

Portfolio Review For:

State of Wisconsin Deferred Compensation Program

Fourth Quarter 2015



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GALLIARD
CAPITAL MANAGEMENT, INC.

Board	Mtg Date	Item #
DC	3.8.16	10c3

Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Fourth Quarter 2015

Table of Contents

Stable Value Portfolio Review	Section I
<ul style="list-style-type: none">• Account Overview• Investment Performance & Portfolio Characteristics• Transactions & Holdings	
Wells Fargo Stable Value Fund W	Section II
Market Review	Section III
Additional Information	Appendix
<ul style="list-style-type: none">• Total Annual Fund Operating Expenses	

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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

Fourth 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	<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 ± 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

Fourth Quarter 2015

Annualized Investment Performance*

Periods Ending December 31, 2015

	<u>4Q'15</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>
Portfolio (before inv. Mgmt. fees)**	0.53	2.03	2.07	2.46	3.70
Portfolio (net of inv. Mgmt. fees)***	0.49	1.85	1.90	2.29	3.52
Linked Benchmark****	0.32	1.45	1.42	1.31	2.25

Calendar Year Performance

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Portfolio (before inv. Mgmt. fees)**	2.03	1.91	2.27	2.81	3.31
Portfolio (net of inv. Mgmt. fees)***	1.85	1.73	2.10	2.63	3.13
Linked Benchmark****	1.45	1.64	1.17	0.76	1.52

Market Indices

Merrill Lynch 3 Mo. T-Bill	0.05	0.03	0.07	0.11	0.10
Consumer Price Index	1.27	0.76	1.51	1.74	2.96

* 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.

**** 5 Year Constant Maturity Treasury. Prior to 11/1/15 was the 3 Year Constant Maturity Treasury.

Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Fourth Quarter 2015

Portfolio Characteristics

Total Assets	\$600,664,567	Blended Yield (Before fees)*	2.00%
Average Holdings Quality**	A1/A+	Effective Duration	2.70 years
Number of Contract Issuers	5	Market/Book Value Ratio	100.49%

*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>12/31/2015</u>	<u>% of Portfolio</u> <u>09/30/2015</u>
Cash & Equivalents*	5,914,490	1.0	1.3
Stable Value Funds	43,252,898	7.2	7.2
Security Backed Investment Contracts	551,497,180	91.8	91.5
Short Portfolio	280,511,194	46.7	46.5
Intermediate Portfolio	270,985,986	45.1	45.0
Total	\$600,664,567	100.0%**	100.0%**

