



**GALLIARD**  
Capital Management, Inc.

## **WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND**

SECOND QUARTER 2019 PORTFOLIO REVIEW

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# STABLE VALUE PORTFOLIO REVIEW - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Second Quarter 2019

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*The information contained in this report is for informational purposes only. It is intended to provide a summary of portfolio performance and characteristics, and an accounting based view of transactions and holdings. This is a standardized report and is not intended to be used for compliance purposes. Individual portfolio compliance requirements may not be captured in this report.*

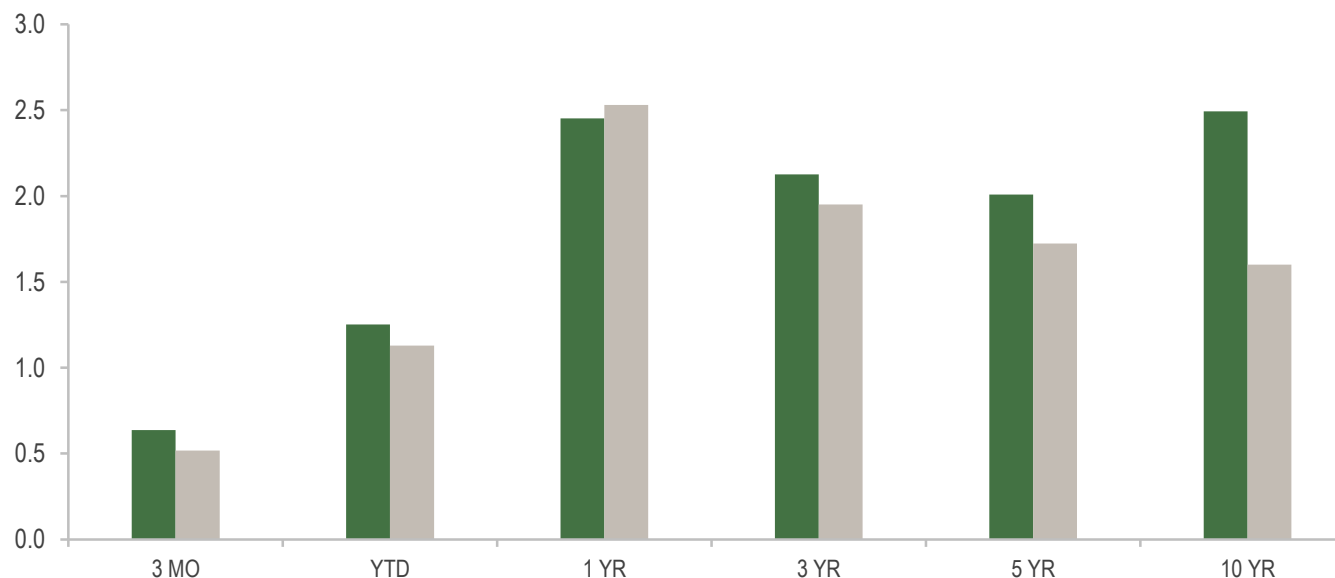
**STABLE VALUE PORTFOLIO REVIEW - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND**

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## ANNUALIZED INVESTMENT PERFORMANCE AS OF 6/30/19<sup>1</sup>



	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.
■ Portfolio (net of all fees - NAV level) <sup>2</sup>	0.64	1.25	2.45	2.13	2.01	2.49
■ Linked Benchmark <sup>3</sup>	0.52	1.13	2.53	1.95	1.72	1.60
<b>Value Added (net of all fees - NAV level)<sup>4</sup></b>	<b>0.12</b>	<b>0.12</b>	<b>(0.08)</b>	<b>0.17</b>	<b>0.29</b>	<b>0.89</b>

1: Returns for periods of less than one year are not annualized.

2: Returns are net of all fees, including book value contract fees, Galliard investment management fees, and, if applicable, external manager fees, Wells Fargo collective fund administrative fees, and plan administrative reimbursement.

3: Linked benchmark: 3 Year Constant Maturity Treasury; Prior to 11/1/15 was the 5 Year Constant Maturity Treasury.

4: May not add due to rounding.

# STABLE VALUE PORTFOLIO REVIEW - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

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## WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

### ACCOUNT SUMMARY

<b>Benchmark</b>	3 Year Constant Maturity Treasury
<b>Galliard Inception Date</b>	July 1, 1998
<b>Net Asset Value</b>	\$672,635,442

### PORTFOLIO CHARACTERISTICS

	Portfolio 3/31/19	Portfolio 6/30/19
<b>Average Quality - Book Value<sup>1</sup></b>	A+	A+
<b>Average Quality - Market Value<sup>2</sup></b>	AA	AA
<b>Number of Contract Issuers</b>	5	5
<b>Blended Yield (after all fees)<sup>3</sup></b>	2.54%	2.59%
<b>Yield to Maturity</b>	2.81%	2.30%
<b>Effective Duration</b>	2.98 years	2.96 years
<b>Market/Book Value Ratio</b>	100.14%	101.58%

1: Average holdings quality of the contracts and other book value assets in the portfolio. The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

