

State of North Carolina

MAY 17, 2017

STATE OF NORTH CAROLINA

TABLE OF CONTENTS

SECTION I:	Galliard Capital Management Firm Update
SECTION II:	Relationship Milestones & Expense Disclosure
SECTION III:	State of North Carolina Stable Value Fund Portfolio Review
APPENDIX:	Economic Update Professional Biography

SECTION I

GALLIARD CAPITAL MANAGEMENT

WHO WE ARE

CLIENT ALIGNED STABLE VALUE & FIXED INCOME INVESTMENT SOLUTIONS FOR OVER 20 YEARS

\$93.2 B
TOTAL AUM

\$81.7 B
TOTAL STABLE VALUE AUM
115+ stable value separate accounts

115
EMPLOYEES
ON STAFF

SENIOR PROFESSIONALS AVERAGE
YEARS OF EXPERIENCE:

Stable value portfolio management team – **23**

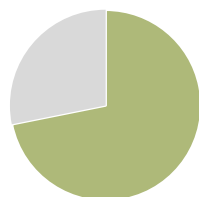
Fixed income team – **19**

Contract management & negotiation team – **22**

STABLE VALUE & FIXED INCOME PRODUCTS • SEPARATE ACCOUNTS • COLLECTIVE FUNDS

240+
INSTITUTIONAL
CLIENTS

CLIENT RELATIONSHIP TENURE



~70% of our clients have worked with
Galliard for greater than **5 years**

28 of those relationships exceed **15 years**
with Galliard

2017 NEW BUSINESS

5 new clients YTD

\$2.7 B new assets YTD

25 Fortune 100 clients

57 Fortune 500 clients

CLIENT TYPES CORPORATE • FOUNDATIONS/
ENDOWMENTS • HEALTHCARE • INSURANCE
RESERVES • OPERATING
FUNDS • PUBLIC
ENTITIES • TAFT-
HARTLEY

HIGHLIGHTS

Galliard is now a signatory
to the United Nations-
supported **Principles for
Responsible Investment**

Galliard ranked in the **top 10** in
Pensions & Investments report of
largest managers of assets held by
100 largest corporate DC plans
(*The Corporate DC 100: The Largest Money
Managers*, published March 7, 2016)

Galliard **ranked #2** by total AUM
in the Pensions & Investments
rankings of stable value managers

(*Largest Money Managers Report*,
published May 30, 2016, data as of
December 31, 2015)

Data as of 3/31/17

SECTION II

STATE OF NORTH CAROLINA STABLE VALUE FUNDS

RELATIONSHIP MILESTONES

2013

- Secured wrap coverage for Payden & Rygel with American General Life
- Reduced exposure to PIMCO/Met Life to 13% target
- Allocated 15% to Jennison under Prudential wrap

2014

- Finalized Nationwide wrap contract to replace United of Omaha
- Reduced Great West Life allocation to target (20%)

2015

- Added Dodge & Cox as sub-advisor to both the 401(k) and 457 Plan's stable value funds, replacing PIMCO
- Facilitated closure of Great West Life open receivable
- Negotiated lower contract fees with American General Life

2016

- Merged the 457 plan's Stable Value Fund into the plan's 401(k) Stable Value Fund
- Amended the Galliard IMA to reflect relationship with the group trust. Amendment included Galliard investment management fee reduction
- Transitioned Prudential enhanced index strategy collective trust to an active management strategy separate account. No change to benchmark (intermediate aggregate).

STATE OF NORTH CAROLINA STABLE VALUE FUNDS

RELATIONSHIP MILESTONES CONTINUED

DECEMBER 2010

- Galliard assumes oversight, daily valuations, and administration of stable value funds
 - Transitioned custody of the 457 Plan Payden & Rygel portfolio to Wells Fargo
-

2011

- Changed 401(k) Plan's Prudential benchmark from Broad Market to Intermediate Aggregate
 - Transitioned PIMCO to intermediate duration strategy wrapped by MetLife and increase allocation to 15% of assets
 - Funded Galliard short duration strategy with United of Omaha Wrap
 - Began termination of State Street securities lending program in the 401(k) Plan
 - Transitioned 457 Plan's Prudential intermediate duration strategy to Galliard collective trust
 - Liquidation of GWL trading account and funding of the Wells Fargo STIF and Wells Fargo SRF liquidity buffer
 - Transitioned custody of the 401(k) Payden & Rygel portfolio to Wells Fargo
 - New guidelines established for Payden short duration strategy
 - Transition 401(k) Plan's Prudential investment to intermediate duration collective trust
 - Moved from declared rate to actual portfolio returns
-

2012

- Changed STIF to Wells Fargo Government Money Market
- Finalize portfolio strategy recommendations

STATE OF NORTH CAROLINA EXPENSE DISCLOSURE

TOTAL ANNUAL 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 (as of 3/31/17)	Per \$1000	Est. Annual Revenue
Investment Management Fees paid to Galliard	0.067%	\$0.67	\$1,668,191
Investment Management Fees paid to Non-Affiliated Investment Advisors	0.062%	\$0.62	\$1,546,126
Investment Contract Fees ¹	0.171%	\$1.71	\$4,243,321
Acquired Fund Fees ²	0.033%	\$0.33	\$811,822
-Investment Contract Fees	0.014%	\$0.14	\$359,220
-Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non- Affiliated Investment Advisors ³	0.018%	\$0.18	\$452,602
12b-1 Distribution Fee	None	None	None
Other Expenses	0.027%	\$0.27	\$662,330
Total Annual Fund Operating Expense⁴	0.360%	\$3.60	\$8,931,789

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

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

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

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

SECTION III

STABLE VALUE PORTFOLIO REVIEW – STATE OF NORTH CAROLINA STABLE VALUE FUND

First Quarter 2017

ANNUALIZED INVESTMENT PERFORMANCE*

Periods Ending March 31, 2017

	<u>1 Mo</u>	<u>3 Mos</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
Book Value Performance								
Portfolio (net of all fees - NAV Level)***	0.17	0.47	0.47	1.96	1.88	2.06	---	2.30
Merrill Lynch 3 Month T-Bill + 100 bps	0.10	0.35	0.35	1.36	1.17	1.14	---	1.14
Merrill Lynch 3 Month T-Bill + 150 bps	0.14	0.48	0.48	1.87	1.68	1.65	2.20	1.64
3 Year Constant Maturity Treasury Yield	0.13	0.38	0.38	1.13	1.04	0.82	1.28	0.80
Market Value Benchmark								
Blended Benchmark****	0.04	0.54	0.54	0.46	1.66	1.47	3.12	1.78

CALENDAR YEAR PERFORMANCE

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Book Value Performance						
Portfolio (net of all fees - NAV Level)***	1.95	1.87	1.80	2.15	2.75	3.27
Merrill Lynch 3 Month T-Bill + 100 bps	1.33	1.06	1.04	1.08	1.12	1.11
Merrill Lynch 3 Month T-Bill + 150 bps	1.84	1.56	1.55	1.58	1.62	1.61
3 Year Constant Maturity Treasury Yield	1.01	1.03	0.90	0.54	0.38	0.75
Market Value Benchmark						
Blended Benchmark****	1.60	0.93	2.69	-0.41	2.52	4.05

Market Indices

Merrill Lynch 3 Month T-Bill	0.33	0.05	0.03	0.07	0.11	0.10
Consumer Price Index	2.12	0.73	0.76	1.51	1.74	2.96

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

**Galliard's management of this portfolio began December 1, 2010. Periods that exceed Galliard's tenure with the portfolio include Galliard performance linked with historical portfolio returns.

