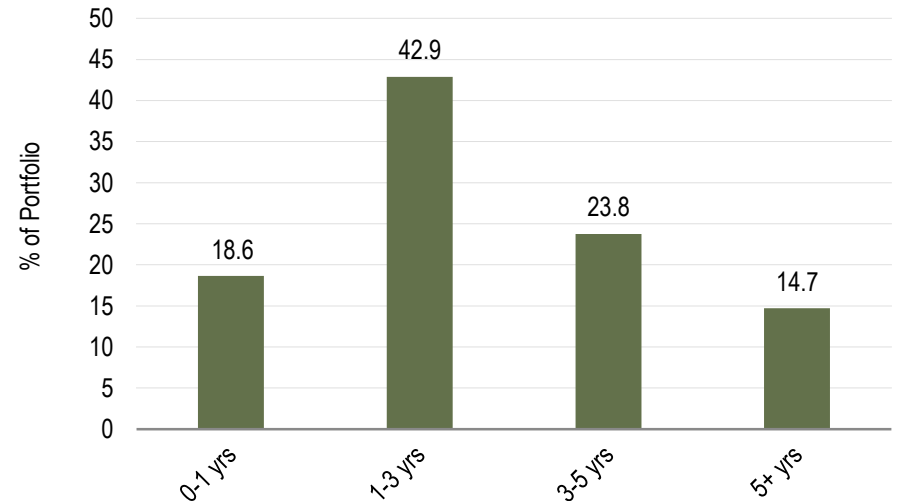
Market Value to Book Value Ratio*



Contract Quality Distribution*



Underlying Duration Distribution**



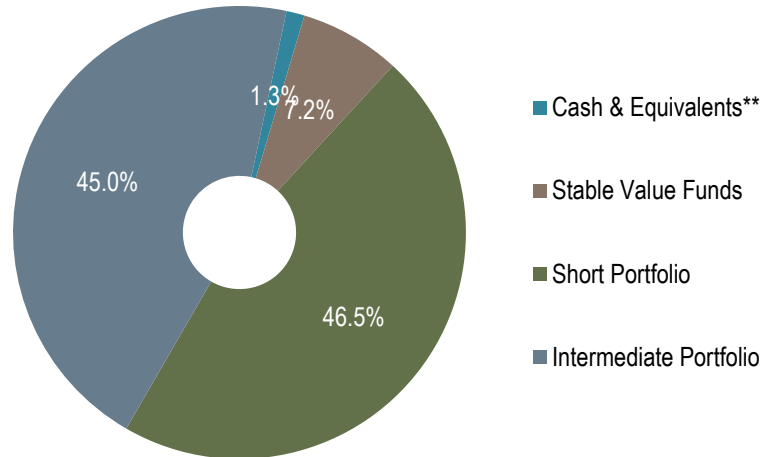
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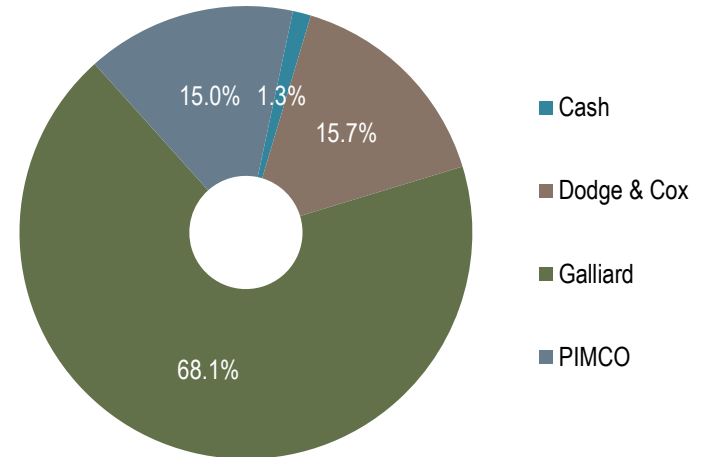
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Portfolio Distribution*



