Wisconsin Deferred Compensation Program - Stable Value Fund

Portfolio Commentary – Fourth Quarter 2017

INVESTMENT PERFORMANCE

During the fourth quarter, the Wisconsin Deferred Compensation Program - Stable Value Fund continued its positive performance with a quarterly return of 0.50% (net of all fees), which was in line with the third quarter's return of 0.49% (net of all fees). The current net blended yield for the Fund increased during the quarter to 2.03% (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 $5.4 million during the quarter, which represented a decrease of 0.8% in total Fund assets. The overall duration of the Fund was 2.88 years at the end of the quarter, slightly longer than 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 decreased during the quarter to 100.0%, 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 67.4% 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 +3.2% in 3Q17, marking the second consecutive quarter of above-3% GDP growth, and the fastest back-to-back quarters since 2014. GDP growth during the quarter was driven by solid personal consumption (+2.2% q/q ann.), growth in exports (+2.1%) and a surge in business investment (+4.7%). Employers added an average of 204,000 jobs per month over the quarter, bouncing back from hurricane-related disruptions in Q3. The unemployment rate fell to 4.1%. The Institute for Supply Management's (ISM) survey of manufacturing activity rose to 59.7 in December. In late-December, President Trump signed the Republican tax cut legislation into law. The cuts, which feature a slashing of the corporate tax rate as well as provisions for immediate expensing of capital expenditures, boosted investor outlook for corporate earnings and improved credit fundamentals.

As expected, the Fed raised its policy rate by 25 bps at the final FOMC meeting of the year in December. Emboldened by recent strong GDP growth, continued labor market gains, ebullient equity markets and the prospect for fiscal stimulus from tax cuts on the immediate horizon, the rate hike decision faced little controversy overall. U.S. and global equities both rallied strongly during the quarter, with the S&P 500 gaining 6.6% and the MSCI EAFE index of non-U.S. developed markets posting a +3.7% gain in local currency terms. In the U.S., credit risk spreads declined, boosting the relative performance of corporate bonds versus U.S. Treasuries during the quarter. Most other fixed income spread sectors followed suit in outperforming Treasuries, which experienced muted returns in response to pressure from the Fed's December hike and faster than expected economic growth.

Measures of consumer spending and business sentiment point to another strong growth quarter for the U.S. in Q4, possibly as strong as 3.0-3.25%. Additionally, tax cuts seem likely to add modestly to the already strong pace of growth in the U.S. over the next several quarters. Globally, JPMorgan/Markit's global composite of purchasing manager indices (Global Composite PMI) rose to 54.4 in December, while International Monetary Fund ("IMF") in October boosted its estimate of global GDP for 2018 by +0.1% to 3.7%.

GUIDELINE COMPLIANCE

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

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