***Returns are net of all fees, including plan administrative reimbursement.

****10% BofAML 3 Month U.S. T-Bills, 30% Barclays 1-3 Yr U.S. Govt/Credit, 60% Barclays Intermediate U.S. Aggregate. This blended market value benchmark approximates the asset allocation target for the State of North Carolina Stable Value Fund. It is important to note that fundamental differences arise when comparing book value performance to a market index, especially when comparing performance for periods shorter than 10 years. Market value indices immediately reflect the gains/(losses) resulting from changing market interest rates while book value performance amortizes these gains/(losses).

STABLE VALUE PORTFOLIO REVIEW - STATE OF NORTH CAROLINA STABLE VALUE FUND

First Quarter 2017

PORTFOLIO CHARACTERISTICS

Total Assets	\$2,480,581,692	Blended Yield (After fees)*	1.91%
Average Holdings Quality**	AA	Effective Duration	3.18 years
Number of Contract Issuers	5	Market/Book Value Ratio	100.58%

*Blended yield is after investment management fees and wrap fees.

**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 contracts and cash held by the portfolio as rated by S&P and Moody's.

SECTOR DISTRIBUTION

<u>PORTFOLIO DISTRIBUTION</u>	<u>CONTRACT VALUE (\$)</u>	<u>% OF PORTFOLIO 03/31/2017</u>	<u>% OF PORTFOLIO 12/31/2016</u>
Cash & Equivalents*	15,578,379	0.6	0.8
Stable Value Funds	173,188,041	7.0	7.0
Separate Account GICs	818,208,833	33.0	32.9
Intermediate Portfolio	818,208,833	33.0	32.9
Security Backed Investment Contracts	1,473,606,439	59.4	59.3
Short Portfolio	786,947,764	31.7	31.7
Intermediate Portfolio	686,658,675	27.7	27.6
Total	\$2,480,581,692	100.0%**	100.0%**

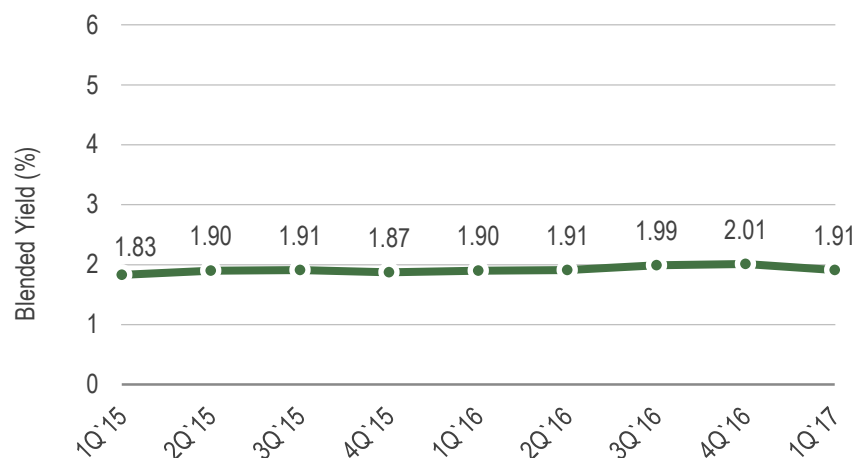
*Includes Receivables and Payables

**Total % of portfolio may not add to 100% due to rounding

STABLE VALUE PORTFOLIO REVIEW - STATE OF NORTH CAROLINA STABLE VALUE FUND

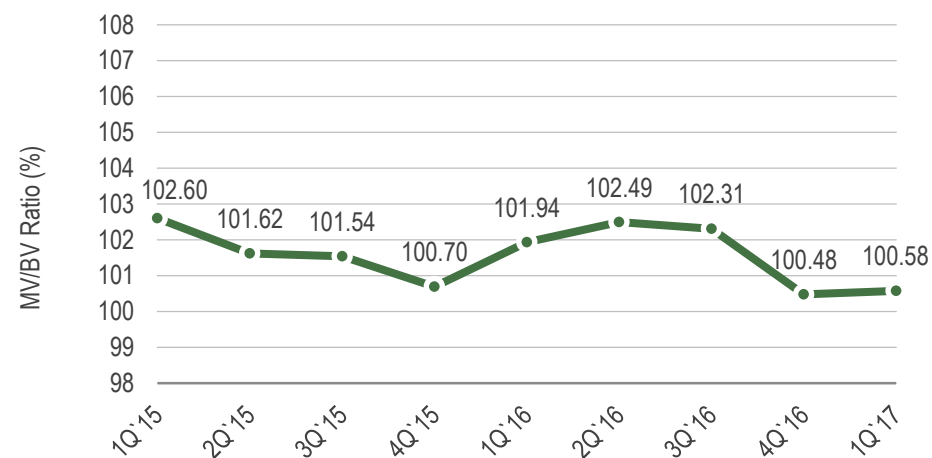
First Quarter 2017

HISTORICAL BLENDED YIELD*

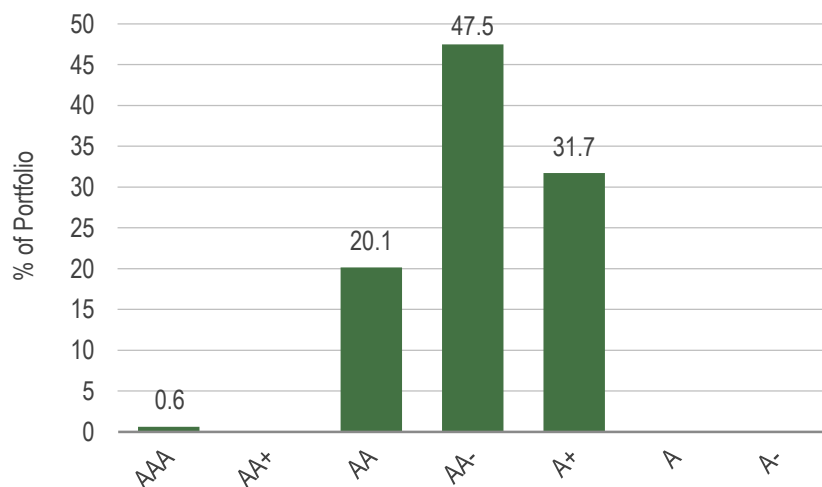


*As of quarter end. Blended yield is after investment management fees and wrap fees.

