State of Wisconsin Stable Value Fund

Portfolio Commentary – Third Quarter 2016

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 0.47% (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 1.90% (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 $11.5 million during the quarter, which represented an increase of 1.9% in total Fund assets. During the quarter, deposits totaling $7.8 million were made into the contracts from the liquidity buffer in response to continued participant inflows. The overall duration of the Fund was 2.78 years at the end of the quarter, in line with the duration at the end of the previous quarter. In August, Fitch downgraded Transamerica Premier Life Ins. Co. from AA- to A+. The average credit quality at the contract level remains strong at A1/A+.

The Fund's market-to-book-value ratio decreased during the quarter to 101.9%, due to higher interest rates and continued amortization of the Fund's market value premium. The credit quality of the underlying bond portfolios remains strong with 72.4% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

ECONOMIC COMMENTARY

At the start of the third quarter, investors faced global stock and bond markets reeling from the surprise result of the UK's so-called Brexit referendum in favor of leaving the European Union (EU). Markets fretted that Brexit might push the UK into recession and impact business and consumer sentiment across Europe. During the quarter, those fears were allayed by a spate of better-than-expected data out of the UK as well as steady reassurances from the ECB that it would take additional steps as needed to support the European economy. China's economic picture improved as well during the quarter as data emerged indicating further stabilization, thanks in part to increased government spending.

In the United States, GDP growth managed a 1.4% pace during the second quarter of 2016. While still muted and below our expectations, 2Q's advance still represented a decent improvement from Q1's sub-1% level. Real personal consumption grew at a +2.9% pace during the quarter, reflecting the continued strength of consumer spending. Hiring rebounded somewhat in the third quarter; on average employers added 192,000 jobs each month over the last three months. Other job market indicators, such as claims for unemployment insurance and advertisements for job openings, have remained strong. At long last, the reduction in labor market slack finally appears to be translating into meaningful gains in wages as average hourly earnings have risen at a 2.5% annualized pace during 2016.

As a result of the better news, U.S. and global stocks rebounded during the quarter and global government yields eased back from their post-Brexit lows. U.S. Treasury yields rose by 10-20 basis points across the yield curve during the quarter, with the exception of 30-year Treasury bond, which was little changed on the quarter.

COMPLIANCE

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

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