WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Portfolio Commentary – Third Quarter 2017

INVESTMENT PERFORMANCE

During the third quarter, the Wisconsin Deferred Compensation Program – Stable Value Fund continued its positive performance with a quarterly return of 0.49% (net of all fees), which was higher than the second quarter's return of 0.46% (net of all fees). The current net blended yield for the Fund increased during the quarter to 1.99% (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 $3.3 million during the quarter, which represented an increase of 0.5% in total Fund assets. The overall duration of the Fund was 2.82 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 remained in line with the ratio at the end of the last quarter at 100.5%, due to market value returns offsetting the continued amortization of the Fund's market value premium. The credit quality of the underlying bond portfolios remains strong with 68.3% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

ECONOMIC COMMENTARY

U.S. GDP growth advanced by +3.1% in 2Q17 as consumer spending rebounded following weakness in the first quarter. Business investment and net exports also boosted growth in the quarter. The Institute for Supply Management's (ISM) surveys of activity in the manufacturing and non-manufacturing (services) sectors both advanced to multi-year highs in September, suggesting that growth momentum carried well into the third quarter. Developed markets including the U.S., Europe, Japan, Australia, and Canada are experiencing a coordinated economic expansion somewhat above the ho-hum levels we've seen over the last several years. Labor market gains slowed somewhat in the third quarter. Employers added an average of only 91,000 jobs per month during the quarter, although September's jobs number (-33k) was an outlier versus solid gains in both July and August. September's jobs number was likely significantly depressed by the impact of Hurricanes Harvey and Irma, which temporarily displaced thousands of workers.

The Federal Reserve (Fed) left its policy rate range unchanged at 1.00% to 1.25% during the third quarter. However, Fed officials struck a more hawkish tone than the market expected regarding the need for additional hikes over the near-term. The Fed also officially announced that its balance sheet normalization plan will commence in October. The plan will ultimately shrink the Fed's asset portfolio by $50 billion per month via maturities and principal paydowns, reducing the Fed's balance sheet by approximately $1.4 trillion by the end of 2021.

Recent estimates of GDP growth suggest the U.S. economy grew at a 2.5%-3.0% pace during the third quarter, and survey and activity data published in early October show the economy retaining this momentum at the start of the fourth quarter. In all, full-year growth in the 2.5% range seems achievable. Moreover, with the Trump Administration's tax cut plan starting to make its way through the legislative process, the prospects for real fiscal stimulus are looking up – at least looking ahead into 2018. As a result, we still think the Fed is likely to raise rates once more in 2017 and, unless data significantly weakens in the coming months, probably a couple more times in 2018. Importantly, though, we judge it unlikely that the Fed will raise its policy rate above 2% unless growth and/or inflation show signs of breaking out to the upside.

GUIDELINE COMPLIANCE

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

GALLIARD
Capital Management, Inc.
ARCHITECTS OF INVESTMENT SOLUTIONS

Laura Sell, CFA
Senior Director
612.667.3029
Laura.D.Sell@Galliard.com