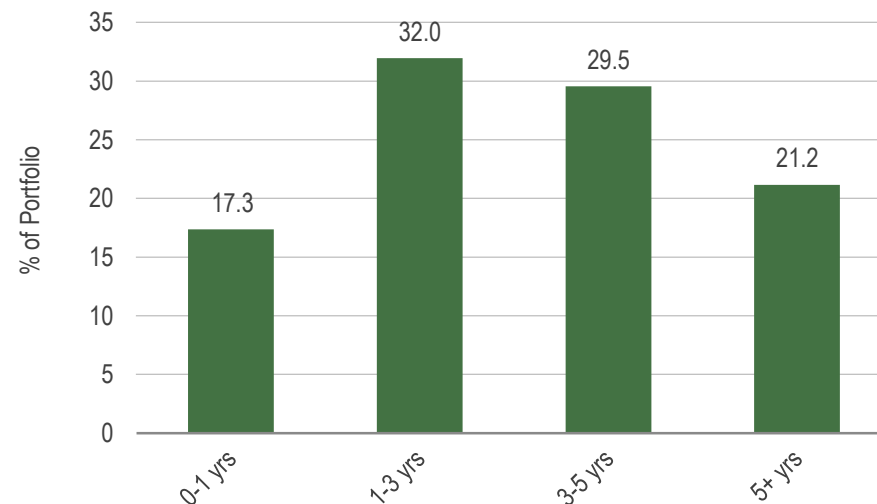
MARKET VALUE TO BOOK VALUE RATIO



CONTRACT QUALITY DISTRIBUTION*



UNDERLYING DURATION DISTRIBUTION**



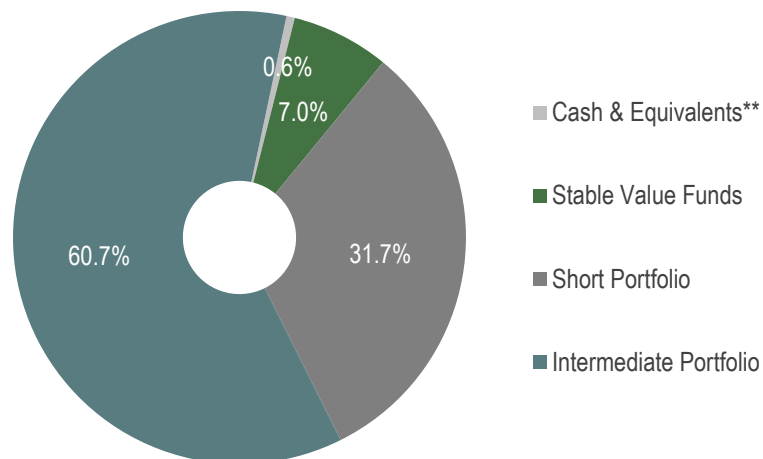
*Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

**Total % of portfolio may not add to 100% due to rounding. Duration distribution of the externally managed portfolios is provided by the external manager.

