State of Wisconsin Stable Value Fund

Portfolio Commentary – Fourth Quarter 2016

INVESTMENT PERFORMANCE

During the fourth 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 third quarter's return of 0.48% (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 1.91% (net of all fees). In the coming quarter, we expect the Fund's blended yield to decrease modestly as a result of the decline in the underlying bond portfolio's market value during Q4; however, we expect the Fund's crediting rate to improve in the future as cash flows are reinvested at higher interest rates.

PORTFOLIO COMMENTARY

The Fund had net inflows of $3.5 million during the quarter, which represented an increase of 0.6% in total Fund assets. During the quarter, deposits totaling $9.2 million were made into the contracts from the liquidity buffer. The overall duration of the Fund was 2.81 years at the end of the quarter, in line with the duration at the end of the previous quarter. In November, Prudential Ins. Co. of America was upgraded by Fitch to: AA-. 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 100.2%, due to the post-election increase in interest rates. The credit quality of the underlying bond portfolios remains strong with 71.2% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

ECONOMIC COMMENTARY

Donald Trump's surprise win in the Presidential election raised the prospects for significant fiscal stimulus in 2017, including tax cuts and infrastructure spending. A wave of post-election optimism over the potential for faster growth lifted U.S. stocks. Energy, financials, and construction-related industries saw the greatest bounce. Interest rates jumped and the yield curve steepened, with yields on longer maturities rising most.

U.S. GDP rebounded to a solid +3.5% pace in Q3, a significant improvement over the first half of 2016. Growth in Q3 was bolstered by a rebound in inventories and a spike in exports. Personal consumption grew at a strong 3.0% pace during the quarter, while unit labor costs and hourly earnings data released during the quarter suggest that wage growth is improving. The labor market remained strong during the quarter and the unemployment rate fell to 4.7% in December. Headline inflation measures continued their rebound in the fourth quarter as energy prices firmed.

As expected, the Fed raised its policy rate by 25 basis points (0.25%) at the December FOMC meeting, to a target range of 0.50% to 0.75%. The spike in U.S. Treasury yields during the quarter resulted in negative total returns for nearly all fixed income sectors for the period. Most spread sectors outperformed U.S. Treasuries, aided by their yield advantage as well as strong investor demand for credit. Lower quality and longer corporate bonds outperformed the most. Agency MBS suffered from rising interest rate volatility, which increased hedging costs. The U.S. dollar rose over 7% on the quarter versus other major currencies, reaching a 14-year high.

COMPLIANCE

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

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