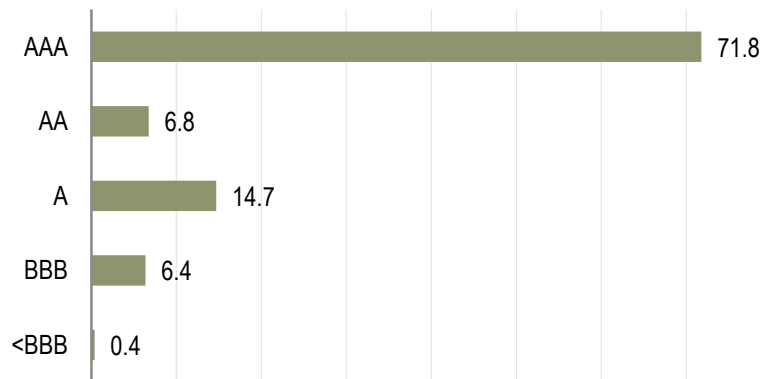
Manager Distribution*



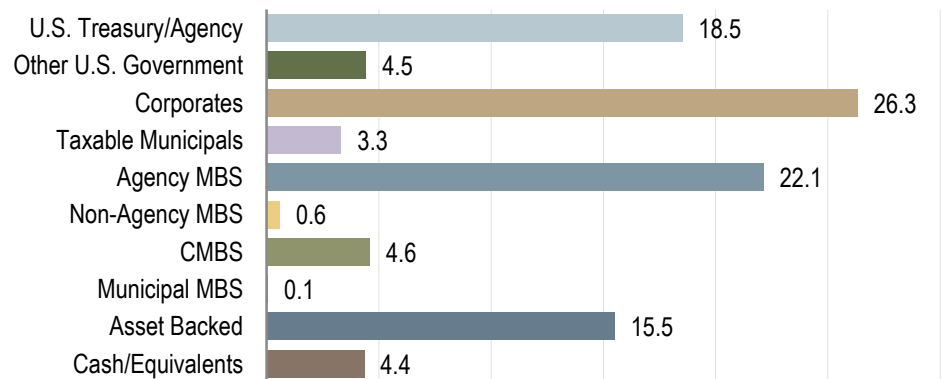
*Book value

**Includes Receivables and Payables

Underlying Fixed Income Credit Quality*



Underlying Fixed Income Asset Allocation**



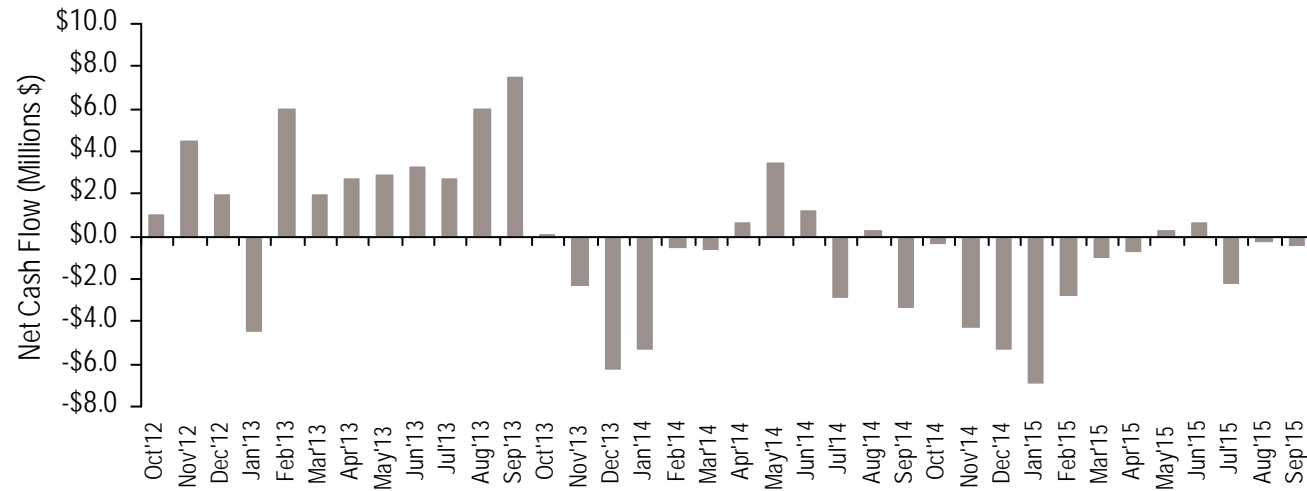
*Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers 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 for maximum comparability across managers.

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Historical Cashflows



	YTD	2014	2013	2012	2011
Beginning Assets	\$605.0	\$611.7	\$578.7	\$550.5	\$504.0
Net Cash Flow (\$)*	-\$13.9	-\$17.2	\$20.6	\$13.6	\$30.2
Net Cash Flow (%)	-2.30%	-2.81%	3.56%	2.47%	5.99%
Estimated Investment Earnings	\$8.1	\$10.5	\$12.4	\$14.6	\$16.3
Ending Assets**	\$599.2	\$605.0	\$611.7	\$578.7	\$550.5

* 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 2015

Issuer Rating Summary

	<u>S & P Rating</u>		<u>Moody's Rating</u>	
	<u>9/30/2015</u>	<u>6/30/2015</u>	<u>9/30/2015</u>	<u>6/30/2015</u>
American General Life Ins. Co.	A+	A+	A2	A2
Nationwide Life Ins. Co.	A+	A+	A1	A1
Prudential Ins. Co. of America	AA-	AA-	A1	A1
Transamerica Premier Life Ins. Co.	AA-	AA-	A1	A1
Voya Ret. Ins. and Annuity Co.	A	A	A2	A2

American General Life Ins. Co.

- Solid capital levels
- Group diversity is a strength as only remaining insurer with leading positions in both Life and Property & Casualty
- Leading positions in most Life and Annuity products

Nationwide Life Ins. Co.

- Part of a leading mutual group that includes a leading P&C company
- Strong history of earnings
- Significant variable annuity hedging has resulted in volatile investment earnings

Voya Ret. Ins. and Annuity Co.

- Recently upgraded one notch by Moody's and S&P, reflecting the stabilization of operations
- ING Groep, the former Dutch parent, has now sold all of its Voya shares
- Recently changed its name from ING Life Insurance & Annuity Company

Prudential Ins. Co. of America

- A leading diversified U.S. life insurer
- Capital ratios are now average following a large captive reinsurance transaction, however the quality of the ratios was lowered by the transaction
- Investments and policies are generally more aggressive than peers

Transamerica Premier Life Ins. Co.

- Recently changed name from Monumental Life Insurance Company
- Capital levels are near average following the merger with Western Reserve Life Assurance Co. of Ohio, a sister company also owned by AEGON
- Part of a large diverse insurance group which uses significant intercompany reinsurance, resulting in operating leverage appearing higher than it is

The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only. For institutional investors only.

