State of Wisconsin Stable Value Fund

Portfolio Commentary – Second Quarter 2016

INVESTMENT PERFORMANCE

During the second quarter, the State of Wisconsin Stable Value Fund continued its positive performance with a quarterly return of 0.47% (net of all fees), which was in line with the first quarter's return of 0.46% (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 at 1.92% (net of all fees). In the coming quarter, we expect the Fund's blended yield to remain near current levels.

PORTFOLIO COMMENTARY

The Fund had net inflows of $6.0 million during the quarter, which represented an increase of 1.0% in total Fund assets. During the quarter, deposits totaling $6.2 million were made into the contracts from the liquidity buffer in response to continued participant inflows. Also during the quarter, PIMCO was replaced by Jennison and TCW as sub-advisors in the Fund. The overall duration of the Fund was 2.80 years at the end of the quarter, longer than 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 102.2%, due to strong market value returns as a result of continued declines in interest rates. The credit quality of the underlying bond portfolios remains strong with 71.7% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

ECONOMIC COMMENTARY

U.S. GDP growth managed a meager 1.1% pace in the first quarter of 2016 (Q1), which was roughly in-line with our mid-quarter estimates. Non-residential investment and final consumer demand for goods and services slowed relative to the prior quarter. Hiring cooled somewhat in the second quarter (Q2), with employers adding only 442,000 new jobs. Headline inflation measures rose modestly during the quarter as energy prices firmed. On a year-over-year basis, both headline and core inflation measures (core excludes food and energy) remain well below the Fed's target range.

The UK's historic vote to leave the EU sent shockwaves through financial markets. Government yields across the globe fell sharply and safe haven currencies rose as investors fled riskier markets. Even before the Brexit vote, the Fed had abandoned its earlier projections for the path of policy rate hikes, citing heightened uncertainty around its forecasts for growth and inflation. In the aftermath of Brexit, the market further scaled back expectations for Fed hikes in 2016 and 2017.

In the United States, weaker economic data and a surge in demand for safe haven assets post-Brexit led to a significant decline in Treasury yields. The yield on the 10-year Treasury fell 30 basis points (bps) during the quarter (Q2) to end at 1.47%, while the 30-year Bond fell nearly 33 bps and ended the quarter at 2.29%. The U.S. dollar rose about 2% on a trade-weighted basis during the quarter. Spread assets benefitted from strong global demand for yield amid the rally in global yields. Corporates, U.S. Agencies, ABS and CMBS all posted positive excess returns relative to U.S. Treasuries, while Agency MBS lagged as declining mortgage rates sparked concern over a new refinancing wave.

COMPLIANCE

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

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