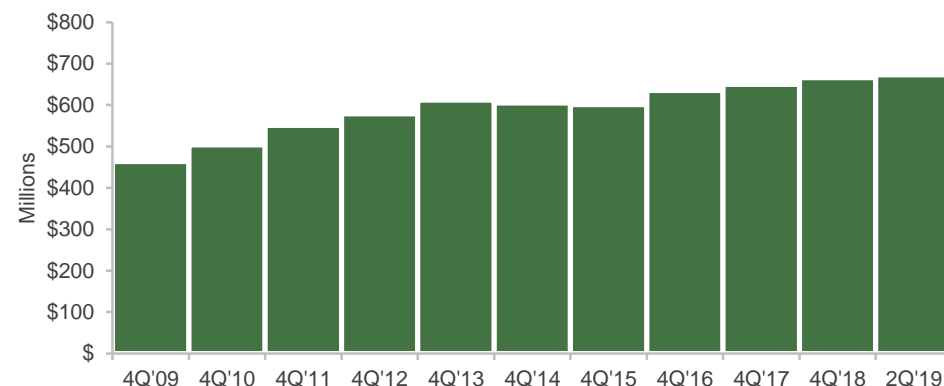
2: Average holdings quality of the underlying assets of the portfolio. The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

3: Blended Yield is net of all fees, including book value contract fees, Galliard investment management fees, and, if applicable, external manager fees, Wells Fargo collective fund administrative fees, and plan administrative reimbursement.

4: Includes Receivables and Payables.

5: Total % of portfolio may not add to 100% due to rounding.

## HISTORICAL FUND ASSETS



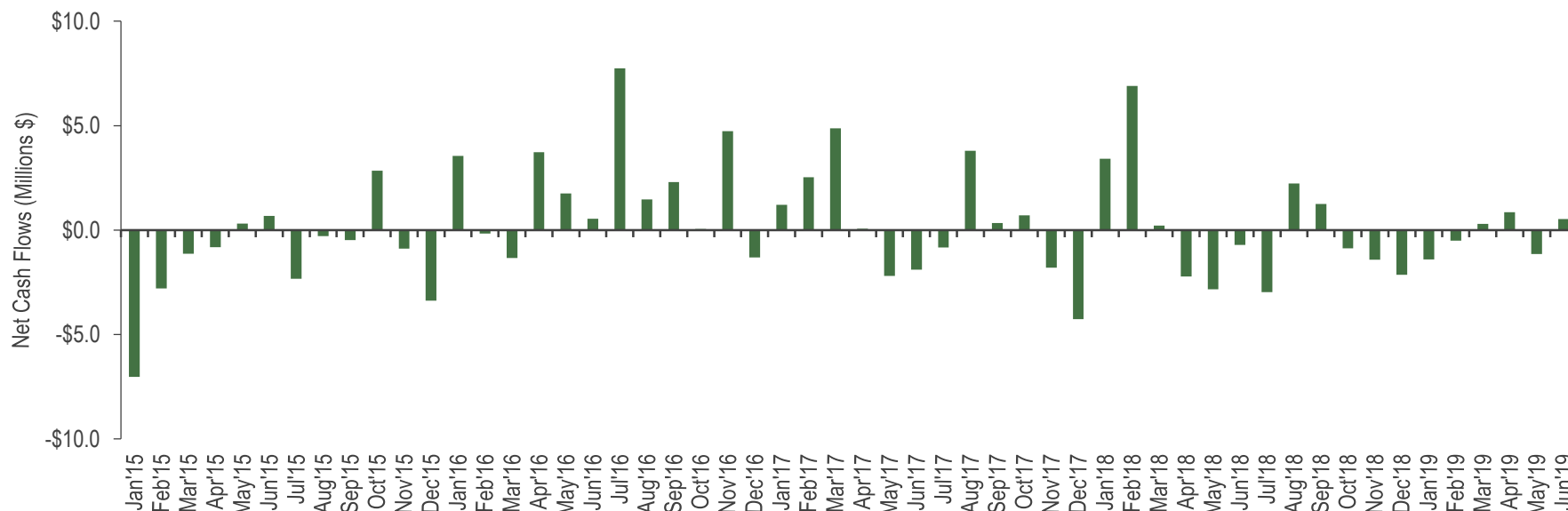
### PORTFOLIO DISTRIBUTION

	% Portfolio 3/31/19	% Portfolio 6/30/19
<b>Liquidity Buffer: Cash &amp; Equivalents<sup>4</sup></b>	1.4	1.3
<b>Short Portfolio</b>	40.3	40.0
<b>Intermediate Portfolio</b>	58.4	58.6
<b>Total</b>	<b>100.0%<sup>5</sup></b>	<b>100.0%<sup>5</sup></b>

# STABLE VALUE PORTFOLIO REVIEW - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Second Quarter 2019

## HISTORICAL CASHFLOWS



	2015	2016	2017	2018	1Q'19	2Q'19	2019 YTD
Beginning Assets	\$605.0	\$600.7	\$635.4	\$650.1	\$665.7	\$668.2	\$665.7
Net Cash Flow (\$)¹	-\$15.3	\$23.1	\$2.5	\$0.9	-\$1.6	\$0.2	-\$1.4
Net Cash Flow (%)	-2.53%	3.84%	0.40%	0.13%	-0.24%	0.03%	-0.21%
Estimated Investment Earnings	\$11.0	\$11.6	\$12.2	\$14.8	\$4.1	\$4.3	\$8.3
Ending Assets²	\$600.7	\$635.4	\$650.1	\$665.7	\$668.2	\$672.6	\$672.6