State of Wisconsin Deferred Compensation Program Portfolio Review

Portfolio Holdings

September 30, 2015

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)
Cash & Equivalents												
FUNDAVAIL	Cash Receivable / (Payable)		-415,921	-415,921	100.0	-0.1	0.23		0.10	AAA	Aaa	
9983008\$P	WF Short Term Investment Fund S		8,186,565	8,186,565	100.0	1.4	0.23		0.10	AAA	Aaa	
Total Cash & Equivalents			7,770,643	7,770,643	100.0	1.3	0.23		0.10	AAA	Aaa	
Stable Value Funds												
94988K104	Wells Fargo Stable Value Fund W		43,064,802	43,064,802	100.0	7.2	1.66		2.40	AA-	Aa3	
Total Stable Value Funds			43,064,802	43,064,802	100.0	7.2	1.66		2.40	AA-	Aa3	
Security Backed Investment Contracts												
Short Portfolio												
946996EP6	American General Life Ins. Co.	Galliard	72,473,479	73,265,124	101.1	12.1	1.81	N.S.M.	1.91	A+	A2	22.0
896994DP2	Nationwide Life Ins. Co.	Galliard	33,053,240	33,272,320	100.7	5.5	1.74	N.S.M.	1.91	A+	A1	21.0
744999ZU0	Prudential Ins. Co. of America	Galliard	59,931,089	61,025,159	101.8	10.0	2.14	N.S.M.	1.91	AA-	A1	20.0
600996CC4	Transamerica Premier Life Ins. Co.	Galliard	50,719,521	51,980,241	102.5	8.5	2.60	N.S.M.	1.91	AA-	A1	20.0
75999UNG9	Voya Ret. Ins. and Annuity Co.	Galliard	62,686,601	63,040,226	100.6	10.5	1.76	N.S.M.	1.91	A	A2	20.0
Total Short Portfolio			278,863,931	282,583,070	101.3	46.5	2.01		1.91	A+	A1	
Intermediate Portfolio												
946996EP6	American General Life Ins. Co.	Galliard	44,721,245	45,209,746	101.1	7.5	1.81	N.S.M.	3.99	A+	A2	22.0
896994DP2	Nationwide Life Ins. Co.	Dodge & Cox	31,634,507	31,844,183	100.7	5.3	1.74	N.S.M.	3.45	A+	A1	21.0
744999ZU0	Prudential Ins. Co. of America	Galliard	41,145,455	41,896,584	101.8	6.9	2.14	N.S.M.	3.99	AA-	A1	20.0
600996CC4	Transamerica Premier Life Ins. Co.	Dodge & Cox	62,239,075	63,786,133	102.5	10.4	2.60	N.S.M.	3.45	AA-	A1	20.0
600996CC4	Transamerica Premier Life Ins. Co.	PIMCO	28,787,173	29,502,728	102.5	4.8	2.60	N.S.M.	3.36	AA-	A1	20.0
75999UNG9	Voya Ret. Ins. and Annuity Co.	PIMCO	60,935,216	61,278,961	100.6	10.2	1.76	N.S.M.	3.36	A	A2	20.0
Total Intermediate Portfolio			269,462,672	273,518,336	101.5	45.0	2.11		3.59	A+	A1	
Total Security Backed Investment Contracts			548,326,602	556,101,406	101.4	91.5	2.06		2.74	A+	A1	
Total Fund			599,162,047	606,936,851	101.3	100.0	2.00		2.68	A+	A1	

*N.S.M. = No Stated Maturity



Section II

Stable Value Portfolio Review - Wells Fargo Stable Value Fund W

Third Quarter 2015

Portfolio Characteristics

Total Assets	\$29,222,725,425	Blended Yield (Before fees)*	1.66%
Average Holdings Quality**	Aa3/AA-	Effective Duration	2.40 years
Number of Contract Issuers	12	Market/Book Value Ratio	101.29%

*Blended yield is before investment management fees and after wrap and trustee 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>09/30/2015</u>	<u>% of Portfolio</u> <u>06/30/2015</u>
Cash & Equivalents*	4,104,294,597	14.0	9.7
Guaranteed Investment Contracts (GICs)	203,468,774	0.7	1.1
Separate Account GICs	6,163,498,874	21.1	22.3
Security Backed Investment Contracts	18,751,463,180	64.2	66.9
Total	\$29,222,725,425	100.0%**	100.0%**