STABLE VALUE PORTFOLIO REVIEW - STATE OF NORTH CAROLINA STABLE VALUE FUND

First Quarter 2017

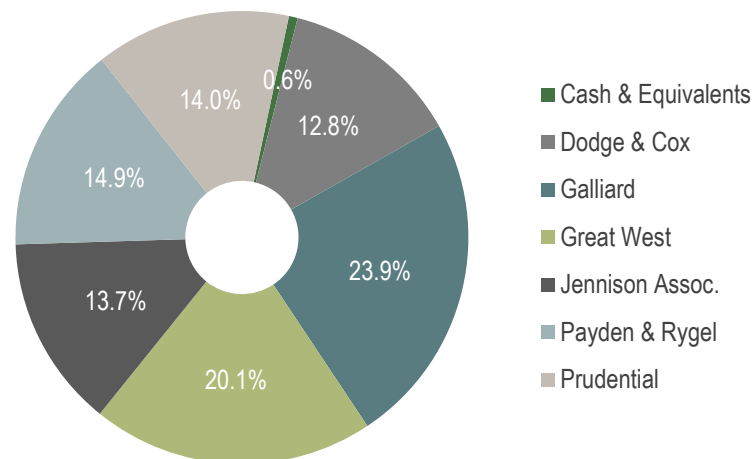
PORTFOLIO DISTRIBUTION*



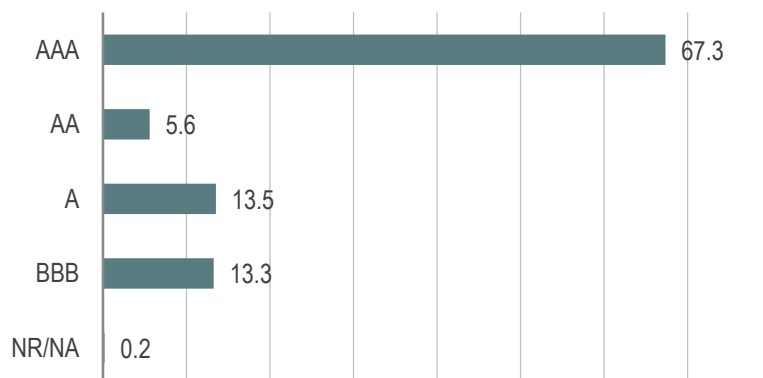
*Book value

**Includes Receivables and Payables

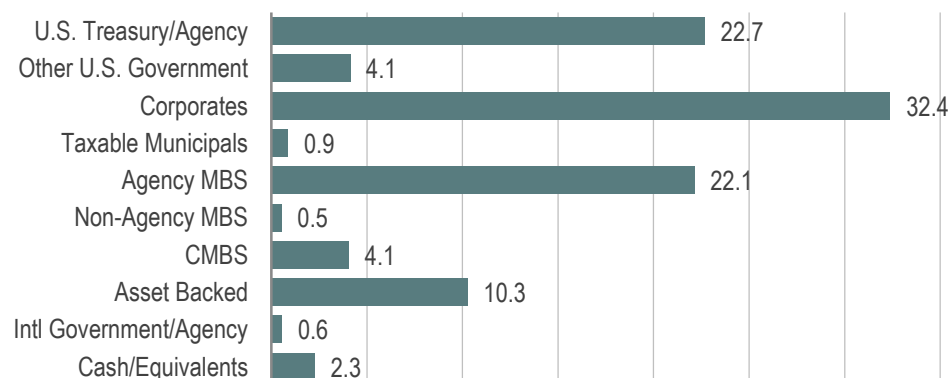
MANAGER DISTRIBUTION*



UNDERLYING FIXED INCOME CREDIT QUALITY*



UNDERLYING FIXED INCOME ASSET ALLOCATION**



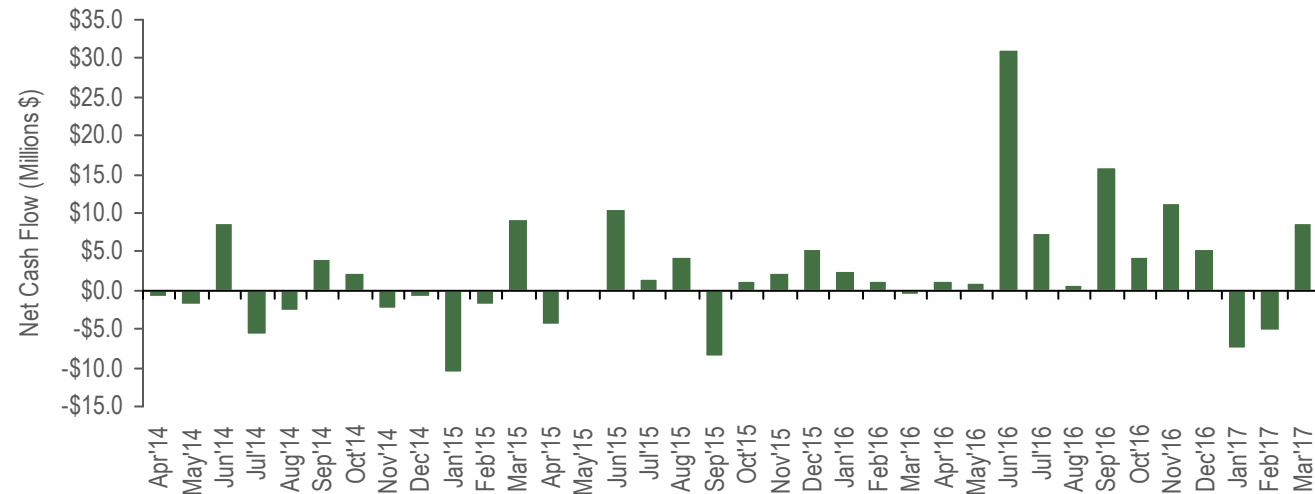
*Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology

**Market value. Total % of portfolio may not add to 100% due to rounding. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology for maximum comparability across managers.

STABLE VALUE PORTFOLIO REVIEW - STATE OF NORTH CAROLINA STABLE VALUE FUND

First Quarter 2017

HISTORICAL CASHFLOWS



	YTD	2016	2015	2014	2013
Beginning Assets	\$2,472.8	\$1,948.6	\$1,904.2	\$1,870.9	\$1,829.1
Net Cash Flow (\$)*	-\$3.9	\$81.5	\$8.8	-\$0.3	\$2.4
Net Cash Flow (%)	-0.16%	4.18%	0.46%	-0.02%	0.13%
Estimated Investment Earnings	\$11.6	\$46.9	\$35.7	\$33.6	\$39.4
Ending Assets**	\$2,480.6	\$2,472.8	\$1,948.6	\$1,904.2	\$1,870.9

*Contributions, Withdrawals and Investment Transfers

**Cashflows may not net to final assets due to rounding.

***Approximately \$395.8m of net inflow and transfer activity related to the 1/4/2016 merger of North Carolina 457 plan assets have been removed for illustrative purposes.

STATE OF NORTH CAROLINA STABLE VALUE FUND

MARKET VALUE PERFORMANCE SUMMARY

Short Duration

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
Payden & Rygel	0.49%	1.21%	1.13%	1.29%	2.02%	7/1/2009
Barclays U.S. 1-3 Yr. Govt/Credit	<u>0.41%</u>	<u>0.71%</u>	<u>0.96%</u>	<u>0.93%</u>	<u>1.44%</u>	
	0.08%	0.50%	0.17%	0.36%	0.58%	
Galliard**	0.56%	1.00%	1.44%	1.32%	1.97%	1/1/2010
Barclays U.S. 1-3 Yr. Government *	<u>0.28%</u>	0.25%	0.74%	0.65%	0.99%	
Barclays U.S. 1-3 Yr. Gov't/Credit	<u>0.41%</u>	<u>0.71%</u>	<u>0.96%</u>	<u>0.93%</u>	<u>1.30%</u>	
	0.28%	0.75%	0.70%	0.67%	0.98%	

Intermediate Duration

Manager	3 Months	1 Year	3 Years	5 Years	Since Inception	Inception
Dodge & Cox	0.87%	1.43%	-	-	1.74%	3/1/2015
Barclays U.S. Intermediate Aggregate	<u>0.68%</u>	<u>0.35%</u>	-	-	<u>1.44%</u>	
	0.19%	1.08%	-	-	0.30%	
Great-West Life***	0.60%	0.47%	2.27%	2.00%	2.20%	10/1/2011
Barclays U.S. Intermediate Aggregate (Ex BBB)	<u>0.58%</u>	<u>-0.07%</u>	<u>2.15%</u>	<u>1.79%</u>	<u>1.86%</u>	
	0.02%	0.54%	0.12%	0.21%	0.34%	
Jennison	0.74%	0.63%	2.36%	2.07%	2.69%	8/1/2010
Barclays U.S. Intermediate Govt/Credit	<u>0.78%</u>	<u>0.42%</u>	<u>2.01%</u>	<u>1.88%</u>	<u>2.39%</u>	
	-0.04%	0.21%	0.35%	0.19%	0.30%	
Prudential	0.79%	1.14%	-	-	2.22%	2/1/2016
Barclays U.S. Intermediate Aggregate	<u>0.68%</u>	<u>0.35%</u>	-	-	<u>1.19%</u>	
	0.11%	0.79%	-	-	1.03%	

* Index being shown for comparison purposes only, the fund is managed to a targeted duration.

**Returns shown are after investment management fees

***August 2015 return was revised from -0.885% to 0.238% to remove impact of writing off a receivable. Performance shown was provided by Great-West.

STATE OF NORTH CAROLINA STABLE VALUE FUND

MANAGER-LEVEL CHARACTERISTICS

Segment	Manager	Period	Book Value	Market Value	MV/BV Ratio	Market Value Yield	Duration (Years)	Book Value Crediting Rate*
Short Duration	Payden & Rygel	12/31/2016	\$ 367,214,001	\$ 366,950,157	99.9%	1.48%	1.50	1.28%
		3/31/2017	\$ 368,487,752	\$ 368,763,567	100.1%	1.61%	1.56	1.19%
			\$ 1,273,751	\$ 1,813,410	0.1%	0.13%	0.06	-0.09%
	Galliard	12/31/2016	\$ 416,650,886	\$ 416,669,669	100.0%	1.75%	1.90	1.73%
		3/31/2017	\$ 418,460,011	\$ 419,049,730	100.1%	1.85%	1.89	1.56%
			\$ 1,809,125	\$ 2,380,061	0.1%	0.10%	(0.01)	-0.17%
Intermediate Duration	Prudential	12/31/2016	\$ 344,003,067	\$ 350,246,791	101.8%	2.66%	4.19	2.80%
		3/31/2017	\$ 346,469,552	\$ 353,040,660	101.9%	2.68%	4.27	2.64%
			\$ 2,466,485	\$ 2,793,869	0.1%	0.02%	0.08	-0.16%
	Dodge & Cox	12/31/2016	\$ 316,608,164	\$ 319,151,220	100.8%	2.51%	3.76	2.52%
		3/31/2017	\$ 318,497,286	\$ 321,614,754	101.0%	2.63%	4.14	2.44%
			\$ 1,889,123	\$ 2,463,534	0.2%	0.12%	0.38	-0.08%
	Great West Life	12/31/2016	\$ 497,144,272	\$ 494,275,709	99.4%	2.46%	3.80	2.14%
		3/31/2017	\$ 499,711,547	\$ 497,010,363	99.5%	2.47%	3.84	2.11%
			\$ 2,567,275	\$ 2,734,654	0.0%	0.01%	0.04	-0.03%
	Jennison	12/31/2016	\$ 337,980,615	\$ 344,115,031	101.8%	2.01%	4.11	2.80%
		3/31/2017	\$ 340,189,124	\$ 346,641,118	101.9%	2.04%	4.04	2.64%
			\$ 2,208,509	\$ 2,526,087	0.1%	0.03%	(0.07)	-0.16%
Total Fund		12/31/2016	\$ 2,472,815,896	\$ 2,484,623,468	100.5%	2.11%	3.11	2.14%
		3/31/2017	\$ 2,480,581,692	\$ 2,494,886,611	100.6%	2.18%	3.18	2.04%
			\$ 7,765,796	\$ 10,263,143	0.1%	0.07%	0.07	-0.10%