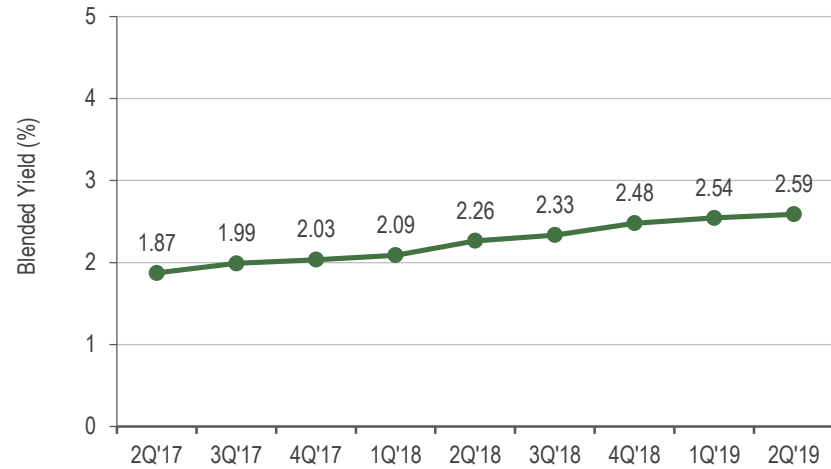
1: Contributions, Withdrawals and Investment Transfers

2: Cashflows may not net to final assets due to rounding.

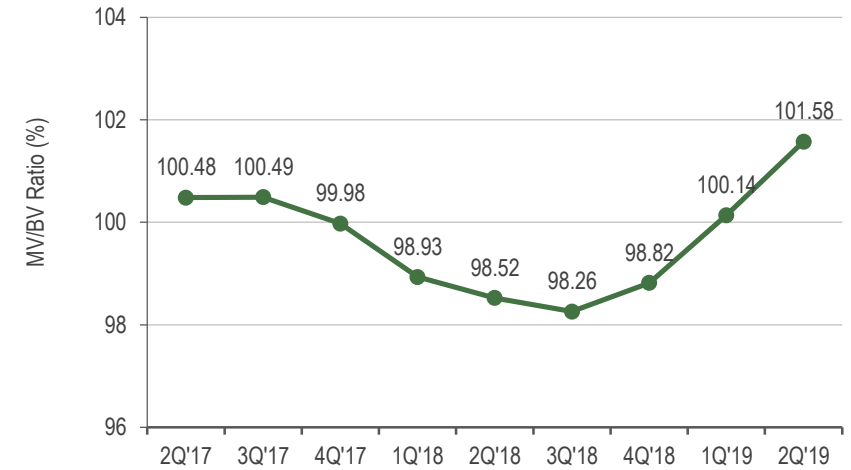
# STABLE VALUE PORTFOLIO REVIEW - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Second Quarter 2019

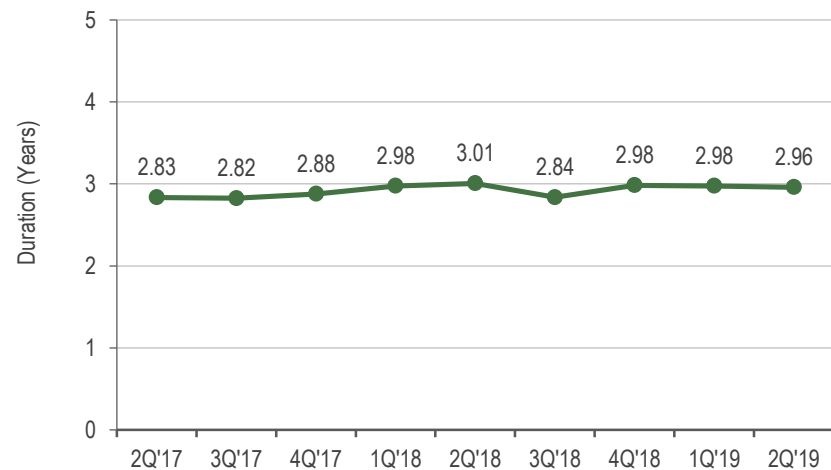
### HISTORICAL BLENDED YIELD<sup>1</sup>



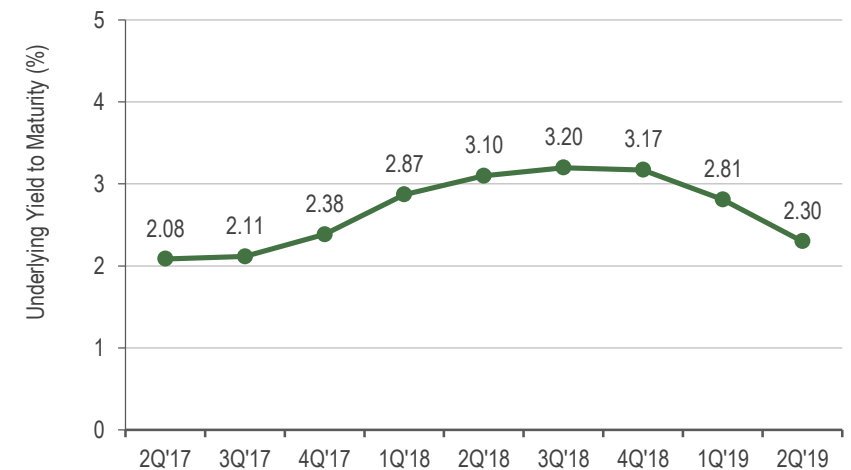
### HISTORICAL MARKET VALUE TO BOOK VALUE RATIO



### HISTORICAL DURATION



### HISTORICAL UNDERLYING YIELD TO MATURITY



<sup>1</sup>: Blended Yield is net of all fees, including book value contract fees, Galliard investment management fees, and, if applicable, external manager fees, Wells Fargo collective fund administrative fees, and plan administrative reimbursement.