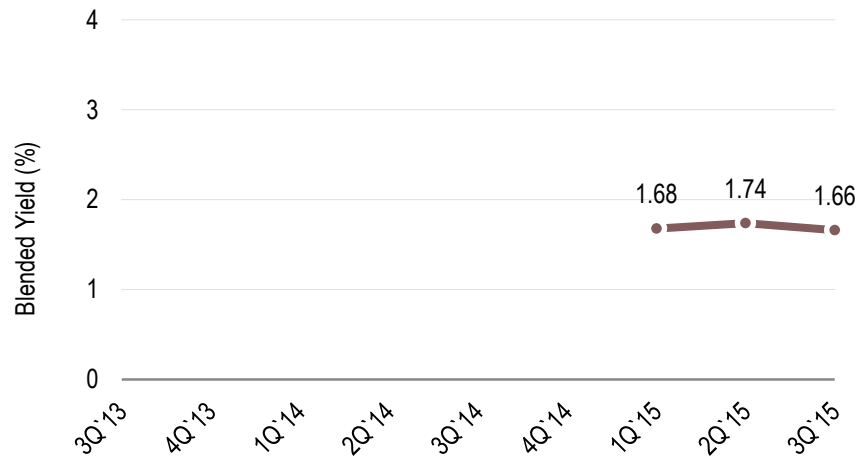
*Includes Receivables and Payables

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

Stable Value Portfolio Review - Wells Fargo Stable Value Fund W

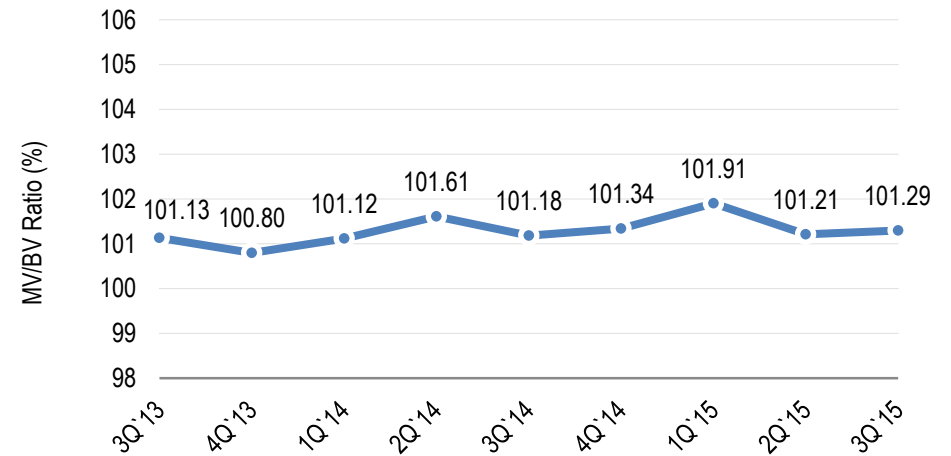
Third Quarter 2015

Historical Blended Yield*

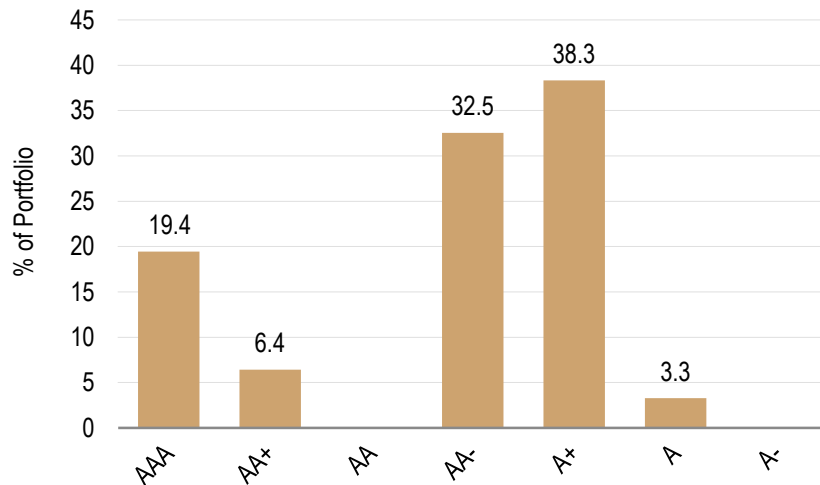


*As of quarter end. Blended yield is before investment management fees and after wrap and trustee fees. Effective February 2, 2015 assets invested in the Wells Fargo Stable Return Fund G were transferred to Wells Fargo Stable Value Fund W.

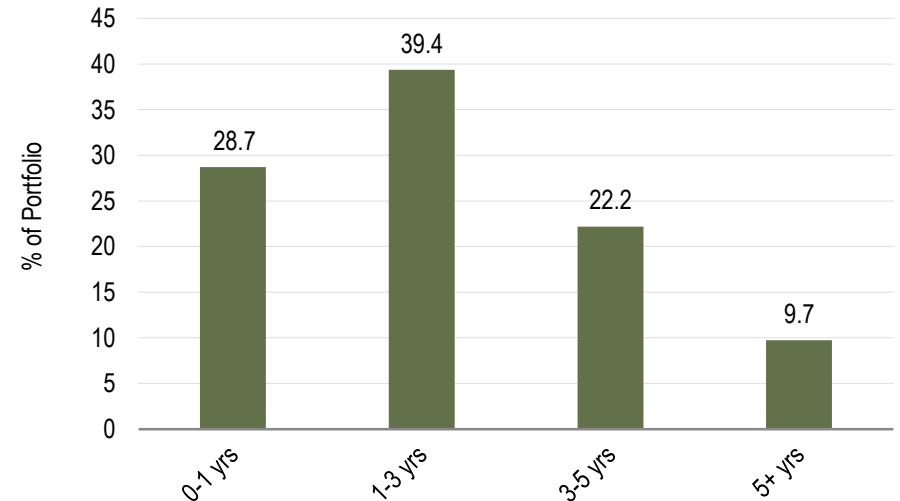
Market Value to Book Value Ratio*



Contract Quality Distribution*



Underlying Duration Distribution**



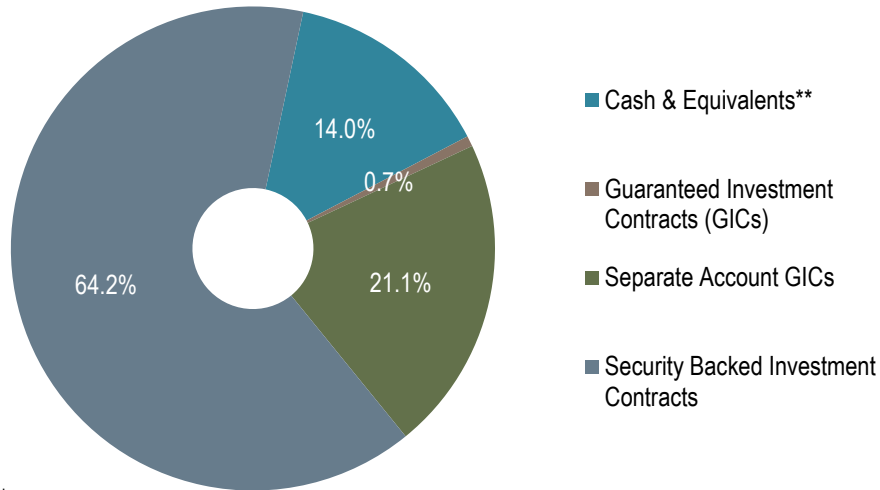
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Stable Value Portfolio Review - Wells Fargo Stable Value Fund W