*Gross of Galliard, Payden & Rygel, and Prudential investment management fees.

STATE OF NORTH CAROLINA STABLE VALUE FUND PORTFOLIO HOLDINGS

March 31, 2017

Asset ID	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Crediting Rate/ Yield (%)	Maturity*	Effective Duration (yrs)	S&P Rating	Moody's Rating	Wrap Fee (bps)
CASH & EQUIVALENTS												
FUNDAVAIL	Cash Receivable / (Payable)		-1,268,554	-1,268,554	100.0	-0.1	0.58		0.10	AAA	Aaa	
VP45600\$1	WF Adv Government Money Market		16,846,933	16,846,933	100.0	0.7	0.58		0.10	AAA	Aaa	
TOTAL CASH & EQUIVALENTS			15,578,379	15,578,379	100.0	0.6	0.58		0.10	AAA	Aaa	
STABLE VALUE FUNDS												
949907109	Wells Fargo Stable Return Fund G		173,188,041	173,188,041	100.0	7.0	1.86		2.58	AA-	Aa3	
TOTAL STABLE VALUE FUNDS			173,188,041	173,188,041	100.0	7.0	1.86		2.58	AA-	Aa3	
SEPARATE ACCOUNT GICS												
Intermediate Portfolio												
391997NH2	Great-West Life & Annuity Ins. Co.	Great West	499,711,547	497,010,363	99.5	20.1	2.11	N.S.M.	3.84	AA	Aa3	15.0
590994VM8	Metropolitan Life Ins. Co.	Dodge & Cox	318,497,286	321,614,754	101.0	12.8	2.44	N.S.M.	4.14	AA-	Aa3	20.0
Total Intermediate Portfolio			818,208,833	818,625,117	100.1	33.0	2.24		3.96	AA	Aa3	
TOTAL SEPARATE ACCOUNT GICS			818,208,833	818,625,117	100.1	33.0	2.24		3.96	AA	Aa3	
SECURITY BACKED INVESTMENT CONTRACTS												
Short Portfolio												
946996EE1	American General Life Ins. Co.	Payden & Rygel	368,487,752	368,763,567	100.1	14.9	1.19	N.S.M.	1.56	A+	A2	22.0
896994GW4	Nationwide Life Ins. Co.	Galliard	418,460,011	419,049,730	100.1	16.9	1.56	N.S.M.	1.89	A+	A1	21.0
Total Short Portfolio			786,947,764	787,813,297	100.1	31.7	1.39		1.73	A+	A1	
Intermediate Portfolio												
744999CV3	Prudential Ins. Co. of America	Jennison Assoc.	340,189,124	346,641,118	101.9	13.7	2.64	N.S.M.	4.04	AA-	A1	17.0
744999CV3	Prudential Ins. Co. of America	Prudential	346,469,552	353,040,660	101.9	14.0	2.64	N.S.M.	4.27	AA-	A1	17.0
Total Intermediate Portfolio			686,658,675	699,681,778	101.9	27.7	2.64		4.16	AA-	A1	
TOTAL SECURITY BACKED INVESTMENT CONTRACTS			1,473,606,439	1,487,495,075	100.9	59.4	1.97		2.86	A+	A1	
TOTAL PORTFOLIO			2,480,581,692	2,494,886,611	100.6	100.0	2.04		3.18	AA-	A1	

*N.S.M. = No Stated Maturity

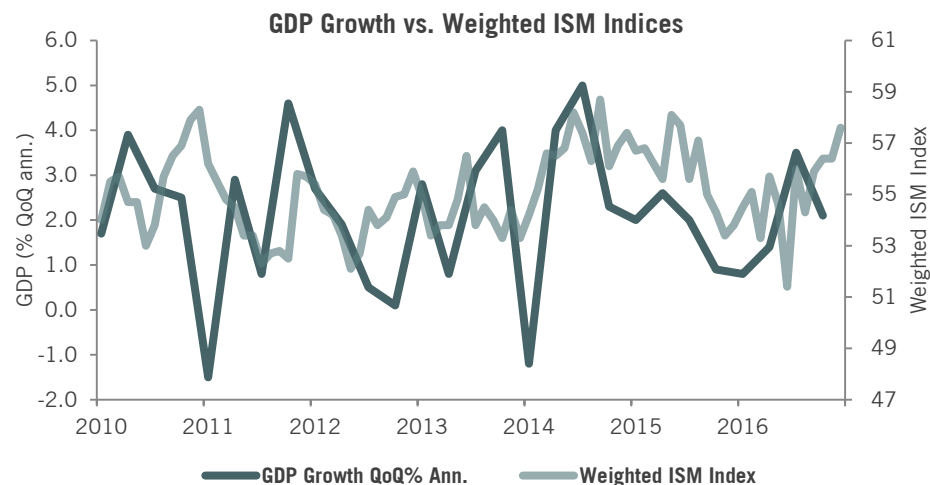
APPENDIX

MARKET REVIEW

FIRST QUARTER 2017

Q4 GDP GROWTH SLOWS, DESPITE STRONG “SOFT DATA”

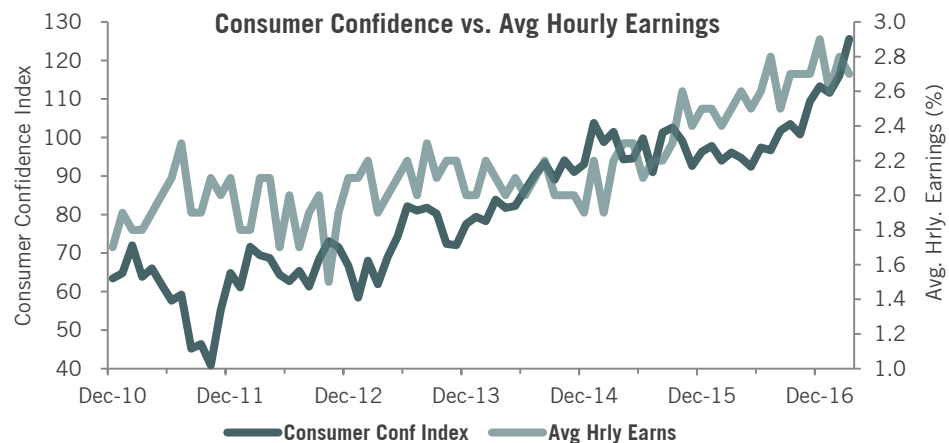
- U.S. GDP growth fell back to a more modest +2.1% pace in Q4, aided by personal consumption, which grew at a strong 3.5% pace during the quarter.
- The Institute for Supply Management (ISM) survey of activity in the manufacturing sectors showed significant improvement over the last two quarters, reaching 57.7 in February, the highest level since 2014, before falling back slightly in March (57.2).
- The ISM survey of activity in the services sector of the economy remained strong over the quarter. The March reading of 55.2 is consistent with GDP growth in the 2-3% range.