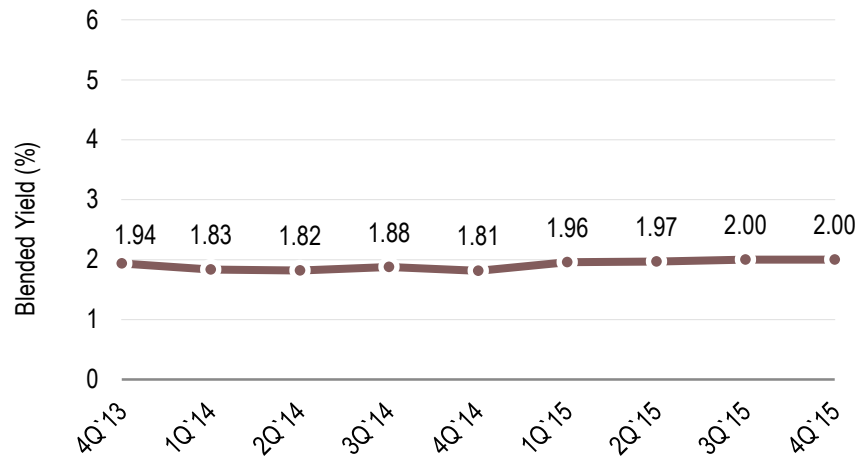
*Includes Receivables and Payables

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

Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

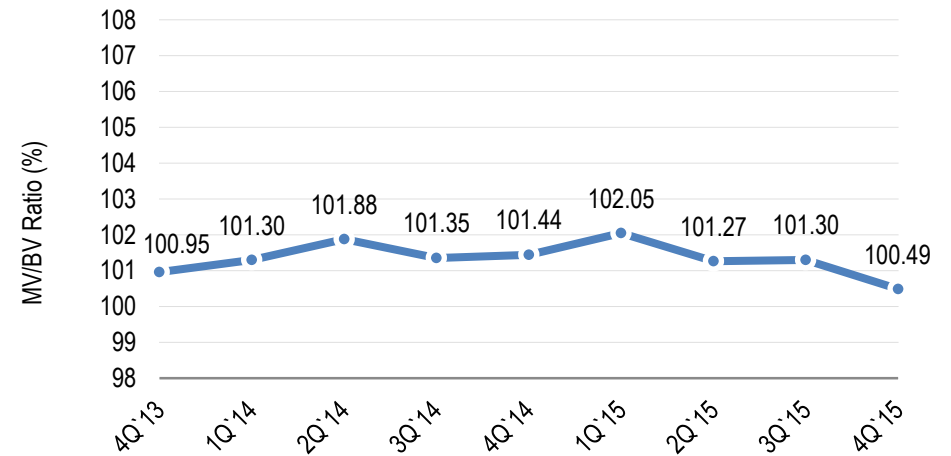
Fourth Quarter 2015

Historical Blended Yield*

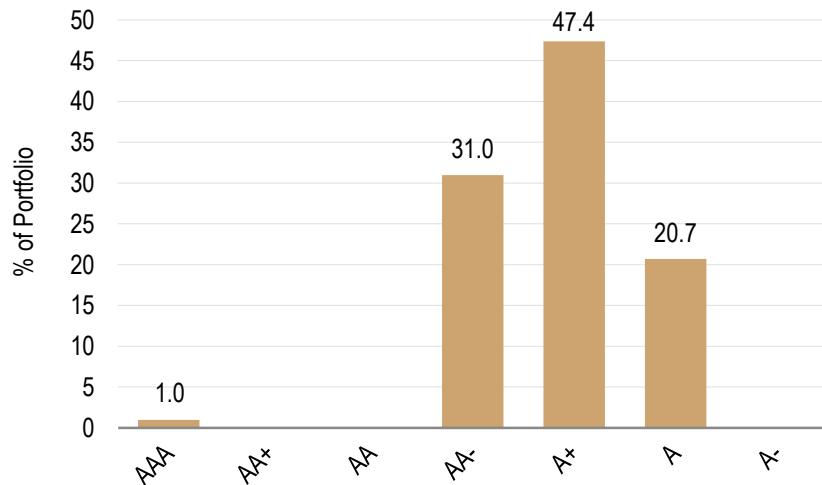


*As of quarter end. Blended yield is before investment management fees and after wrap fees.

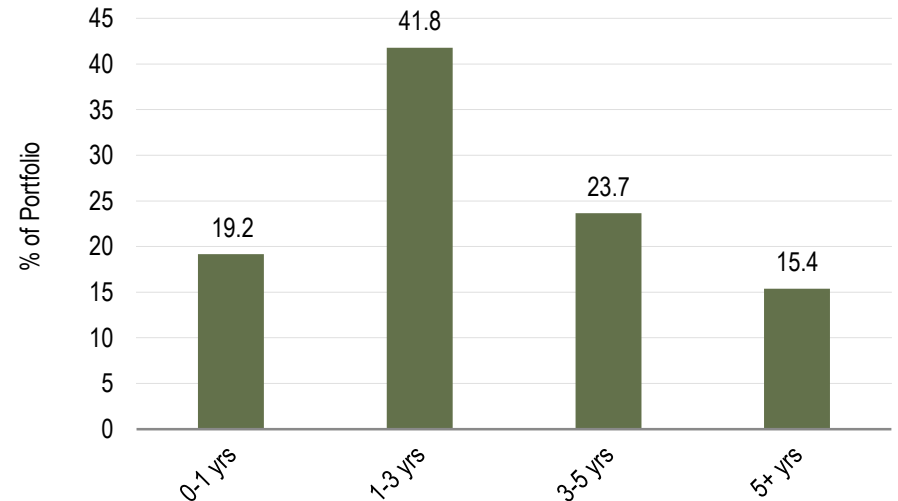
Market Value to Book Value Ratio*



Contract Quality Distribution*



Underlying Duration Distribution**



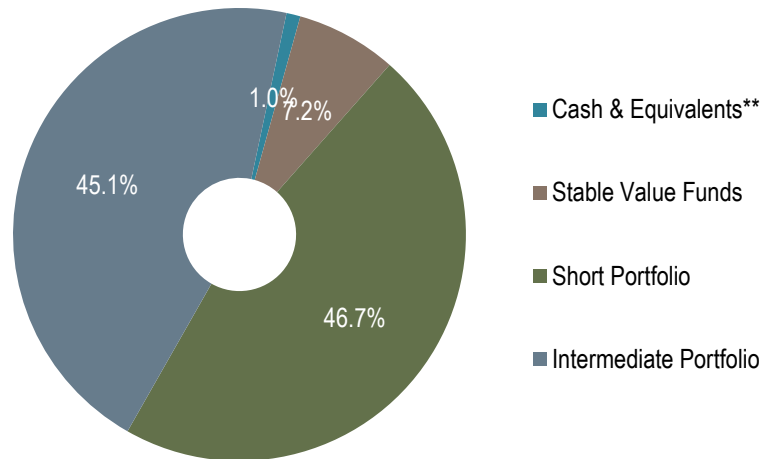
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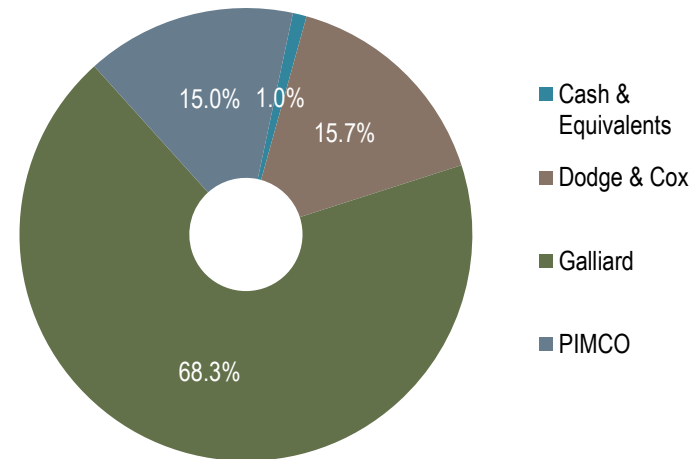
Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Fourth Quarter 2015