# STABLE VALUE PORTFOLIO REVIEW - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Second Quarter 2019

## CONTRACT ISSUER DISTRIBUTION & RATING SUMMARY<sup>1</sup>

	% Portfolio 3/31/19	% Portfolio 6/30/19	Rating 3/31/19	Rating 6/30/19
American General Life Ins. Co.	20.2	20.2	A+	A+
Nationwide Life Ins. Co.	15.0	15.0	A+	A+
Prudential Ins. Co. of America	20.6	20.6	AA-	AA-
Transamerica Premier Life Ins. Co.	23.9	23.9	A+	A+
Voya Ret. Ins. and Annuity Co.	19.0	19.0	A	A

<sup>1</sup>: The quality rating shown represents the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings.



# STABLE VALUE PORTFOLIO REVIEW - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Second Quarter 2019

## MANAGER DISTRIBUTION

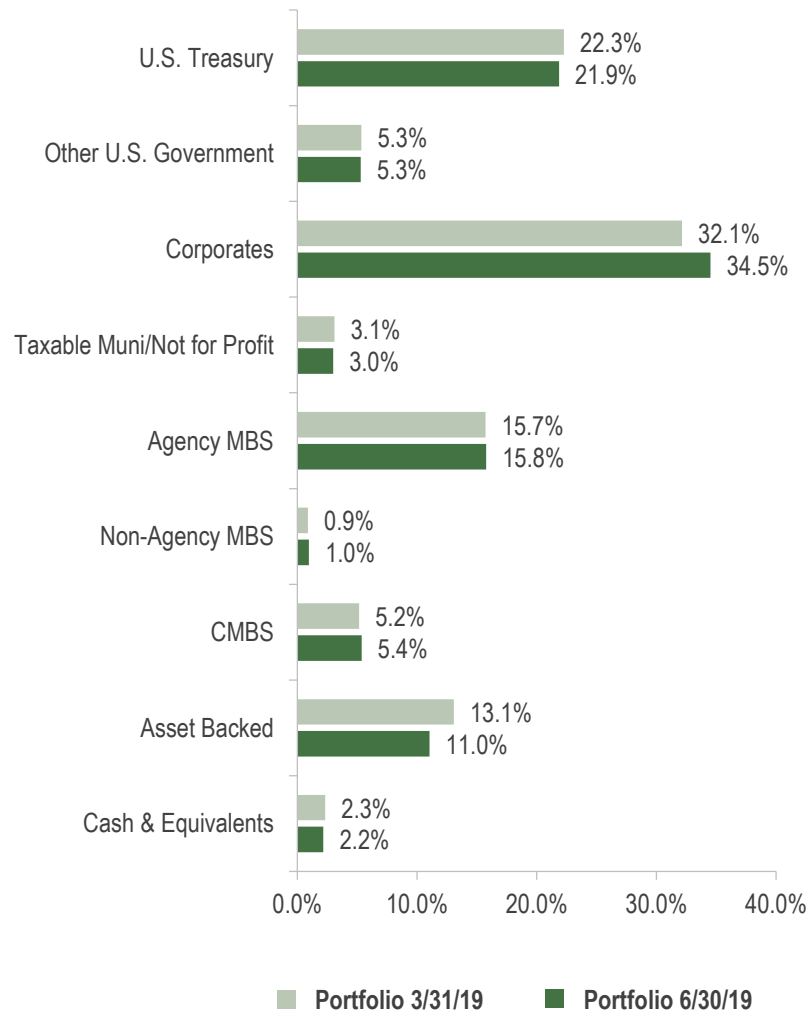
	Strategy	Benchmark	% of Portfolio 3/31/19	% of Portfolio 6/30/19
Liquidity Buffer: Cash & Equivalents	STIF/Money Market		1.4	1.3
Galliard	Short	Bloomberg Barclays U.S. 1-3 Year Government/Credit Bond Index	40.3	40.0
Galliard	Intermediate	Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index	27.7	27.8
Dodge & Cox	Intermediate	Bloomberg Barclays U.S. Intermediate Aggregate Bond Index	10.2	10.2
Jennison Assoc.	Intermediate	Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index	10.3	10.3
TCW	Intermediate	Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index	10.2	10.3
Total			100% <sup>1</sup>	100% <sup>1</sup>

1: Total % of portfolio may not add to 100% due to rounding.

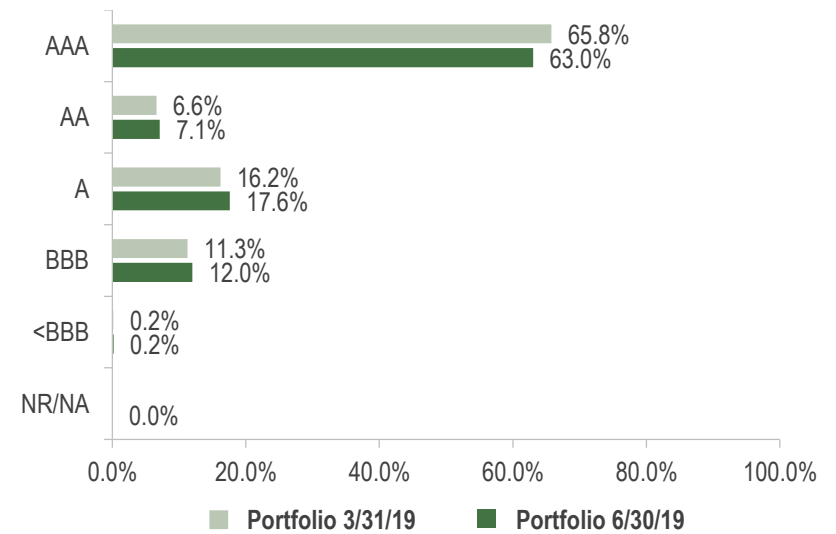
# STABLE VALUE PORTFOLIO REVIEW - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Second Quarter 2019