Source: Bloomberg, U.S. Bureau of Economic Analysis, The Institute for Supply Management

STRONG JOB MARKET, EQUITY GAINS BOOST CONFIDENCE

- The labor market remained robust. Employers added an average of 178,000 jobs per month during Q1, and the unemployment rate fell to 4.5% in March – the lowest level since 2007.
- Consumer confidence rose to a 16-year high reading of 125.6 in March, boosted by job gains, real wage growth, and stocks at record high levels.
- Average hourly earnings rose at a 2.8% pace during the quarter. Over the last 12 months, workers' average hourly earnings rose 2.7%.



Source: Bloomberg, The Conference Board, U.S. Bureau of Labor Statistics

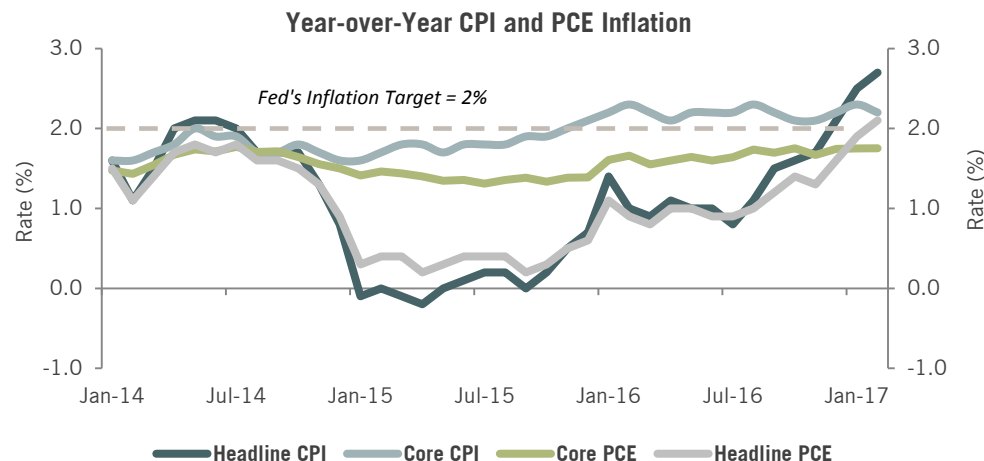
The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only. For institutional investor use only.

MARKET REVIEW

FIRST QUARTER 2017

GRADUAL RISE IN INFLATION MEASURES KEEPS FED ON TRACK

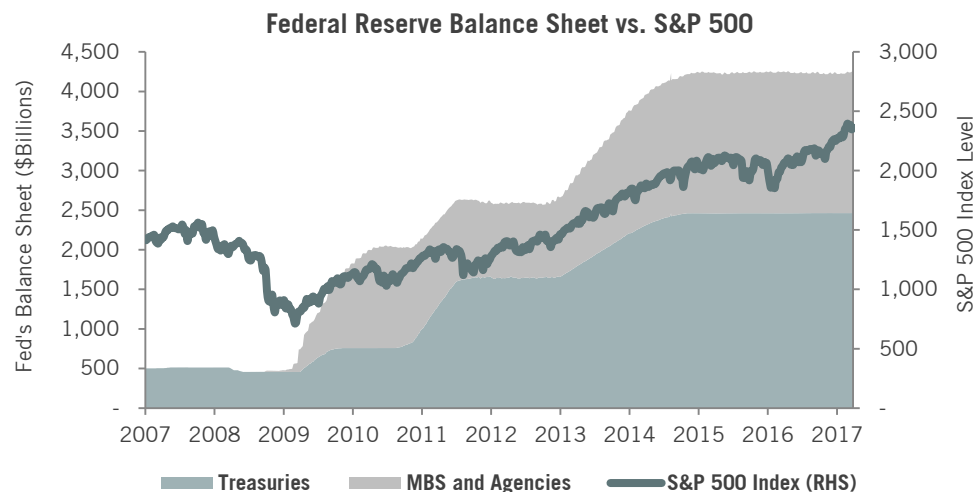
- Inflation measures trended higher over the first quarter. Headline CPI and PCE rose faster during the quarter, with CPI rising to a 2.7% year-over-year pace in March. Core measures, despite having risen over the last 12-18 months, remain well contained. Core CPI rose 2.2% year-over-year in March.
- The Fed raised its policy rate by 25 basis points (0.25%) at the March Federal Open Market Committee (FOMC) meeting, to a target range of 0.75% to 1.00%.
- The Fed's dot plot forecast released at the March FOMC meeting showed participants expect two additional hikes over 2017. Minutes of the meeting show participants also discussed reducing the size of the Fed's balance sheet, perhaps as soon as later this year.



Source: Bloomberg, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

TRUMP RALLY CHALLENGED BY HEALTHCARE REFORM FAILURE

- Stocks continued their rally for most of the first quarter, with the S&P 500 setting new highs on continued optimism over the Trump business-friendly agenda.
- The administration's very public defeat over healthcare reform damaged confidence in President Trump's ability to work with Congress to implement his broader agenda.
- Despite the setback on healthcare reform, we continue to expect the administration to successfully advance meaningful fiscal stimulus over the next 6-12 months.



Source: Federal Reserve, Standard & Poor's Indices, Bloomberg

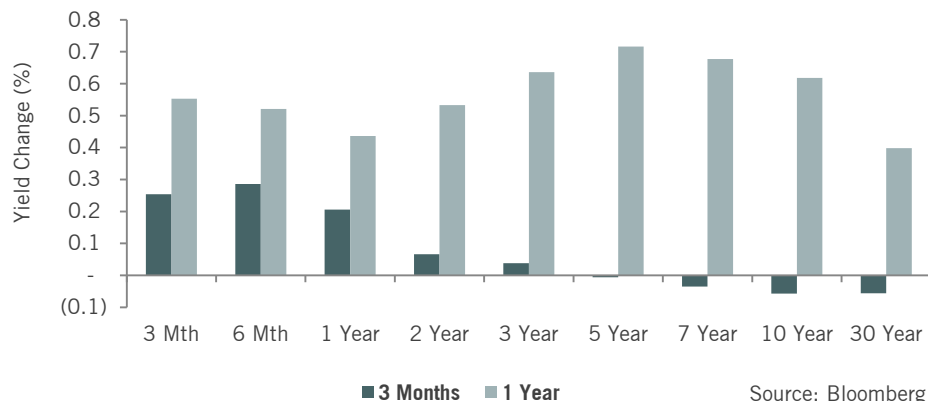
The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only. For institutional investor use only.