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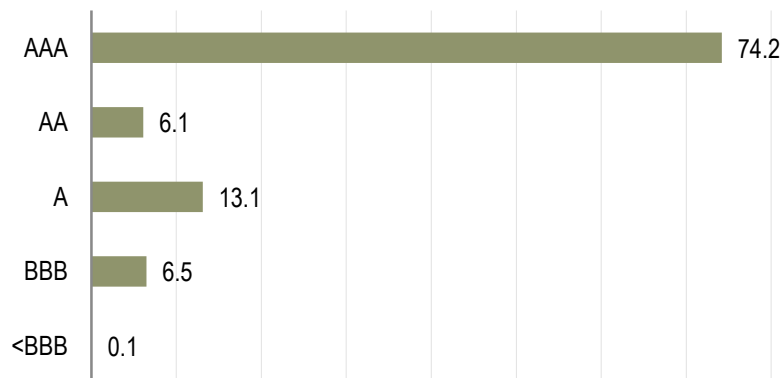
Portfolio Distribution*



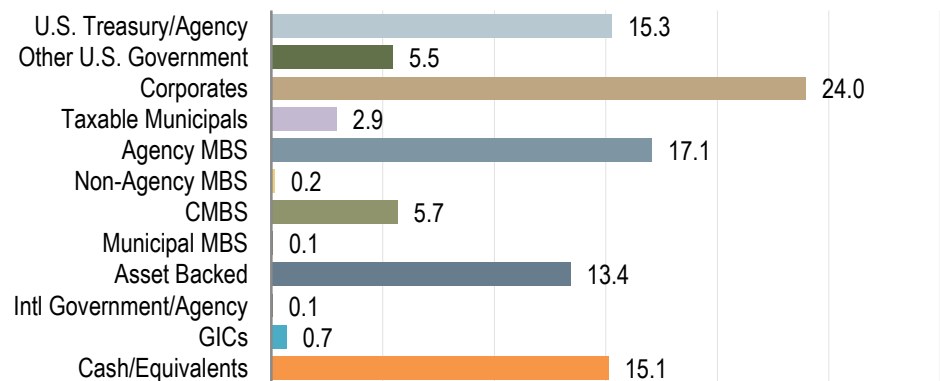
*Book value

**Includes 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. 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 for maximum comparability across managers.

Stable Value Portfolio Review – Wells Fargo Stable Value Fund W

Third Quarter 2015

Portfolio Holdings

Security Backed Investment Contracts

Issuer	% of Portfolio	Moody's Rating	S&P Rating
American General Life Ins. Co.	15.16%	A2	A+
Nationwide Life Ins. Co.	1.74%	A1	A+
New York Life Ins. Co.	4.69%	Aaa	AA+
Pacific Life Ins. Co.	6.16%	A1	A+
Prudential Ins. Co. of America	15.27%	A1	AA-
Royal Bank of Canada	6.86%	Aa3	AA-
State Street Bank and Trust Co.	3.37%	A1	AA-
Transamerica Premier Life Ins. Co.	7.65%	A1	AA-
Voya Ins. And Annuity Co.	3.27%	A2	A
Total Security Backed Investment Contracts	64.17%	A1	AA-

Guaranteed Investment Contracts (GICs)

Issuer	% of Portfolio	Moody's Rating	S&P Rating
New York Life Ins. Co.	0.70%	Aaa	AA+
Total Guaranteed Investment Contracts	0.70%	Aaa	AA+

Separate Account GICs

Issuer	% of Portfolio	Moody's Rating	S&P Rating
Massachusetts Mutual Life Ins. Co.	3.60%	Aa2	AA+
Metropolitan Life Ins. Co.	14.67%	Aa3	AA-
TIAA-CREF Life Ins. Co.	2.82%	Aa1	AA+
Total Separate Account GICs	21.09%	Aa3	AA

Cash/Equivalents

	% of Portfolio	Moody's Rating	S&P Rating
Short Term Investment Fund	14.04%	Aaa	AAA
Total Cash/Equivalents	14.04%	Aaa	AAA