Portfolio Distribution*



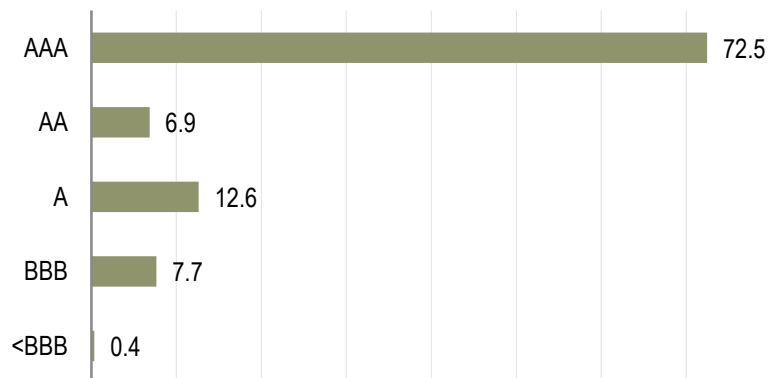
Manager Distribution*



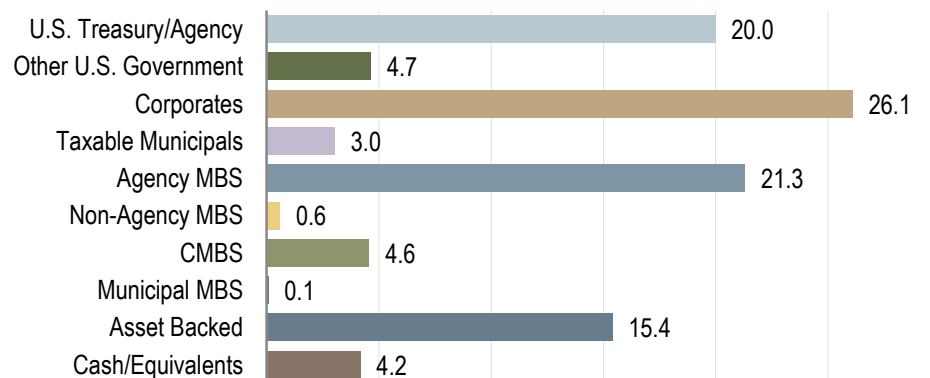
*Book value

**Includes Receivables and Payables

Underlying Fixed Income Credit Quality*



Underlying Fixed Income Asset Allocation**



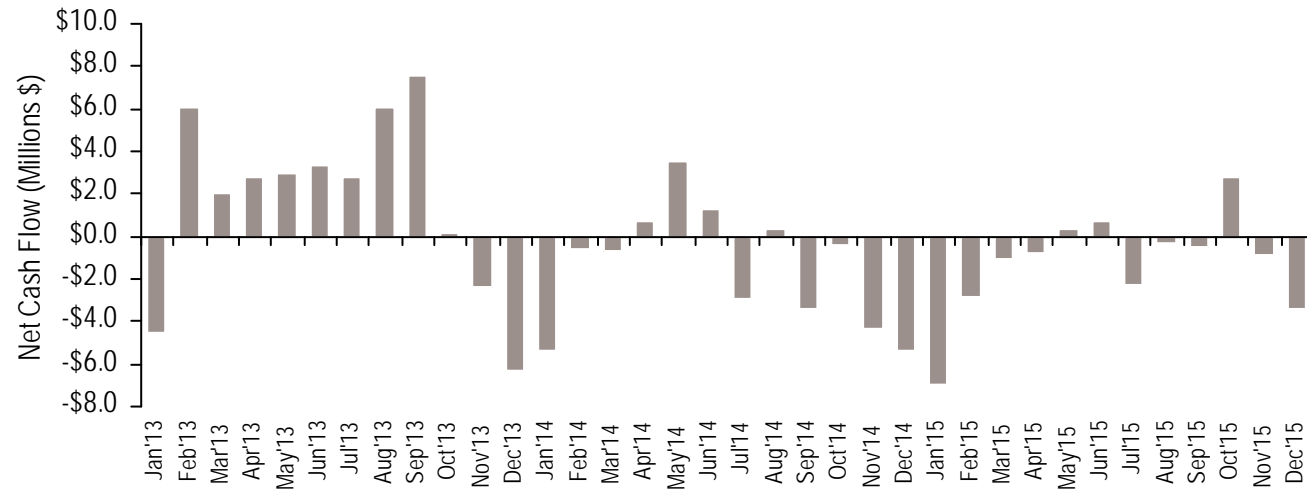
*Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers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

Stable Value Portfolio Review - State of Wisconsin Deferred Compensation Program

Fourth Quarter 2015

Historical Cashflows



	2015	2014	2013	2012	2011
Beginning Assets	\$605.0	\$611.7	\$578.7	\$550.5	\$504.0
Net Cash Flow (\$)*	-\$15.3	-\$17.2	\$20.6	\$13.6	\$30.2
Net Cash Flow (%)	-2.53%	-2.82%	3.56%	2.47%	5.99%
Estimated Investment Earnings	\$11.0	\$10.5	\$12.4	\$14.6	\$16.3
Ending Assets**	\$600.7	\$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

Fourth Quarter 2015

Issuer Rating Summary

	<u>S & P Rating</u>		<u>Moody's Rating</u>	
	<u>12/31/2015</u>	<u>9/30/2015</u>	<u>12/31/2015</u>	<u>9/30/2015</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
- Leading positions in most Life and Annuity products
- An activist investor is involved at the parent and is pushing for a separation of the Life and P&C operations. We do not think a separation is likely, but it would be a significant credit concern if it happened.