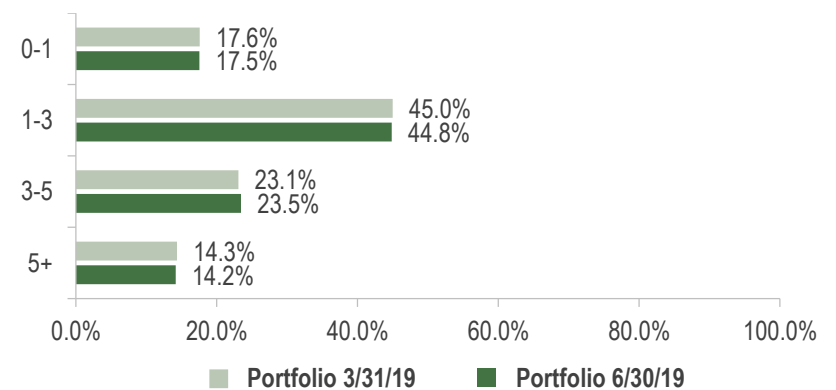
## UNDERLYING FIXED INCOME ASSET ALLOCATION<sup>1</sup>



## UNDERLYING QUALITY DISTRIBUTION<sup>1</sup>



## UNDERLYING DURATION DISTRIBUTION<sup>1</sup>



1: Market Value. Total % of portfolio may not add to 100% due to rounding. The external managers provide holdings and the securities are classified using Galliard's analytics methodology for maximum comparability across managers. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. Distributions represent the portfolio positions for reporting purposes only. Investment guideline compliance is reported in the appendix or separately through your Galliard relationship manager.

# WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND PORTFOLIO HOLDINGS

June 30, 2019

Asset ID	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Crediting Rate (%) <sup>1</sup>	UCA Yield (%)	Effective Duration (yrs)	Galliard Composite Rating	Wrap Fees (bps)
<b>LIQUIDITY BUFFER</b>											
	Cash Receivable / (Payable)		-436,950	-436,950	100.0	-0.1	2.47	2.47	0.10	AAA	
9983008\$P	WF/BlackRock Short Term Investment Fund S		9,420,416	9,420,416	100.0	1.4	2.47	2.47	0.10	AAA	
<b>TOTAL LIQUIDITY BUFFER</b>			8,983,466	8,983,466	100.0	1.3	2.47	2.47	0.10	AAA	
<b>SHORT PORTFOLIO</b>											
946996EP6	American General Life Ins. Co.	Galliard	44,721,053	45,537,852	101.8	6.6	2.74	2.26	1.86	A+	18.0
896994DP2	Nationwide Life Ins. Co.	Galliard	31,091,696	31,785,953	102.2	4.6	2.89	2.26	1.86	A+	17.0
744999ZU0	Prudential Ins. Co. of America	Galliard	69,314,511	70,190,633	101.3	10.3	2.54	2.26	1.86	AA-	18.0
600996CC4	Transamerica Premier Life Ins. Co.	Galliard	65,713,950	66,701,299	101.5	9.8	2.77	2.26	1.86	A+	17.0
75999UNG9	Voya Ret. Ins. and Annuity Co.	Galliard	58,532,212	59,317,034	101.3	8.7	2.49	2.26	1.86	A	18.0
<b>TOTAL SHORT PORTFOLIO</b>			269,373,422	273,532,772	101.5	40.0	2.66	2.26	1.86	A+	
<b>INTERMEDIATE PORTFOLIO</b>											
946996EP6	American General Life Ins. Co.	Galliard	91,348,274	93,016,688	101.8	13.6	2.74	2.45	3.85	A+	18.0
896994DP2	Nationwide Life Ins. Co.	Galliard	69,779,559	71,337,690	102.2	10.4	2.89	2.45	3.85	A+	17.0
744999ZU0	Prudential Ins. Co. of America	Jennison Assoc.	69,278,489	70,154,156	101.3	10.3	2.54	1.86	3.95	AA-	18.0
600996CC4	Transamerica Premier Life Ins. Co.	Dodge & Cox	68,871,943	69,906,740	101.5	10.2	2.77	2.61	3.27	A+	17.0
600996CC4	Transamerica Premier Life Ins. Co.	Galliard	26,034,478	26,425,644	101.5	3.9	2.77	2.45	3.85	A+	17.0
75999UNG9	Voya Ret. Ins. and Annuity Co.	TCW	68,965,813	69,890,533	101.3	10.3	2.49	2.13	3.91	A	18.0
<b>TOTAL INTERMEDIATE PORTFOLIO</b>			394,278,555	400,731,452	101.6	58.6	2.69	2.32	3.78	A+	
<b>TOTAL PORTFOLIO</b>			<b>672,635,442</b>	<b>683,247,689</b>	<b>101.6</b>	<b>100.0</b>	<b>2.68</b>	<b>2.30</b>	<b>2.96</b>	<b>A+</b>	

<sup>1</sup>: Crediting rates are net of wrap fees and any other fees being netted out of the rates.