Section III

Market Review

Third Quarter 2015

Consumers Continue to Fuel the U.S. Economy

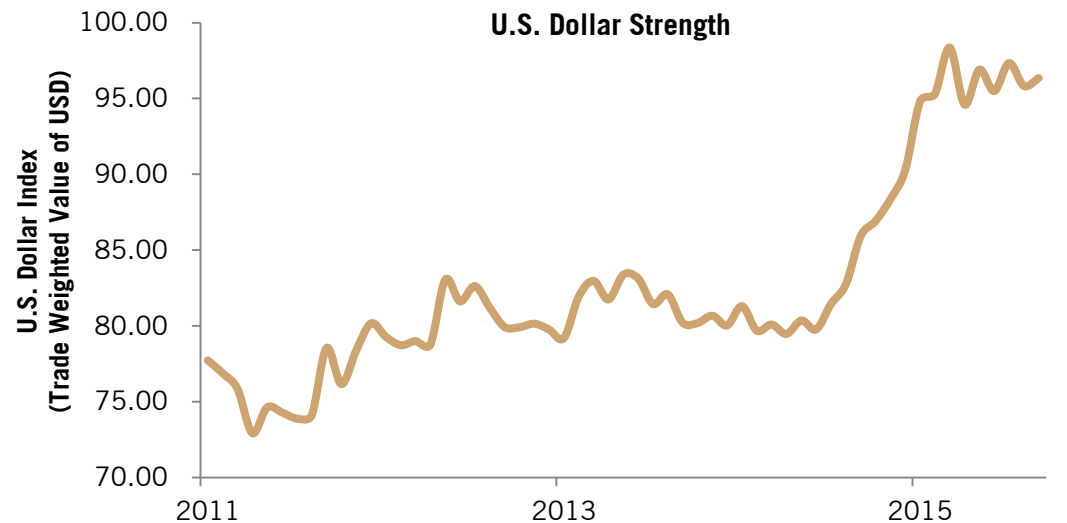
- | The U.S. economy rebounded to a +3.9% pace in Q2, led by robust personal consumption figures, bringing 1H15 growth to +2.3%.
- | Consumer confidence continues to be supported by a positive employment outlook, modest wage growth, and home price gains. The Conference Board's Consumer Confidence Index stood at 103.0 in September, near a cycle-high.
- | The U.S. housing market continues to strengthen. The S&P/Case-Shiller U.S. National Home Price Index posted a gain of +4.7% for the year ended July 2015. New home sales rose to 552k annual units in August, while the inventory of unsold homes remains below the long-run average.

Signs of Slowdown Emerging Across the Globe

- | While developed economies such as the U.S. and Europe saw continued modest expansion during the quarter, most emerging markets and commodity-focused economies saw conditions deteriorate further.
- | A sharp slowdown in Chinese manufacturing output led the Chinese government to devalue its currency (the yuan) and contemplate further stimulus measures.
- | J.P. Morgan's Global Manufacturing PMI survey was at 50.6 in September, barely in expansionary territory and the lowest reading since July 2013.
- | The U.S. dollar held its gains from earlier in the year, despite dampened expectations for Fed policy rate hikes, as investors sought a safe haven from market volatility.



Source: Bloomberg



Source: Bloomberg

Market Review

Third Quarter 2015

2015 Rate Lift-off Now Uncertain

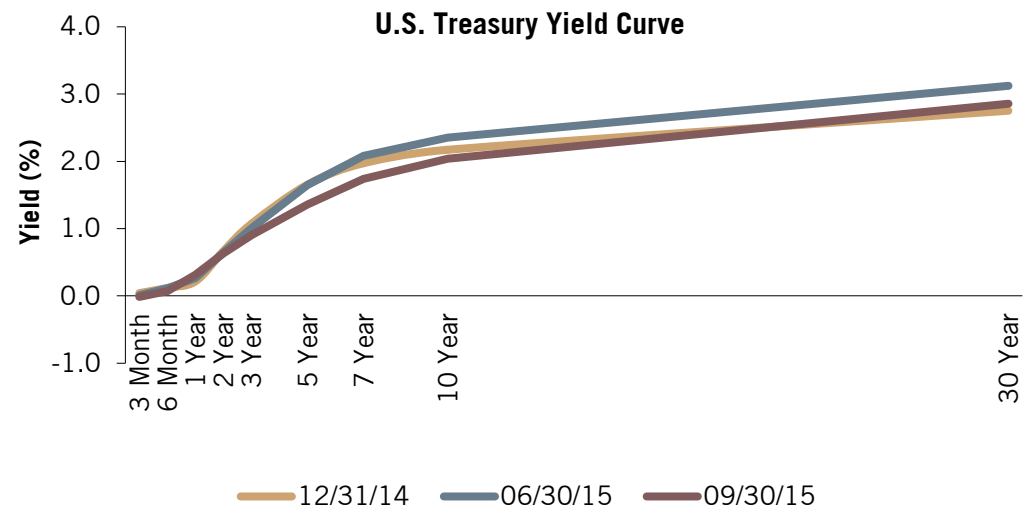
- Despite the trend of positive data leading into the September meeting, the Fed decided to keep its policy rate on hold, citing global growth concerns and an inflation rate still far below the Fed's target.
- After a robust July jobs number, hiring data cooled off over the remainder of the quarter. Adjusted for revisions, the economy added only 139K new jobs per month in August and September.
- Neither a change in inflation readings nor better visibility on the outlook for global growth seems likely over the next several months, suggesting the Fed could easily push liftoff into 2016.



Source: Bloomberg

Equity Market Volatility Reverberated In Treasury Yields

- Treasury yields experienced a volatile quarter as global equity markets swooned and the Fed elected not to raise its policy rate at the September FOMC meeting.
- Yields fell across nearly all maturities during the quarter, with yields on the 7-10 year segment falling the most. The 10-year T-Note yield fell 31bps over Q3 to end the quarter at 2.04%.
- Despite a wild ride, longer-dated Treasury bond yields are little changed on the year. The 10-year Treasury yield is 13bps lower on the year, while the yield on the 30-year Long Bond is higher by 10bps.