Nationwide Life Ins. Co.

- Part of a leading mutual group that includes a leading P&C company
- Strong history of earnings

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

Transamerica Premier Life Ins. Co.

- 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

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

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

December 31, 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)		-434,533	-434,533	100.0	-0.1	0.28		0.10	AAA	Aaa	
9983008\$P	WF/BlackRock Short Term Investment Fund S		6,349,023	6,349,023	100.0	1.1	0.27		0.10	AAA	Aaa	
Total Cash & Equivalents			5,914,490	5,914,490	100.0	1.0	0.27		0.10	AAA	Aaa	
Stable Value Funds												
94988K104	Wells Fargo Stable Value Fund W		43,252,898	43,252,898	100.0	7.2	1.75		2.53	AA-	Aa3	
Total Stable Value Funds			43,252,898	43,252,898	100.0	7.2	1.75		2.53	AA-	Aa3	
Security Backed Investment Contracts												
Short Portfolio												
946996EP6	American General Life Ins. Co.	Galliard	72,885,794	73,057,959	100.2	12.1	1.89	N.S.M.	1.92	A+	A2	22.0
896994DP2	Nationwide Life Ins. Co.	Galliard	33,212,508	33,178,239	99.9	5.5	1.73	N.S.M.	1.92	A+	A1	21.0
744999ZU0	Prudential Ins. Co. of America	Galliard	60,317,761	60,852,604	100.9	10.0	2.19	N.S.M.	1.92	AA-	A1	20.0
600996CC4	Transamerica Premier Life Ins. Co.	Galliard	51,069,455	51,833,262	101.5	8.5	2.48	N.S.M.	1.92	AA-	A1	20.0
75999UNG9	Voya Ret. Ins. and Annuity Co.	Galliard	63,025,675	62,861,973	99.7	10.5	1.72	N.S.M.	1.92	A	A2	20.0
Total Short Portfolio			280,511,194	281,784,037	100.5	46.7	2.00		1.92	A+	A1	
Intermediate Portfolio												
946996EP6	American General Life Ins. Co.	Galliard	44,939,677	45,045,829	100.2	7.5	1.89	N.S.M.	4.02	A+	A2	22.0
896994DP2	Nationwide Life Ins. Co.	Dodge & Cox	31,799,679	31,766,868	99.9	5.3	1.73	N.S.M.	3.62	A+	A1	21.0
744999ZU0	Prudential Ins. Co. of America	Galliard	41,377,780	41,744,680	100.9	6.9	2.19	N.S.M.	4.02	AA-	A1	20.0
600996CC4	Transamerica Premier Life Ins. Co.	Dodge & Cox	62,693,605	63,631,265	101.5	10.4	2.48	N.S.M.	3.62	AA-	A1	20.0
600996CC4	Transamerica Premier Life Ins. Co.	PIMCO	28,961,584	29,394,740	101.5	4.8	2.48	N.S.M.	3.21	AA-	A1	20.0
75999UNG9	Voya Ret. Ins. and Annuity Co.	PIMCO	61,213,660	61,054,665	99.7	10.2	1.72	N.S.M.	3.21	A	A2	20.0
Total Intermediate Portfolio			270,985,986	272,638,048	100.6	45.1	2.08		3.61	A+	A1	
Total Security Backed Investment Contracts			551,497,180	554,422,085	100.5	91.8	2.04		2.75	A+	A1	
Total Fund			600,664,567	603,589,473	100.5	100.0	2.00		2.70	A+	A1	

*N.S.M. = No Stated Maturity



Section II

Stable Value Portfolio Review - Wells Fargo Stable Return Fund W

Fourth Quarter 2015

Portfolio Characteristics

Total Assets	\$29,338,269,861	Blended Yield (Before fees)*	1.75%
Average Holdings Quality**	Aa3/AA-	Effective Duration	2.53 years
Number of Contract Issuers	12	Market/Book Value Ratio	100.48%

*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>12/31/2015</u>	<u>% of Portfolio</u> <u>09/30/2015</u>
Cash & Equivalents*	2,931,675,142	10.0	14.0
Guaranteed Investment Contracts (GICs)	204,078,381	0.7	0.7
Separate Account GICs	6,445,233,343	22.0	21.1
Security Backed Investment Contracts	19,757,282,996	67.3	64.2
Total	\$29,338,269,861	100.0%**	100.0%**