# MARKET REVIEW

## SECOND QUARTER 2019

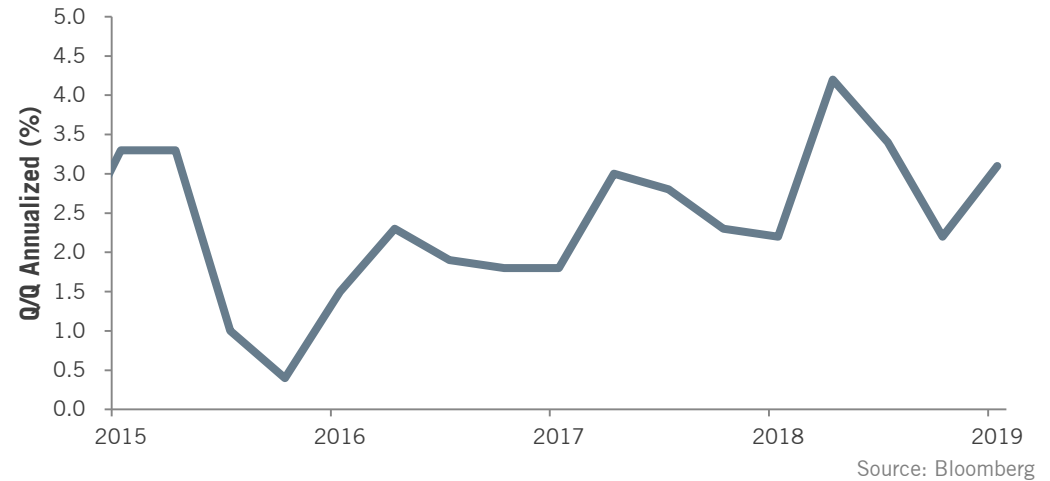
### STRONGER THAN EXPECTED GROWTH IN 1Q...

- U.S. GDP growth rebounded in the first quarter to 3.1% q/q annualized, picking up the pace after a lackluster end to 2018; personal consumption growth continued to trend lower, however, falling to 0.9% q/q annualized.
- Slower consumption growth was more than offset by other factors, including positive contributions from net exports and inventories, but incoming data suggest a reversal of these measures in 2Q with stronger consumption and a negative drag from trade and inventories.

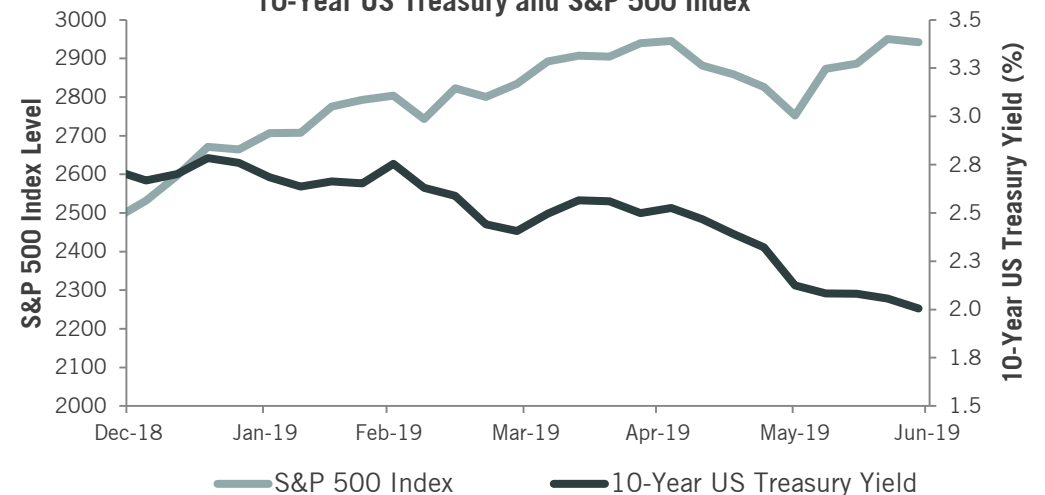
### ...BUT SLOWDOWN EXPECTED IN 2Q

- Retail sales since February support the stronger trend in spending in 2Q, while on the business side the ISM Manufacturing Index fell to 51.7 in June, the lowest level since 2016.
- Business activity, while still expansionary, continues to slow; uncertainty regarding trade policy, increased geopolitical risks, the waning effects of tax-related stimulus, and the lagged effects of tighter monetary policy have all weighed heavily on investment.
- Market consensus is currently calling for growth to slow in the second quarter, in the range of 1.5% to 2.0%.
- In response to subdued economic data, the Treasury market rallied considerably during the quarter. The 3-month T-Bill versus 10-year Treasury curve has been inverted since late May – while not necessarily signaling that a recession is imminent, the message is perhaps that an economic slowdown is becoming more certain.
- On the other hand, it was “bad news is good news” again for the equity market with the S&P 500 at all time highs at the end of June.

Real GDP Growth



10-Year US Treasury and S&P 500 Index



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# MARKET REVIEW

## SECOND QUARTER 2019

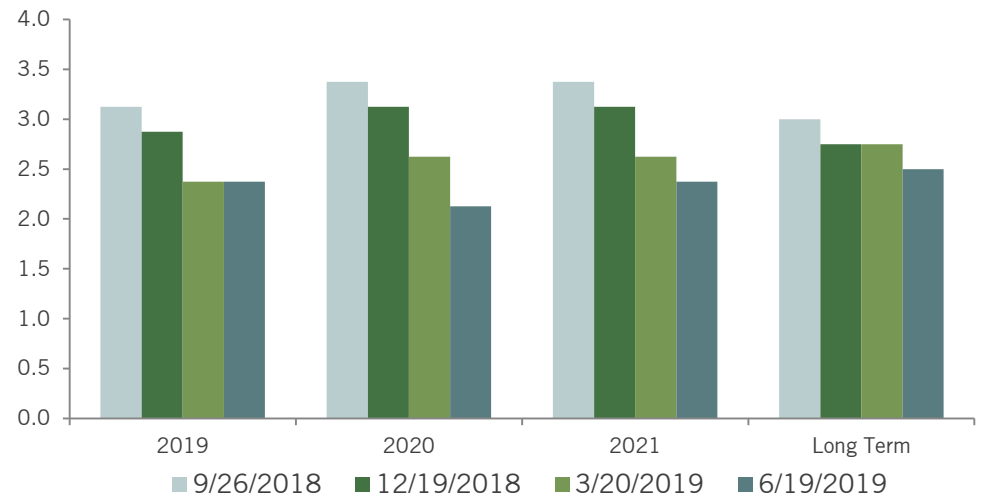
### FED PIVOTS TO MORE DOVISH POLICY APPROACH...

