Galliard Stable Return Fund W

Portfolio Commentary – First Quarter 2025

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

INVESTMENT PERFORMANCE

During the first quarter, the Galliard Stable Return Fund W continued its positive performance with a quarterly return of 0.77% (before investment management fees), which was a decrease from the fourth quarter's return of 0.84% (before investment management fees). The current blended yield for the Fund decreased during the quarter to 3.16% (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 $157.6 million during the quarter, which represented a decrease of 0.9% in total Fund assets. The overall duration of the Fund was 3.02 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 96.5%, due to modestly lower interest rates. The credit quality of the underlying bond portfolios remains strong with 77.9% 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

The first quarter of 2025 can be summarized with one word: uncertainty. Signing executive orders at a record pace, the returning President is seeking to reform immigration, foreign policy, trade policy, and government spending. With so many moving parts, it is difficult at best to opine on possible outcomes. Responding to the uncertainty, the yield curve rallied with both the 2-year and 10-year Treasury decreasing in near lockstep. We would characterize the rally in rates as a "flight to quality" rally. With increased volatility and equities resetting lower, investors looking for insurance are happy to buy Treasury yields that are still healthy.

The Fed held rates steady in the first quarter, as generally expected. In the March post-meeting statement, Chair Powell noted that the labor market remains healthy, citing low unemployment and a relatively low level of firing. As a result, the Fed does not believe labor markets are a source of inflationary pressure at present. However, inflation remains above the Fed's target, with most measures of inflation bottoming out and perhaps even trending higher since last fall. While the Fed's base case is for transitory price increases from tariffs, the impact of trade policy and immigration policy are not yet fully known.

Risks of rising inflation are not yet behind us, especially with the potential risk posed by tariffs. As consumers and businesses adjust to tariffs, we believe the risk of an economic downturn is higher than previously expected. The direction of monetary policy continues to be highly uncertain, and the Fed may face difficult decisions on the path forward. Portfolios are fully invested, generally speaking, and we are comfortable with positioning given the market environment. 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

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 3.24% as of March 31, 2025, would have been reduced by 0.25% to 2.98%, which includes the effect of compounding these fees.

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