Source: Bloomberg



Appendix

Appendix - State of Wisconsin Deferred Compensation Program

Third Quarter 2015

Total Annual Fund Operating Expenses

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

Expense	Expense Ratio 9/30/15	Per \$1000
Investment Management Fees paid to Galliard*	0.090%	\$0.90
Investment Management fees paid to Non-Affiliated Investment Advisors	None	None
Investment Contract Fees* ¹	0.188%	\$1.88
Acquired Fund Fees ²	0.088%	\$0.88
-Investment Contract Fees	0.014%	\$0.14
-Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non-Affiliated Investment Advisors ³	0.074%	\$0.74
12b-1 Distribution Fee	None	None
Other Expenses	None	None
Total Annual Fund Operating Expenses⁴	0.366%	\$3.66

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

¹These are fees paid to create and maintain the investments used by a stable value fund

²These are fees borne indirectly by the Fund when it acquires an interest in another fund which pays its own separate fees

³Includes audit fees for the cost of producing a report by a qualified auditor

⁴Total Annual Fund Operating Expenses are reflected daily in the Fund's net asset value (NAV)



Quarterly Key Points

- GDP growth rebounded to a +3.9% pace in Q2, led by consumer spending as modest wage growth and a strengthening housing market bolstered confidence levels.
- U.S. Treasury yields fell across the yield curve during the third quarter as global growth concerns, China's yuan devaluation, and the Fed's decision to not raise rates in September spooked investors.
- Credit spreads widened and most spread sectors underperformed Treasuries during the quarter. ABS and taxable municipals were notable bright spots.

Our View

- As the Fed continues to assess a mixed bag of incoming global economic data, we believe that a rate increase before year-end is still possible, although looks less likely based on recent data trends.
- China and EM growth concerns have rippled across the global commodity, equity, and currency markets, raising concerns over the global growth outlook.
- Credit spreads have widened and market liquidity has deteriorated. While caution is warranted, there are attractive opportunities for patient investors with a disciplined risk control framework.

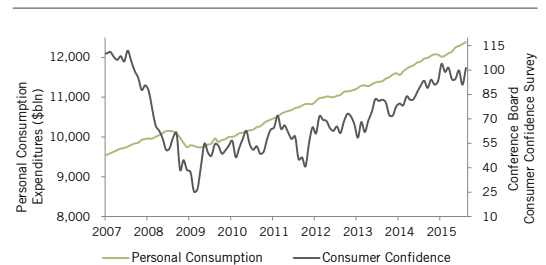
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Market Volatility Spikes as Concerns Rise Over Global Growth Outlook

BOUNCE IN CONSUMER SPENDING FUELS THE U.S. ECONOMY IN Q2

The U.S. economy rebounded in the second quarter from a weak showing in the first quarter, to a 3.9% annual pace driven primarily by a rise in personal consumption. Consumer spending has been supported by continued improvement in the job market, modest wage gains, steady gains in home prices and, importantly, rising consumer confidence. In addition, low interest rates, falling gas prices, and technology improvements stoked U.S. auto sales to the highest levels in a decade. The Conference Board's Consumer Confidence Index rose to 103.0 in September, hovering near the highs for this expansion, while the unemployment rate remained steady at 5.1%. While the overall economy

FIGURE 1 | CONSUMER CONFIDENCE VS. PERSONAL CONSUMPTION



Source: Bloomberg

benefited from a resurgent consumer, the manufacturing sector remained under pressure from a strong dollar, which makes U.S. goods more expensive both at home and abroad. The ISM's gauge of manufacturing activity fell to 50.2 in September from 53.5 in June (readings above 50 indicate expansion, readings below 50 indicate contraction). In addition, the plunge in commodity prices—in particular oil and natural gas—has put significant pressure on employment and capital expenditures spending in the energy and mining sectors. Year-to-date, employment in commodity-related industries has shrunk by over 100,000 jobs.

SIGNS OF SLOWDOWN ACROSS THE GLOBE

Signs of a further global economic slowdown emerged during the third quarter. The J.P.Morgan Global Manufacturing PMI fell to 50.6 in September, the lowest reading since July 2013. China's slowdown took center stage during the quarter. Still a manufacturing and export-driven economy, China's manufacturing sector has stalled due to increased global competition and slower internal demand. China's stock market, which had risen nearly 50% in the first 5½ months of this year, fell sharply during the quarter (-28%) as growth slowed and souring speculative bets prompted a stampede of selling. In a surprise move, the Chinese government devalued the yuan, sparking fears that other export-driven nations might follow suit to protect their global competitive position (aka "currency wars"). As concerns rise over the global growth outlook, the extent of the spillover from emerging market weakness back to the developed economies remains to be seen.

U.S. YIELD CURVE ROLLER COASTER

After a summer spent preparing the markets for its first rate move in nearly seven years, the Federal Reserve (Fed) kept rates on hold at its September FOMC meeting, opting to delay "liftoff" at least a few more months following August's equity market swoon and concerns over the global growth outlook. The Fed's decision appeared to validate skeptics who view the U.S.