- The Fed left interest rates unchanged during the second quarter as expected, and has yet to change its policy rate in 2019; however, the shift in policy stance over the past six months has been dramatic.
- When 2018 ended, the Fed was firmly on a path to tighter monetary policy in the year ahead; since December the Fed's message has gone from tightening to patience to dovish policy easing.
- At the June FOMC meeting, the Fed signaled that it stands ready to ease monetary policy in order to prolong the current economic expansion – current market expectations are for 2 to 3 rate cuts between now and year-end. However, any disconnect between the Fed's actions and market expectations could be a source of volatility going forward.

### ...AS LOW UNEMPLOYMENT AND TEPID INFLATION PERSIST

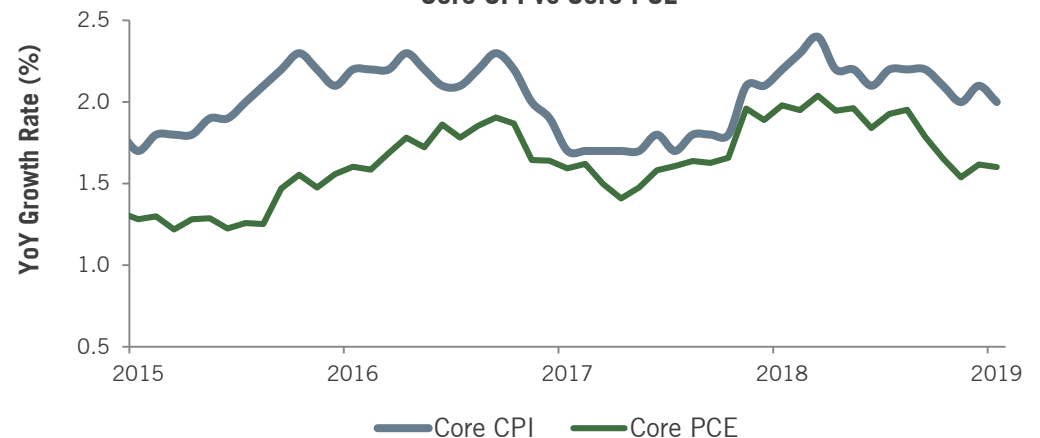
- Inflation continued along a muted path in the second quarter, and sustained 2% inflation consistent with the Fed's target remained elusive.
- Core CPI moderated to 2% y/y in May while the Fed's preferred measure of inflation, core PCE, slipped back to 1.6%.
- The unemployment rate continued to hover at the lowest level in 50 years while job creation was choppy during the quarter: after 216,000 jobs were added in April, May disappointed with an increase of only 72,000 but was followed by a June reading that was much stronger than expected with 224,000 new jobs added.

FOMC Median Fed Funds Rate Projections (%)



Source: Federal Reserve, Bloomberg

Core CPI vs Core PCE



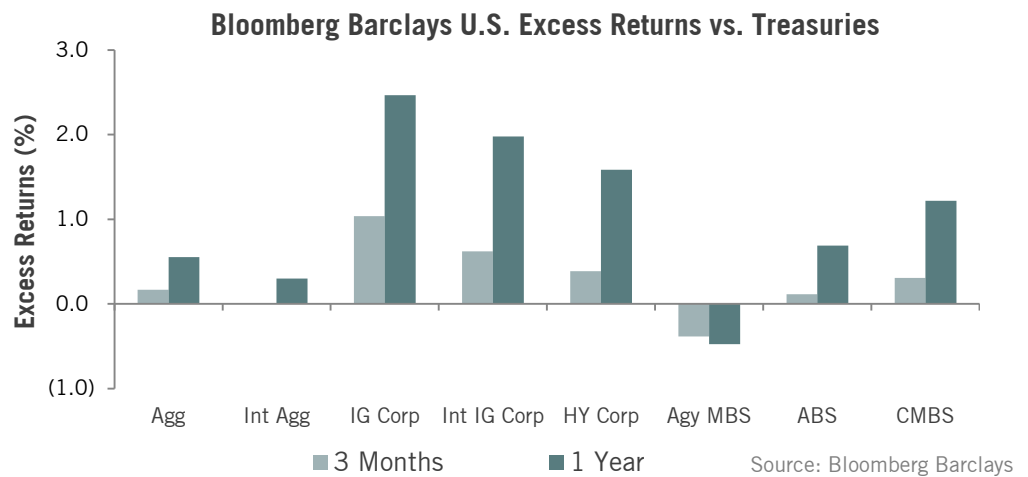
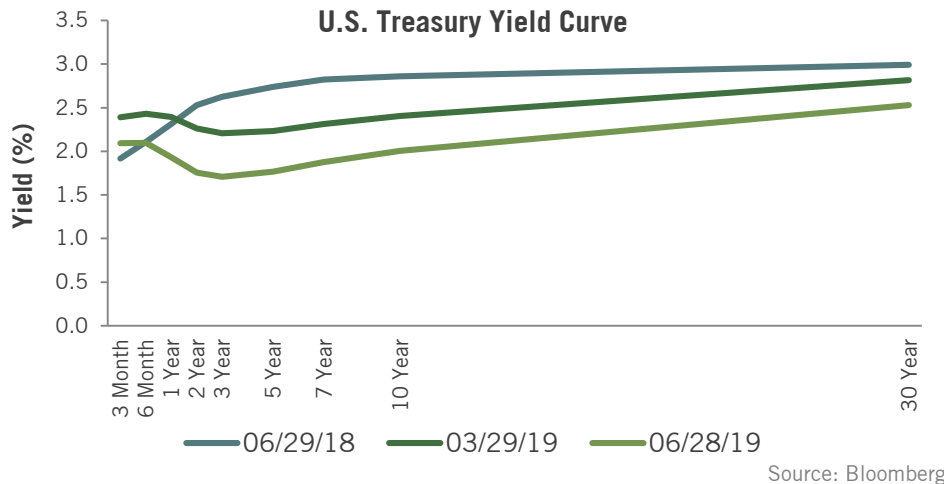
Source: Bloomberg