MARKET REVIEW

FIRST QUARTER 2017

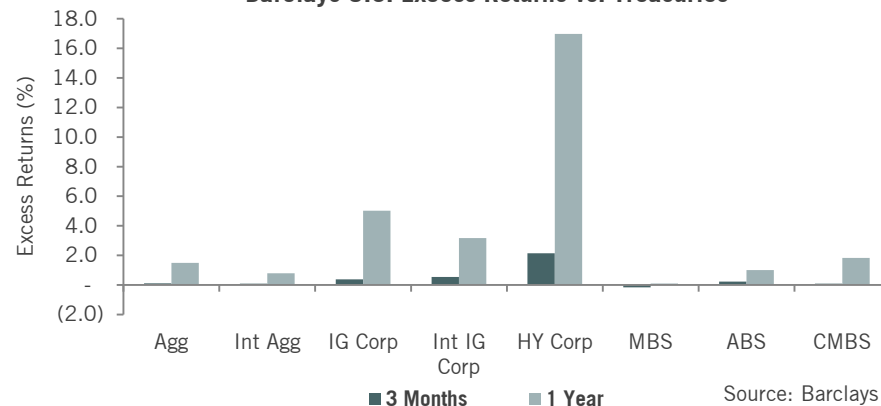
TREASURIES, CREDIT SPREADS LITTLE CHANGED ON QUARTER

U.S. Treasury Yield Curve Rate Changes



- The Federal Reserve took advantage of positive market sentiment during the quarter, using coordinated messaging from Fed officials to prepare markets for a rate hike at its March FOMC meeting. Markets took the hike – and guidance for two additional hikes in 2017 – in stride.
- U.S. Treasury yields were little changed during the quarter, except at the very front end of the curve (one-month to one-year maturities), which adjusted in anticipation of the Fed's well-telegraphed March hike.
- Investment grade corporate spreads tightened modestly during the quarter, outperforming similar-duration Treasuries (+38 bps). Overall, lower quality issuers outperformed higher quality names. Over the last 12 months, investment grade corporates outperformed Treasuries by +502 bps, with Energy and Financial names posting the strongest performance.

Barclays U.S. Excess Returns vs. Treasuries



- Agency MBS slightly lagged U.S. Treasuries during the quarter as investors struggled to absorb impact of the significant rate move in 4Q16 on expectations for prepayment speeds and net supply. For the trailing 12 months, however, MBS managed to outperform Treasuries by 10 bps.
- ABS returns were positive during the quarter, with the sector outperforming similar duration U.S. Treasuries by +22bps. Wide front-end swap spreads helped make ABS attractive relative to corporates. Over the last 12 months, ABS outperformed Treasuries by +101 bps.
- CMBS spreads were largely unchanged during the quarter. For the full year, CMBS benefitted from strong underlying collateral performance and robust investor demand. Over the last 12 months, the sector outperformed U.S. Treasuries by +182 bps.

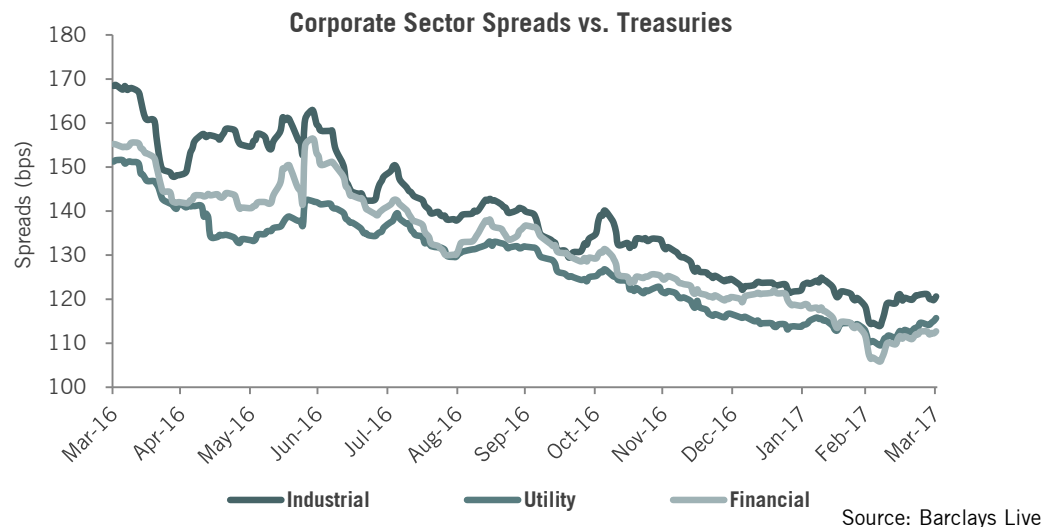
The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only. For institutional investor use only.

MARKET REVIEW

FIRST QUARTER 2017

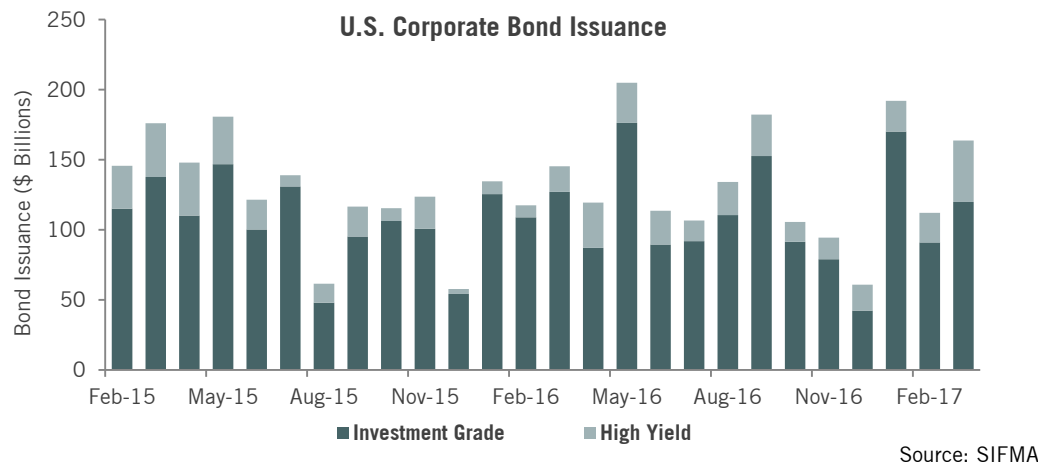
CREDIT BENEFITS FROM “TRUMP RALLY”

- Corporate bonds rallied modestly during the first quarter as optimism over tax cuts and the prospect for faster growth – the “Trump rally” – remained in place for most of the quarter.
- The administration’s public defeat on healthcare reform late in the quarter spooked investors as some questioned Trump’s ability to work with Republicans to pass his broader agenda.
- Lower quality (BBB-rated) issuers generally outperformed higher quality (AA- and A-rated) names during the quarter. Spreads on financials – in particular U.S. money center banks – benefitted from strong earnings and robust investor demand.
- The Bloomberg Barclays index inclusion rules were modified to increase the minimum issue size to \$300 million from \$250 million for the Treasury, Corporate and Government-Related indices, effective on April 1st. Spreads on smaller “non-index” corporate and municipal bond issues widened modestly in anticipation of lower trading volumes going forward.