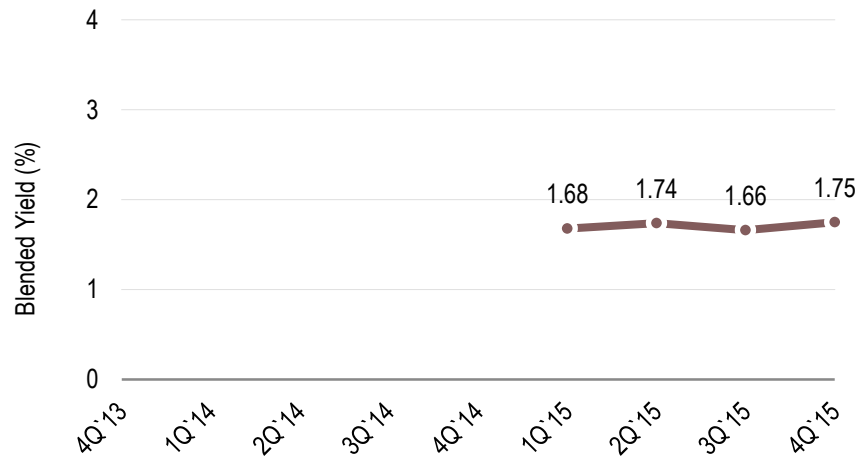
*Includes Receivables and Payables

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

Stable Value Portfolio Review - Wells Fargo Stable Return Fund W

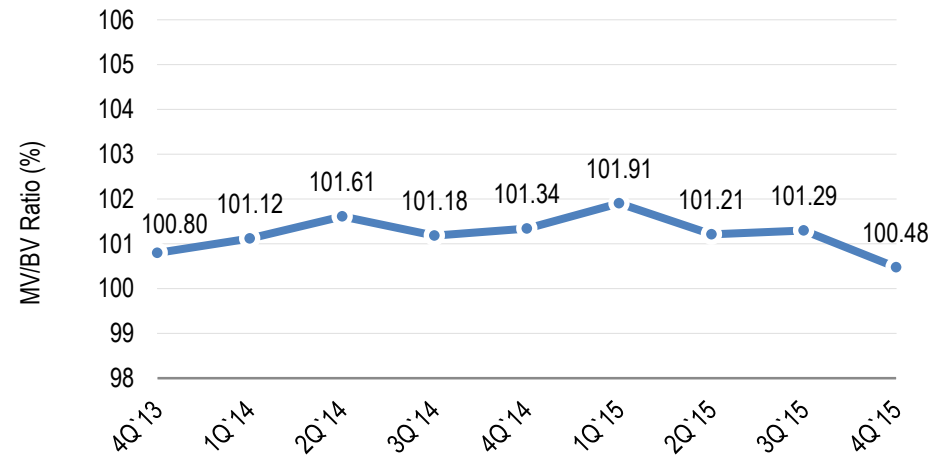
Fourth Quarter 2015

Historical Blended Yield*

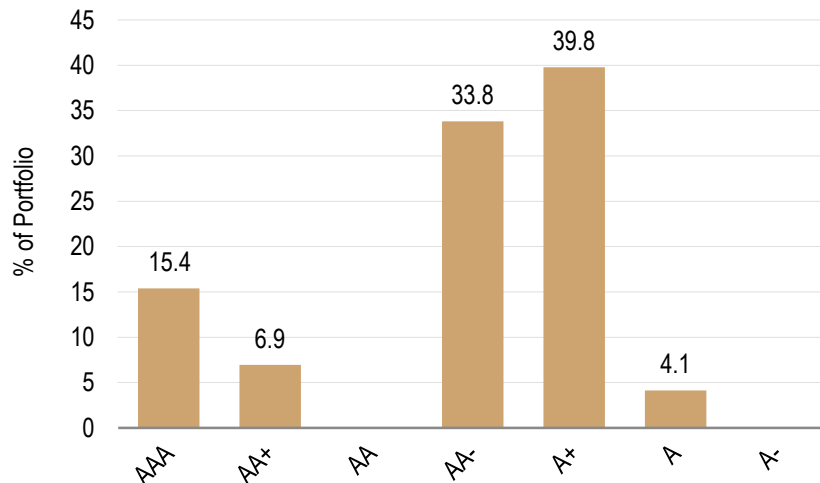


*As of quarter end. Blended yield is before investment management fees and after wrap and trustee fees. Effective February 2, 2015 assets invested in the Wells Fargo Stable Return Fund G were transferred to Wells Fargo Stable Value Fund W.