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# MARKET REVIEW

## SECOND QUARTER 2019

### INTEREST RATES FALL FURTHER WHILE MOST NON-TREASURY SECTORS OUTPERFORM DURING THE QUARTER



- The Fed turned even more dovish at its June policy meeting, signaling that it stands ready to ease monetary policy in order to prolong the current economic expansion. However, the size and timing of rate cuts may be at odds with current market expectations and this disconnect has the potential to create some volatility should the Fed's actions underwhelm the market.
- Interest rates declined meaningfully across maturities during the quarter with 10-year rates ending at around 2%, 40 bps lower than at the end of March. While the 2s/10s curve remains positive, the 3-month T-Bill versus 10-year Treasury curve has been inverted since late May.
- The expectation of rate cuts reignited the rally in risk assets that started at the beginning of the year. Spread sectors generally outperformed Treasuries, with the exception of Agency MBS. Outperformance was led by Investment Grade Corporate Bonds. Long bonds performed better than intermediate maturities, generating 191 bps excess return versus 62 bps. BBBs and crossovers outperformed AA/A rated bonds.
- Corporate spreads retraced some year-to-date tightening in May before moving back to fair levels in June; supply remains down year-over-year (~12%) while demand was strong to end the quarter.
- CMBS has been the best performing securitized sector thus far in 2019; non-Agency CMBS sector performance continues to be highly correlated with intermediate Investment Grade Corporates. New issue continues to lag last year, down ~14% through 2Q relative to the same period last year.
- ABS also performed well, aided by a continued rally in swap spreads; supply for the first half of the year is flat versus 1H2018 and demand remains solid.
- Agency MBS was the only major spread sector to post negative excess returns for the quarter and year-to-date. With the 10-year Treasury hovering near 2% and 30-year mortgage rates at 3.75%, negative convexity was the primary driver of underperformance. Elevated volatility and supply concerns also played a role.

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## APPENDIX - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Second Quarter 2019

### CALENDAR YEAR INVESTMENT PERFORMANCE

	2014	2015	2016	2017	2018
Portfolio (net of all fees - NAV level) <sup>1</sup>	1.73	1.85	1.90	1.90	2.26
Linked Benchmark <sup>2</sup>	1.64	1.45	1.01	1.58	2.63
<b>Value Added (net of all fees – NAV level)<sup>3</sup></b>	<b>0.09</b>	<b>0.40</b>	<b>0.90</b>	<b>0.32</b>	<b>(0.37)</b>

### MARKET INDICES

ICE BofAML U.S. 3 Month Treasury Bill	0.03	0.05	0.33	0.86	1.87
Consumer Price Index	0.76	0.73	2.07	2.11	1.67

### GUIDELINE COMPLIANCE

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

1: Returns are net of all fees, including book value contract fees, Galliard investment management fees, and, if applicable, external manager fees, and plan administrative reimbursement.

2: Linked benchmark: 3 Year Constant Maturity Treasury; Prior to 11/1/15 was the 5 Year Constant Maturity Treasury.

3: May not add due to rounding.

## APPENDIX - WISCONSIN DEFERRED COMPENSATION PROGRAM - STABLE VALUE FUND

Second Quarter 2019

### TOTAL ANNUAL FUND OPERATING EXPENSES

Total Annual Operating Expenses are deducted directly from the Fund's net asset value and reduce the investment option's rate of return.

Expense	Expense Ratio 6/30/19	Per \$1000
Investment Management Fees paid to Galliard	0.088%	\$0.88
Investment Management fees paid to Non-Affiliated Investment Advisors	None	None
Investment Contract Fees <sup>1</sup>	0.174%	\$1.74
Acquired Fund Fees <sup>2</sup>	0.059%	\$0.59
-Investment Contract Fees	None	None
-Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non-Affiliated Investment Advisors <sup>3</sup>	0.059%	\$0.59
12b-1 Distribution Fee	None	None
Other Expenses	None	None
<b>Total Annual Fund Operating Expenses<sup>4</sup></b>	<b>0.320%</b>	<b>\$3.20</b>

1: These are fees paid to create and maintain the investments used by a stable value fund.

2: These are fees borne indirectly by the Fund when it acquires an interest in another fund which pays its own separate fees.

3: Includes audit fees for the cost of producing a report by a qualified auditor.

4: Total Annual Fund Operating Expenses are reflected daily in the Fund's net asset value (NAV).

Excluding STIF or money market allocations, non-affiliated investment advisors include Dodge & Cox , Jennison Assoc., TCW.