

# Galliard Stable Return Fund W

## Portfolio Commentary – First Quarter 2024

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 0.74% (before investment management fees), which was in line with the fourth quarter's return of 0.74% (before investment management fees). The current blended yield for the Fund increased during the quarter to 3.11% (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 \$1,421.8 million during the quarter, which represented a decrease of 7.1% in total Fund assets. The overall duration of the Fund was 2.95 years at the end of the quarter, up slightly from 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 94.8%, due to higher interest rates. The credit quality of the underlying bond portfolios remains strong with 76.8% 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

Although forecasts at year end were calling for aggressive policy rate cutting to start as early as March, here we sit with virtually no change in policy stance and no cuts, interest rates selling off, and a yield curve that remains inverted. Importantly, there is nothing indicating the curve needs to "normalize" anytime soon. Personal consumption remains resilient, labor markets are relatively healthy, business activity is on the upswing, and inflation may be gaining steam. The Fed has signaled it is more than comfortable being patient and short rates have already stayed "higher for longer" than anyone expected. However, the updated SEP showed median year-end 2024 Fed Funds at 4.625%, unchanged from December, suggesting the Fed still anticipates cutting three times this year. For now, market expectations have converged with Fed messaging.

Overall, the broader economy and the markets have tolerated this policy tightening regime much better than expected. 1Q GDP growth is expected to be 1.5%-2.5% q/q annualized. Benign forecasts reflecting continued economic resilience and the avoidance of a recession are now consensus and risk assets are sending an "all clear" signal. Nevertheless, we remain cautious and cognizant that the biggest risks are unexpected. Policy rates often go up the staircase and down the elevator, and we could be only one surprise away from a dramatically different investment landscape. A steeper curve seems to be at hand, but normalization is not a foregone conclusion anytime soon. Accelerating inflation continues to be a risk and, while not our current expectation, it would not be without precedent for the Fed's next move to be a hike.

This extended period of restrictive monetary policy means liquidity could quickly become a concern and volatility in risk assets could return reflecting fatter tails and the risk of unintended consequences. Portfolios are fully invested, generally speaking, and we are comfortable with positioning given the market environment. Going forward, we will continue to opportunistically add value where yields and spreads look relatively attractive. 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 2.95% as of March 31, 2024, would have been reduced by 0.25% to 2.69%, which includes the effect of compounding these fees.

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