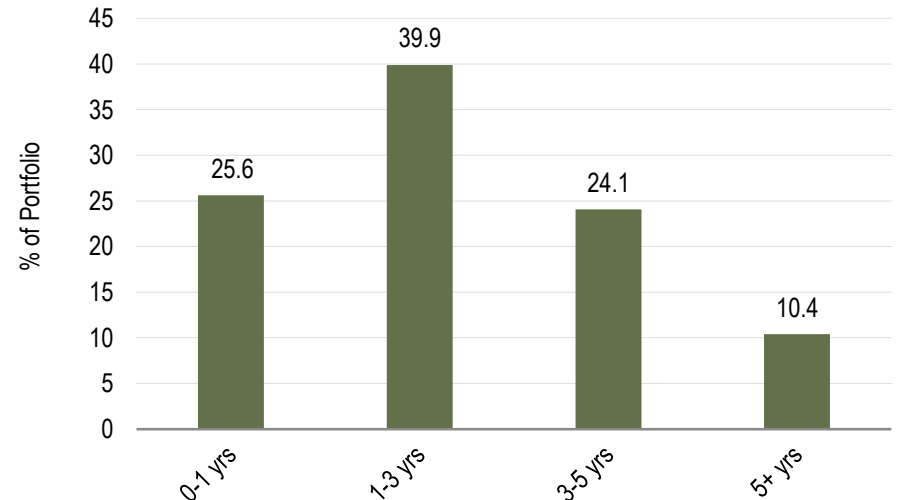
Market Value to Book Value Ratio*



Contract Quality Distribution*



Underlying Duration Distribution**



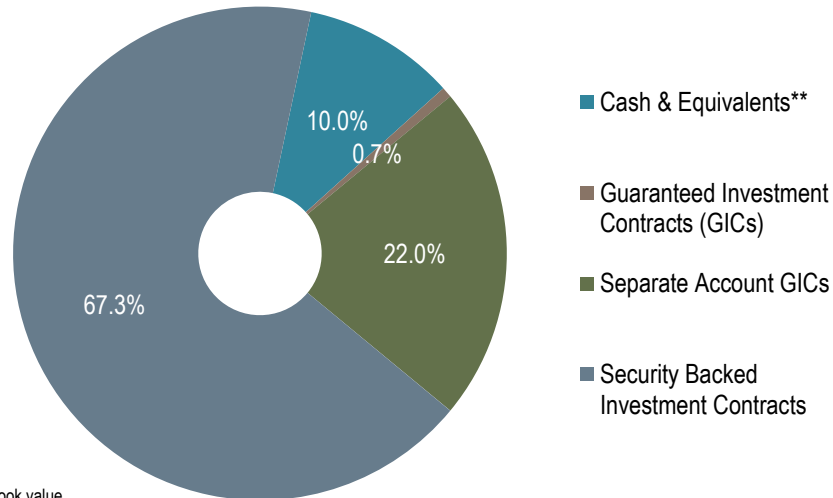
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Stable Value Portfolio Review - Wells Fargo Stable Return Fund W

Fourth Quarter 2015

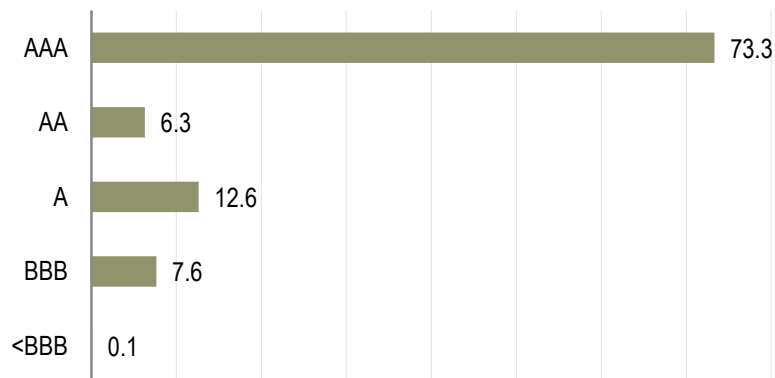
Portfolio Distribution*



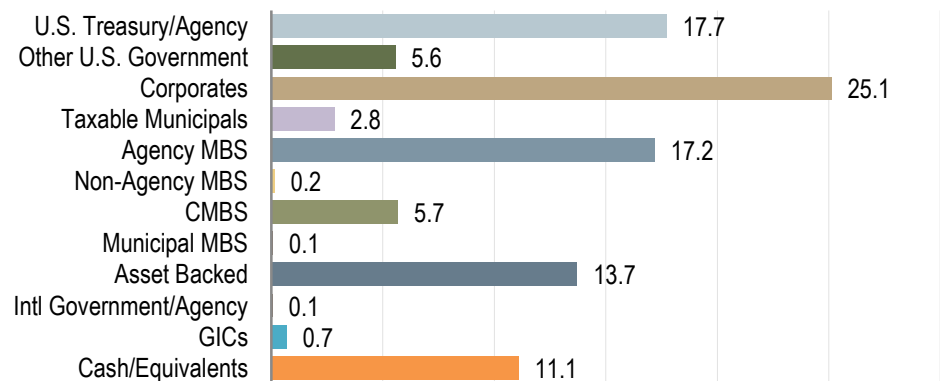
*Book value

**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

Fourth Quarter 2015

Portfolio Holdings

Security Backed Investment Contracts

Issuer	% of Portfolio	Moody's Rating	S&P Rating
American General Life Ins. Co.	15.87%	A2	A+
Nationwide Life Ins. Co.	1.74%	A1	A+
New York Life Ins. Co.	4.69%	Aaa	AA+
Pacific Life Ins. Co.	6.17%	A1	A+
Prudential Ins. Co. of America	15.98%	A1	AA-
Royal Bank of Canada	6.86%	Aa3	AA-
State Street Bank and Trust Co.	3.38%	A1	AA-
Transamerica Premier Life Ins. Co.	8.52%	A1	AA-
Voya Ins. And Annuity Co.	4.13%	A2	A
Total Security Backed Investment Contracts	67.34%	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.	15.03%	Aa3	AA-
TIAA-CREF Life Ins. Co.	3.33%	Aa1	AA+
Total Separate Account GICs	21.97%	Aa3	AA

