Galliard Stable Return Fund W

Portfolio Commentary – Fourth Quarter 2023

The Galliard Stable Return Fund W (the Fund) is 100% invested in the Galliard Stable Return Fund Core

INVESTMENT PERFORMANCE

During the fourth quarter, the Galliard Stable Return Fund W continued its positive performance with a quarterly return of 0.74% (before investment management fees), which was in line with the third quarter's return of 0.74% (before investment management fees). The current blended yield for the Fund decreased during the quarter to 2.91% (before investment management fees). In the coming quarter, we expect the Fund's blended yield to remain near current levels.

PORTFOLIO COMMENTARY

The Fund had net outflows of $333.5 million during the quarter, which represented an decrease of 1.6% in total Fund assets. The overall duration of the Fund was 2.80 years at the end of the quarter, in line with the duration at the end of the previous quarter. In the current market environment, we are managing the Fund's duration toward the middle of its target range, while maintaining an appropriate level of liquidity. The average credit quality at the contract level remains strong at Aa3/AA-.

The Fund's market-to-book-value ratio increased during the quarter to 95.5%. Strong market value returns in the underlying bond portfolios helped witth the quarterly increase. The credit quality of the underlying bond portfolios remains strong with 76.3% of the portfolio's securities rated AAA or AA on average, as rated by S&P, Moody's, and Fitch. Sector allocations continue to be broadly diversified across the bond market.

ECONOMIC COMMENTARY

3Q GDP growth measured 4.9% q/q annualized, with 3.1% q/q annualized personal consumption and gross private investment that jumped up to 10.0% q/q annualized. Overall, these numbers indicate the economy continues to outperform expectations despite restrictive monetary policy. Inflation has been trending down and inflation expectations have been stable. While recession probabilities remain elevated, primarily due to the shape of the yield curve, forecasts calling for near-term recession have been virtually eliminated. However, Fed Funds futures markets are pricing in nearly seven cuts through January 2025. This hardly seems consistent with a soft landing. Over the last 30+ years, the Fed has never cut rates by 150 bps for any reason other than a recession.

The labor market remained relatively strong heading into year end; however, there continue to be signs of a healthy correction taking place. More workers are joining the labor force and finding employment. Job creation has slowed but the unemployment rate remains low, as do jobless claims. With inflation trending lower, nominal wage gains are translating into real wage gains. The ISM Manufacturing PMI has been in contractionary territory since November 2022. That said, the weakness seems to have slowed, and the ISM Services PMI continues to be a bright spot in business activity. Mortgage rates fell sharply alongside Treasury rates throughout the quarter. Still, rates remain elevated relative to the last decade. As a result, housing activity remains muted.

Vigilance is called for as we are reminded that central bankers more often ease monetary policy because of a pending recession, not because they have the luxury of doing so. Although rate hikes are most likely over, an extended period of restrictive monetary policy means liquidity will continue to be a concern and volatility in risk assets could return, reflecting fatter tails and the risk of unintended consequences. Going forward, we will continue to opportunistically add value where yields and spreads look relatively attractive. However, we remain mindful of downside risks and potential headwinds that may impact our portfolio allocation and positioning decisions.

GUIDELINE COMPLIANCE

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

Past performance is not an indication of how the investment will perform in the future.
Returns for periods less than one year are not annualized. Returns designated as "before investment management fees" include all income, realized and unrealized capital gains and losses and all annual fund operating expenses. Returns may have been impacted by the effect of compounding and have been rounded to the nearest basis point. Returns designated as "before investment management fees" do not reflect the maximum 0.25% fee which may be charged by Galliard for management of each client's account. For example, if the maximum advisory fee of 0.25% were deducted quarterly from each account, a one year annualized total return of 2.86% as of December 31, 2023, would have been reduced by 0.25% to 2.60%, which includes the effect of compounding these fees.

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