State of Wisconsin Stable Value Fund

Portfolio Commentary – First Quarter 2017

INVESTMENT PERFORMANCE

During the first quarter, the State of Wisconsin Stable Value Fund continued its positive performance with a quarterly return of 0.43% (net of all fees), which was lower than the fourth quarter's return of 0.48% (net of all fees). The current net blended yield for the Fund decreased during the quarter to 1.76% (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 $8.6 million during the quarter, which represented an increase of 1.4% in total Fund assets. The overall duration of the Fund was 2.79 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 100.3%, due to strong market value returns in the underlying bond portfolio. The credit quality of the underlying bond portfolios remains strong with 68.5% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

ECONOMIC COMMENTARY

For most of the first quarter the "Trump rally" continued, with equities and corporate bond spreads buoyed by the prospect of fiscal stimulus (tax reform, infrastructure spending) and the potential for faster economic growth. U.S. stocks, as measured by the S&P 500 Index, continued to set new highs during the quarter, and credit spreads – both investment grade and high yield – reached two-year low levels. In March, however, the administration's very public failure on healthcare reform damaged investor confidence in President Trump's ability to implement his broader policy agenda, forcing many to rethink their outlook for near-term growth.

U.S. GDP growth fell back to a more modest +2.1% rate in Q4 following the faster pace (+3.5%) we experienced in Q3. The labor market remained on-track during the first quarter of 2017, as employers added an average of 178,000 jobs per month over the quarter. The unemployment rate fell to 4.5%, while average hourly earnings rose at a 2.8% pace over the 12 months ended in March. Consumer confidence jumped to a 16-year high reading of 125.6. Inflation measures continued to trend higher as well, with most measures at or near the Fed's 2% target range by the end of 2017. The Fed raised its policy rate by 25 basis points (0.25%) at the March FOMC meeting and signaled two additional hikes over 2017. Interest rates were little changed on balance over the first quarter as the Fed's policy rate hike was well-telegraphed to the market; however, yields at the very front end of the yield curve (<1 year) rose nearly lock-step with the Fed's policy rate increase.

Global equity markets rallied strongly in both local and U.S. dollar terms as the dollar weakened ~2% over the quarter versus other major currencies. Most spread sectors outperformed U.S. Treasuries. Lower quality corporate bonds generally outperformed higher quality names during the quarter. Agency MBS suffered from increased net supply from banks and tepid investor demand, while ABS outperformed as higher swap spreads attracted front-end yield buyers.

GUIDELINE COMPLIANCE

We have not become aware of any investment guideline compliance issues occurring in the portfolio during the quarter.

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