State of Wisconsin Stable Value Fund

Portfolio Commentary – First Quarter 2016

INVESTMENT PERFORMANCE

During the first quarter, the State of Wisconsin Stable Value Fund continued its positive performance with a quarterly return of 0.46% (net of all fees), which was in line with the fourth quarter's return of 0.49% (net of all fees). The current net blended yield for the Fund remained in line with the net blended yield at the end of the last quarter during the quarter 1.92% (net of all fees). In the coming quarter, we expect the Fund's blended yield to increase modestly.

PORTFOLIO COMMENTARY

The Fund had net inflows of $2.1 million during the quarter, which represented an increase of 0.3% 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 increased during the quarter to 101.6%, due to strong market value returns as a result of broadly declining interest rates. The credit quality of the underlying bond portfolios remains strong with 72.3% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

ECONOMIC COMMENTARY

U.S. GDP growth slowed to a 1.4% pace in Q4, and initial estimates for Q1 growth range from 0.5% to 1.5%. While the job market has remained exceptionally strong, disappointing retail sales reports in January and February suggest weaker final consumer demand. In addition, declining energy prices and pressure on corporate profits continue to weigh on business spending, and a strong U.S. dollar has stifled net export activity. Core inflation rose during the quarter, driven by higher costs for shelter, healthcare, and apparel.

Global central bank actions during the quarter, including policy rate cuts by both the Bank of Japan and the European Central Bank, continued to provide key support to financial markets. In the U.S., the Federal Reserve kept interest rates unchanged during the quarter, and signaled lowered expectations for growth, inflation, and the path of policy rate hikes in 2016-17.

Growth concerns and central bank policy moves combined to produce a bumpy first quarter in the fixed income markets. Interest rates fell sharply across the yield curve during the quarter. The 5-year Treasury Note yield fell by 55 basis points (bps), while the yield on the 2-year Treasury Note and the 30-yr Treasury Bond fell 33 bps and 40 bps, respectively. Negative sentiment regarding U.S. growth and the continued stress on commodity-related sectors weighed on spread asset valuations during the first two months of the quarter. Central bank action in March, however, combined with a rally in oil prices, sparked a massive sentiment shift in investor risk appetite. By the end of the quarter, most spread sectors had rallied back into positive territory relative to U.S. Treasuries on a duration-weighted basis. Financial corporates and Agency MBS remained negative on the quarter; CMBS and Industrial corporates outperformed by the most.

COMPLIANCE

We have not become aware of any compliance issues occurring in the Fund during the quarter.

Board	Mtg Date	Item #
DC	6.14.16	11g1

GALLIARD Capital Management, Inc.
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Laura Sell, CFA
Senior Director
612.667.3029
Laura.D.Sell@Galliard.com