Galliard Stable Return Fund W

Portfolio Commentary – Fourth Quarter 2022

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 0.61% (before investment management fees), which was up from the third quarter's return of 0.55% (before investment management fees). The current blended yield for the Fund increased during the quarter to 2.50% (before investment management fees). In the coming quarter, we expect the Fund's blended yield to increase modestly.

PORTFOLIO COMMENTARY

The Fund had net outflows of $1,100.4 million during the quarter, which represented an decrease of 4.6% in total Fund assets. The overall duration of the Fund was 2.85 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 94.1%. Strong market value returns in the underlying bond portfolios helped with the quarterly increase. The credit quality of the underlying bond portfolios remains strong with 67.5% of the portfolio's securities rated AAA 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 beat expectations, coming in at 3.2% q/q annualized; however, measures such as residential investment and consumer spending were less optimistic. Since March, the Fed has raised its policy rate 425 bps (4.25%), making this the fastest, most aggressive policy tightening since 1981 and resulting in the largest selloff in interest rates across the curve in equally as long. 2-year Treasury rates rose 370 bps and 10-year Treasury rates rose 237 bps for the full year. This resulted in 133 bps of curve flattening and the most deeply inverted yield curve in 40 years. Considering all of this, it should come as no surprise that fixed income returns were truly dismal in 2022. The annual total return for the Bloomberg U.S. Aggregate Index, -13%, was the worst on record going back to inception in 1976.

While inflation expectations briefly shot higher in October on hopes that a policy pivot was at hand, they retreated in November and December. Job creation has exceeded expectations in just about every month since May. Still, negative real wages, equity markets down ~20% (S&P 500), and meaningfully higher mortgage rates put pressure on consumers this year. Not surprisingly, spending has slowed. Additionally, businesses are not expanding at the same rate that they were previously, with a number of activity measures now in contractionary territory. Mortgage rates are double where they were at the beginning of the year and housing related activity continues to fall precipitously.

We hope for better days ahead, but unfortunately volatility could persist in the coming year. Although there are early signs that inflation pressures are moderating, we are not out of the woods yet. Fed messaging continues to indicate that additional policy tightening will be "appropriate", but this is somewhat at odds with market pricing that assumes rate cuts by the end of 2023. Throughout the year, market weakness provided attractive opportunities to reduce elevated liquidity and add high quality spread across sectors in a measured way. Going forward, we will continue to look for opportunities to add value while being mindful of increasing 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 2.11% as of December 31, 2022, would have been reduced by 0.25% to 1.86%, which includes the effect of compounding these fees.

GALLIARD
Capital Management, LLC
ARCHITECTS OF INVESTMENT SOLUTIONS

Galliard Client Service
612.667.3220
GalliardClientService@galliard.com