Cash/Equivalents

	% of Portfolio	Moody's Rating	S&P Rating
Short Term Investment Fund	9.99%	Aaa	AAA
Total Cash/Equivalents	9.99%	Aaa	AAA



Section III

Market Review

Fourth Quarter 2015

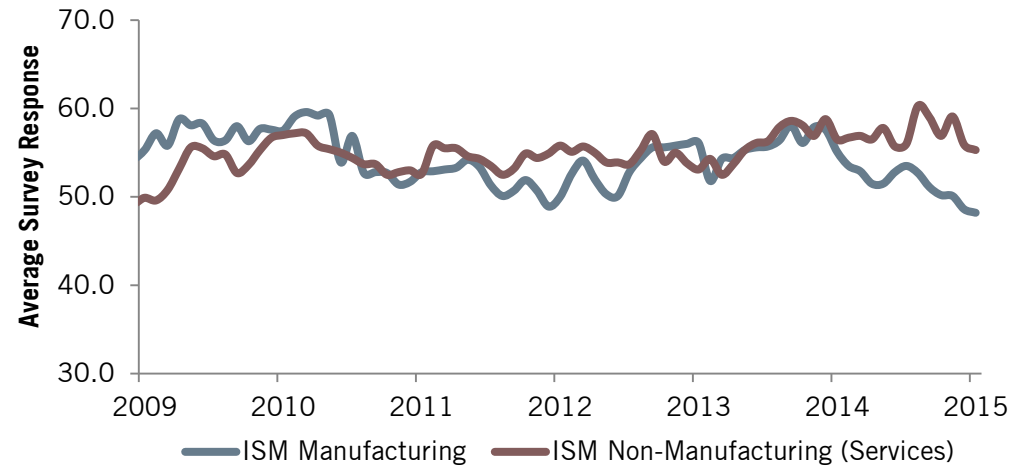
U.S. Economy Continues to Expand, Services Set Pace

- U.S. economic growth continued on a reasonably decent path in the second half of the year. U.S. GDP grew at a 2.0% annualized rate during the third quarter. Although growth appeared to have softened in the final quarter of 2015, the pace of hiring and final consumer demand has remained quite strong.
- U.S. consumer confidence remained near a cycle-high, with the Conference Board's Consumer Confidence Index at 96.5 in December.
- Readings from the Institute of Supply Management's (ISM) monthly activity survey highlight the divergence between the U.S. manufacturing and service sectors. The manufacturing composite fell to 48.2 in December (readings below 50 indicate contraction) while the services composite remained at a robust 55.3, consistent with growth in the 3% range.

Global Central Banks Stay Easy to Support Economies

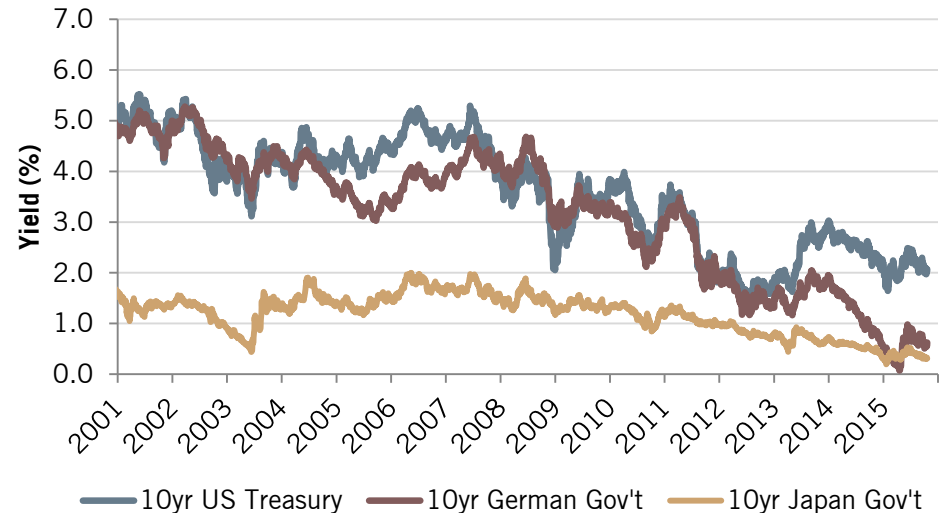
- Outside of the U.S., central bankers in most other economic regions remain focused on policy easing and additional stimulus measures, trying to support growth and prevent backsliding into recession. Such policy accommodation has kept global yields low.
- Oil prices continued their slide during the quarter; West Texas Intermediate (WTI) crude broke through the \$34/barrel level for the first time since 2004. More broadly, natural gas, industrial metals and other key commodities all fell on the quarter as global growth prospects dimmed and, in particular, Chinese demand softened significantly.
- The U.S. dollar continued its move higher during the quarter as investors took cover from global market volatility. The relatively higher yields offered by U.S. Treasuries also kept demand strong.

