Galliard Stable Return Fund W

Portfolio Commentary – Second Quarter 2024

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

INVESTMENT PERFORMANCE

During the second quarter, the Galliard Stable Return Fund W continued its positive performance with a quarterly return of 0.77% (before investment management fees), which was an increase from the first quarter's return of 0.74% (before investment management fees). The current blended yield for the Fund increased during the quarter to 3.17% (before investment management fees). In the coming quarter, we expect the Fund's blended yield to increse modestly.

PORTFOLIO COMMENTARY

The Fund had net outflows of $886.5 million during the quarter, which represented a decrease of 4.7% in total Fund assets. The overall duration of the Fund was 2.98 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 decreased during the quarter to 94.6%, due to modestly higher interest rates. The credit quality of the underlying bond portfolios remains strong with 77.3% 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

1Q GDP growth was revised down to only 1.4% q/q annualized after an initial estimate of 1.6%. Personal consumption retreated to 1.5% q/q annualized from 3.3% in 4Q. 2Q GDP growth is expected to be 1.7%-2.0% q/q annualized while full-year growth for 2024 is projected to be 1.5%-2.5%. The Fed remained on hold throughout the quarter, leaving rates unchanged at both its May and June meetings. The updated SEP showed median year-end 2024 Fed Funds at 5.125%, suggesting the Fed anticipates one cut this year. Market expectations are leaning towards two cuts by the end of the year, with the first coming in September or November.

As we head into mid-year, broad economic measures are becoming more harmonized. The labor market has a slightly weaker tone relative to the start of the year, with 165k and 272k jobs added in April and May, respectively. The ISM Manufacturing PMI fell back to 48.5 in June after briefly measuring above 50 in March. The ISM Services PMI fell to 48.8 in June, marking the second contractionary reading in the past three months, and the lowest in the past four years. After bouncing somewhat higher in the first quarter, inflation measures are once again heading in the right direction with major inflation measures falling over the past several months, regardless of the basis (y/y, m/m, rolling 3-month). Additionally, the rate of change also appears to have increased across a number of measures.

The broader economy appears to be cooling in a controlled fashion and volatility remains relatively low. Nevertheless, we remain cautious. The trajectory of economic slowing could accelerate, and we are reminded that policy rates often go up the staircase and down the elevator. Alternatively, inflation could re-ignite leading to an extended period of restrictive monetary policy. Going forward, we will continue to opportunistically add spread where valuations make sense. However, we continue to be mindful of downside risks and potential headwinds that may impact our portfolio allocation and positioning decisions.

GUIDELINE COMPLIANCE

As a result of a cash outflow, one of the underlying sub-accounts exceeded the max 30% in ABS limit by 0.32% (30.32%) on June 10, 2024. This was resolved on June 11, 2024 by selling securities, after which the sub-account's ABS allocation was 29.87%. We have not become aware of any other 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 3.02% as of June 30, 2024, would have been reduced by 0.25% to 2.77%, which includes the effect of compounding these fees.

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