FIGURE 2 | U.S. TREASURY YIELD CURVE

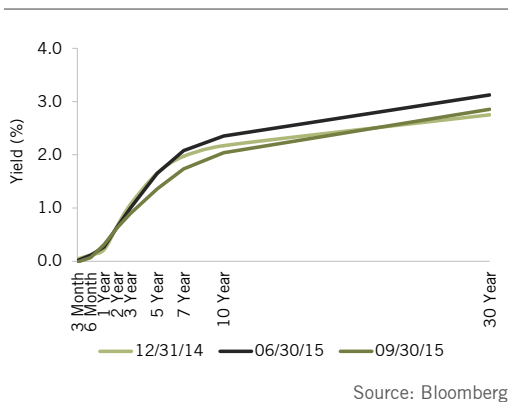
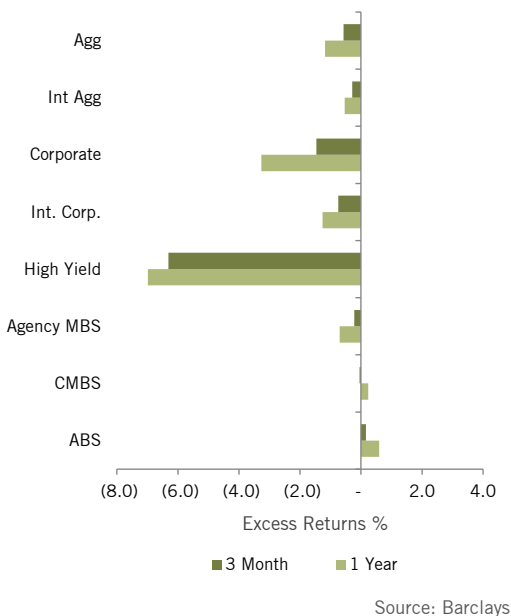


FIGURE 3 | BARCLAYS U.S. EXCESS RETURNS VS. TREASURIES



recovery as fragile and dependent on ultra-low rates, and added to speculation that U.S. growth might succumb to the weaker global outlook. As a result, yields on U.S. Treasury securities fell across the yield curve during the quarter, with 7–10 year yields falling the most. Interestingly, following the quarter’s rally in yields, longer dated U.S. Treasury bonds are back to similar levels from where they started the year. For the year-to-date, total returns are in modestly positive territory across the curve, with the exception of the 30-year segment, where yields remain slightly higher than where they ended 2014.

SPREAD SECTORS WIDEN ON UNCERTAIN OUTLOOK

Credit spreads widened during the quarter and most spread sectors underperformed U.S. Treasuries. Within the corporate sector, energy and metals & mining names widened significantly as fundamentals rapidly deteriorated. Lower quality issuers underperformed higher quality names, and longer bonds underperformed shorter maturities. The taxable municipal bond sector outperformed similar quality corporates as both credit fundamentals and investor demand remained strong. Within structured assets, ABS was a notable bright spot as spreads remained relatively range-bound for this high quality, shorter maturity sector. CMBS was flat as modest spread widening ate into the sector’s yield advantage over Treasuries, while Agency MBS posted modestly negative results. While MBS benefited from the flight to quality relative to other sectors, higher coupon MBS underperformed as lower yields raised prepayment risk.

As the Fed continues to assess a mixed bag of incoming global economic data, we believe that a rate increase before year-end is still possible, although that looks less likely based on the trend of recent data. Whenever the first hike comes, it seems highly likely that the path of policy rate moves will be exceptionally cautious and measured. To us, therefore, Fed policy should remain supportive of both spread assets and a yield curve flattening bias.

Our portfolio positioning continues to emphasize non-Treasury sectors, including high quality corporates and asset backed securities. At the margin, we have trimmed our holdings of taxable municipal bonds as spreads have tightened materially in this sector. Agency multifamily and SBA securitizations remain attractive relative to Agency MBS passthroughs, which we continue to underweight versus benchmarks due to valuations. With the heightened uncertainty around the economy and the path of Fed policy, we are committed to keeping portfolio duration neutral relative to benchmarks. Yield curve positioning still favors a flatter curve, with an emphasis on spread assets in the 3–7 year part of the curve. As always, we remain committed to our philosophy of seeking high-quality securities that offer compelling value per unit of risk.

The information contained herein reflects the views of Galliard Capital Management, Inc. and sources believed to be reliable by Galliard as of the date of publication. No representation or warranty is made concerning the accuracy of any data and there is no guarantee that any projection, opinion, or forecast herein will be realized. The views expressed may change at any time subsequent to the date of publication. This publication is for information purposes only; it is not investment advice or a recommendation for a particular security strategy or investment product. Graphs and tables are for illustrative purposes only.

State of Wisconsin Stable Value Fund

Portfolio Commentary – Third Quarter 2015

Investment Performance

During the third quarter, the State of Wisconsin Stable Value Fund continued its positive performance with a quarterly return of 0.48% (net of all fees), which was in line with the second quarter's return of 0.45% (net of all fees). The current net blended yield for the Fund increased during the quarter to 1.91% (net of all fees). In the coming quarter, we expect the Fund's blended yield to increase modestly.

Portfolio Commentary

The Fund had net outflows of \$3.1 million during the quarter, which represented a decrease of 0.5% in total Fund assets. The overall duration of the Fund was 2.68 years at the end of the quarter, in line with the duration at the end of the previous quarter. The average credit quality at the contract level remains strong at A1/A+.

The Fund's market-to-book-value ratio remained in line with the ratio at the end of the last quarter at 101.3%, due to market value returns offsetting the continued amortization of the Fund's market value premium. The credit quality of the underlying bond portfolios remains strong with 71.8% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

Economic Commentary

The U.S. economy rebounded in the second quarter from a weak showing in the first quarter, to a 3.9% annual pace driven primarily by a rise in personal consumption. While the overall economy benefitted from a resurgent consumer, the manufacturing sector remained under pressure from a strong dollar. The Fed kept rates on hold at its September FOMC meeting, opting to delay "liftoff" at least a few more months following August's equity market swoon and concerns over the global growth outlook.

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Compliance

Working with staff to clarify and update the Fund's current investment guidelines so as to bring them in line with current industry standards. We plan to have new guidelines in effect by the end of the fourth quarter.



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