RECORD PACE OF CORPORATE ISSUANCE CONTINUES IN Q1

- Investment grade new issuance totaled \$381 billion over the first quarter 2017, about 5.4% ahead of the same period in 2016, according to SIFMA.
- High yield new issuance swelled to \$88 billion in Q1, a +144% increase from the same period last year, when the sector was gripped by downgrades in the Energy and Metals/Mining sectors.
- Within investment grade, Financials issuance represented 50% of total issuance in Q1, up from 46% in 1Q16.
- We have seen renewed interest in floating rate issuance: 20% of all new issuance in Q1 was floating rate vs. only 8% for the same period last year.



The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only. For institutional investor use only.

MARKET REVIEW

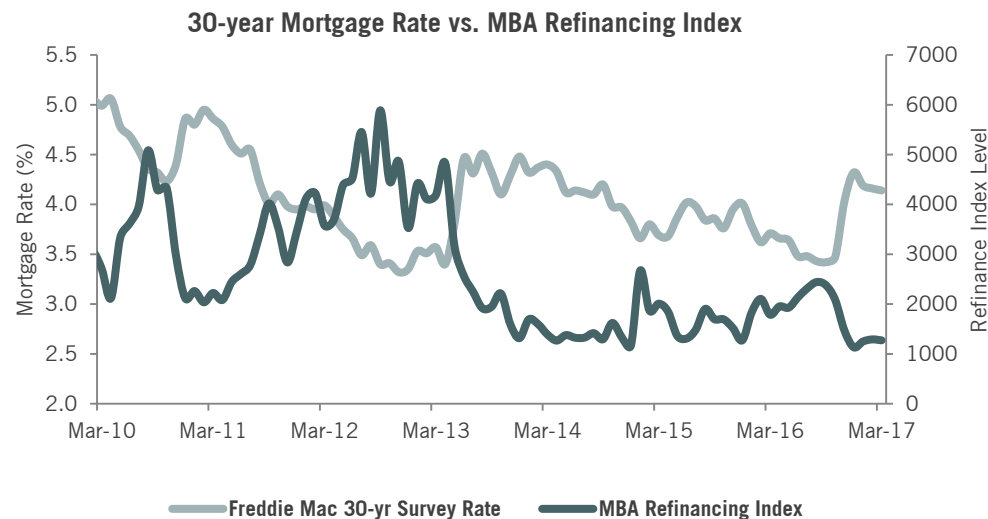
FIRST QUARTER 2017

AGENCY MBS HURT BY HIGHER NET SUPPLY, HOME PRICES CONTINUE STEADY RISE

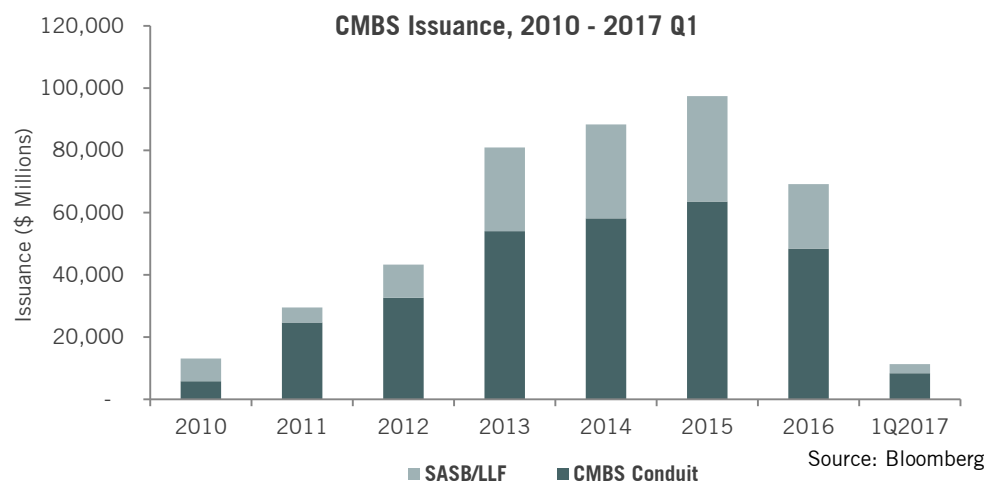
- Agency MBS performance lagged similar-duration U.S. Treasuries during the quarter as increased net supply in December and January weighed on valuations. In response to higher rates and mortgage extension, banks had reduced appetite to hold their newly-originated mortgages, leading to higher net supply of MBS on the market.
- The S&P CoreLogic Case-Shiller 20-City Home Price Index posted a +5.7% year-over-year increase through January, marking the 30th consecutive month of consistent ~5% year-over-year home price appreciation.
- Following a large spike in the fourth quarter, the Freddie Mac Weekly Survey Rate of 30-year mortgage rates averaged 4.17% during Q1, hovering around the highest levels in nearly three years. As the result of higher mortgage rates, the Mortgage Bankers' Association's Refinancing Index remained near a 15-year low during the quarter.

CMBS ISSUANCE MUTED, ABS VOLUMES RISE

- CMBS new issue supply fell 35% in the first quarter vs. the same period last year. CMBS volumes have been most impacted by a 20-40% decline in real estate transactions nationally since the November election as investors await clarity on potential tax policy changes.
- ABS new supply rose 45% during the quarter vs. a year ago, largely the result of significant supply of credit card ABS. Consumer revolving credit has continued to grow modestly, and a number of issuers have significant bond maturities this year following heavy issuance of three-year bonds in 2014.



Source: Freddie Mac, Bloomberg, Mortgage Bankers' Association



Source: Bloomberg

The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only. For institutional investor use only.

GALLIARD CAPITAL MANAGEMENT PROFESSIONALS



William Weber
Senior Director
612.667.6401
william.l.weber@galliard.com

Responsibilities

As a member of the Client Service and Stable Value Portfolio Management teams, William serves primarily as an Institutional Relationship Manager. He works with clients and their consultants to develop strategy and ensure expectations and objectives are met. In addition, William is a member of the Consultant Relations team, serving as a liaison between Galliard's investment professionals and clients to articulate portfolio and relationship goals. He also supports Galliard's Fund Direct business, working with advisors and trading partners to serve investors in the Wells Fargo Stable Return Fund and the Galliard Managed Income Fund.

Experience

- Joined Galliard in 2009
- Previously a manager at PricewaterhouseCoopers, LLP

Education

B.S., Business, Finance, Accounting, Carlson School of Management at the University of Minnesota