Wisconsin Deferred Compensation Program - Stable Value Fund

Portfolio Commentary – First Quarter 2018

INVESTMENT PERFORMANCE

During the first 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 fourth quarter's return of 0.50% (net of all fees). The current net blended yield for the Fund increased during the quarter to 2.09% (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 $10.5 million during the quarter, which represented an increase of 1.6% in total Fund assets. During the quarter, deposits totaling $4.07 million were made into the contracts from the liquidity buffer in response to continued participant inflows. The overall duration of the Fund was 2.98 years at the end of the quarter, 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 98.9%, due to higher interest rates. The credit quality of the underlying bond portfolios remains strong with 66.6% of the portfolio's securities rated AAA on average, as rated by S&P, Moody's, and Fitch.

ECONOMIC COMMENTARY

The U.S. economy grew at a solid pace in the fourth quarter, advancing +2.9% over the prior quarter on an annualized basis. For the full year, GDP growth measured +2.3%. GDP growth in Q4 was driven by solid personal consumption (+4.0% q/q annualized) and business investment (+6.8%). Despite a weaker than expected payrolls number in March, employers still added an average of 202,000 jobs per month over the quarter. The unemployment rate stands at +4.1%, while the broader U-6 underemployment rate fell to 8.0% in March. Following a strong positive start to the year which saw the S&P 500 rise nearly 7.5% by late-January, stocks turned sharply negative in February and finished the quarter down nearly 1%. The cumulative impact of Fed policy tightening was broadly highlighted as a factor behind the selloff. In addition, the prospect of a tit-for-tat trade war with China also weighed on investor sentiment during the quarter.

The Fed raised its policy rate by 25 bps at its March meeting, to a range of 1.50% to 1.75%. Consistent with prior forecasts, policymakers signaled they expected a total of three hikes in 2018. Policymakers raised their median projection for the pace of hikes in 2019 and 2020, and also upped their forecasts for GDP growth, core inflation and labor market gains (lower unemployment rate) for the next several years. Interest rates rose in broadly parallel fashion during the quarter. The 2-year US Treasury rose 38 bps to end the quarter at 2.27%, the highest level since 2008. Meanwhile, the yield on the 30-year US T-Bond rose 23 bps to 2.97%. In the U.S., credit risk spreads widened in sympathy with falling equity prices and the spike in volatility. Most other fixed income spread sectors followed suit in underperforming Treasuries, although to a lesser degree than corporates.

While global growth remains solid overall, incoming data suggests that weaker consumer and business investment may put a damper on U.S. GDP growth in the first quarter. Meanwhile, recent inflation readings suggest that disinflationary pressures from one-off factors may be moderating, revealing a stronger underlying core inflation trend.

GUIDELINE COMPLIANCE

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

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