ISM Manufacturing and Services Surveys



Source: Bloomberg

Global Government 10-year Yields



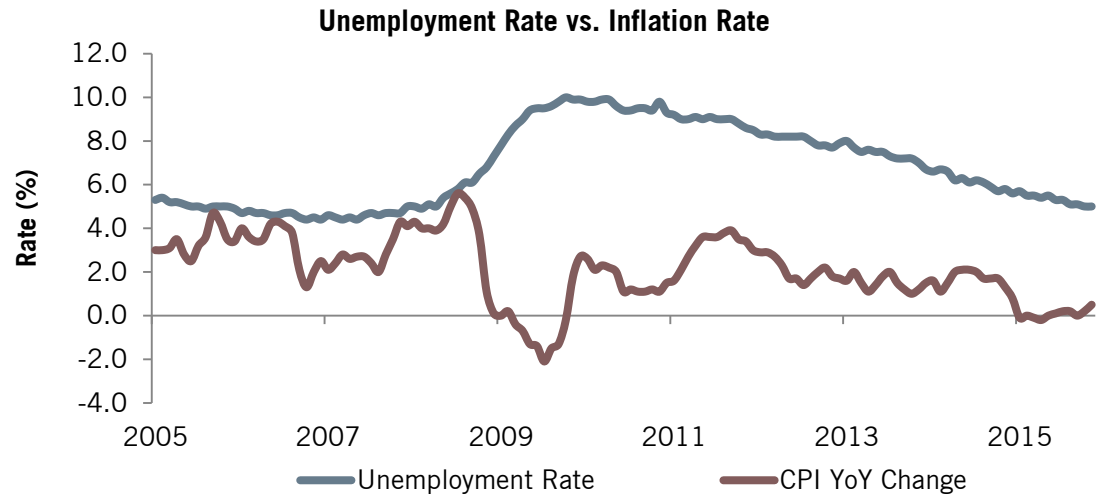
Source: Bloomberg

Market Review

Fourth Quarter 2015

Fed “Lifts Off” with First Hike Since 2006

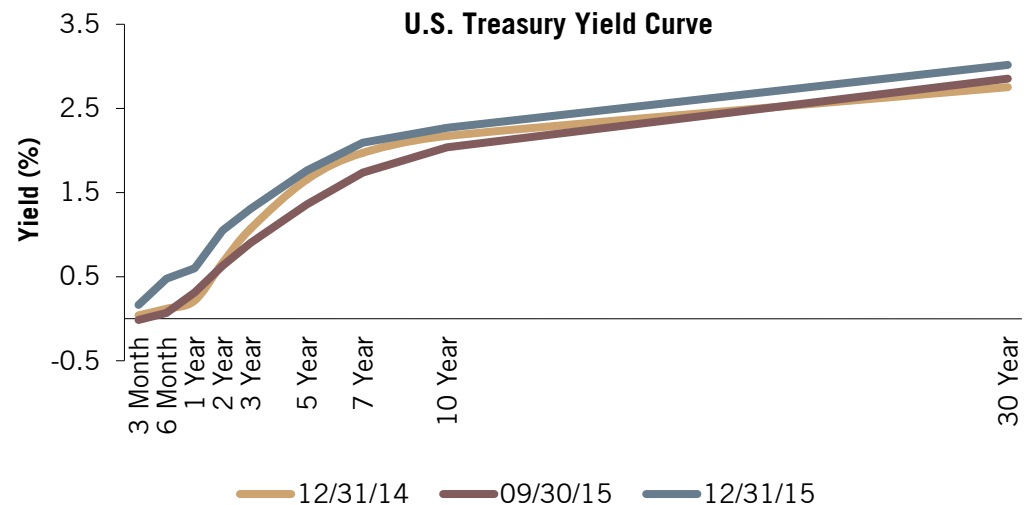
- Despite chatter early in the quarter that the Fed might pass on hiking rates at all in 2015, a string of strong employment reports and a stabilizing of global financial markets gave the Fed the window it needed to raise its policy rate in December for the first time since 2006.
- The U.S. economy added 2.6 million new jobs in 2015 as the unemployment rate declined to 5.0% from 5.6% at the start of the year.
- Low inflation, driven in part by significant declines in commodity prices and a stronger U.S. dollar, which makes imported goods less expensive, helped to keep consumer confidence at near-cycle highs during the quarter.



Source: Bloomberg

Fed Rate Rise Pushes Treasury Yields Higher

- Treasury yields moved higher across the yield curve during the quarter as investors priced-in the Fed’s December hike and the likelihood of 3-4 additional hikes in 2016.
- Looking back over a volatile year, yields on the 5-20 year segment of the yield curve ended the year within +/-10bps of where they started. Meanwhile, yields on shorter maturities (1-3 years) and the 30-year long bond were materially higher on the year.
- While the Fed’s official statement from its December meeting signaled expectations for a measured pace of tightening in 2016, the Fed also made clear that the pace of future tightening will be highly dependent on signs that inflation is rebounding from current low levels back towards the Fed’s desired target of 2%.



Source: Bloomberg



Appendix

Appendix - State of Wisconsin Deferred Compensation Program

Fourth 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 12/31/15	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	0.189%	\$1.89
Acquired Fund Fees ²	0.094%	\$0.94
-Investment Contract Fees	0.015%	\$0.15
-Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non-Affiliated Investment Advisors ³	0.079%	\$0.79
12b-1 Distribution Fee	None	None
Other Expenses	None	None
Total Annual Fund Operating Expenses⁴	0.372%	\$3.72

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)