State of Wisconsin Stable Value Fund

Portfolio Commentary – Second Quarter 2017

INVESTMENT PERFORMANCE

During the second 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 first quarter's return of 0.43% (net of all fees). The current net blended yield for the Fund increased during the quarter to 1.87% (net of all fees). In the coming quarter, we expect the Fund's blended yield to increase modestly.

PORTFOLIO COMMENTARY

The Fund had net outflows of $4.0 million during the quarter, which represented a decrease of 0.6% in total Fund assets. At the beginning of the quarter, due to net inflows during first quarter, deposits totaling $9.8 million were made into the contracts from the liquidity buffer. The overall duration of the Fund was 2.83 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 100.5%, due to strong market value returns in the underlying bond portfolio. The credit quality of the underlying bond portfolios remains strong with 67.8% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

ECONOMIC COMMENTARY

U.S. GDP growth registered +1.4% (annualized rate) in the first quarter of 2017, declining from the +2.1% pace of the final three months of 2016. The lackluster pace of Q1 growth was largely the result of a pullback in consumer spending. Personal consumption growth – which averaged nearly 3% over the last three years – rose at a lowly +1.1% pace in Q1. Following a persistent (if gradual) rise in inflation measures over the last 12-24 months, nearly every inflation gauge registered a pullback during the second quarter. However, U.S. GDP growth looks to be on pace to grow around 2.0% in 2017. Three factors give us reason for optimism going forward: business investment in structures and equipment rose substantially after a prolonged period of little or no growth; the job market remains solid and wage gains continue to outpace inflation; and inventory drawdowns detracted over 1.1 points from Q1's growth rate - in an expansion such events are usually transitory.

In a widely expected move, the Federal Reserve (Fed) raised its policy rate by a further 25 basis points (0.25%) at its June Federal Open Market Committee meeting. The post-meeting statement and press conference suggest that the Fed is broadly comfortable with the pace of growth and continued gradual improvements in the labor market. It acknowledged recent softness in inflation data relative to its 2% inflation target, but chalked up most of the decline in core inflation to transitory factors. The Fed also provided additional details on its plan to begin reducing the size of its holdings of U.S. Treasury and Agency MBS and reinforced its intention to begin phase-in later this year.

If business investment remains robust (too early to tell) there is some potential for growth to surprise to the upside. However, the lack of almost any progress on tax reform means that any expectation for a policy-based growth boost in 2017 is all but gone. As we move into the second half of 2017, we judge it likely that the Fed will raise rates once more and will begin the process of reducing its asset portfolio. Overall, global economic conditions have improved and growth in Europe and developed Asia may outpace U.S. growth this year. Improved global growth should provide a tailwind for corporate earnings and, as a result, credit spreads.

GUIDELINE COMPLIANCE

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

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