

Stable Value Overview



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Conservative “Safe” Retirement Plan Investment Options

| | Stable Value Funds | Money Market Funds | Short Duration Bond Funds |
|--------------------------------|---|--|---|
| Protection of Principal | Guaranteed by issuer | No Guarantee by FDIC or other | No Guarantee |
| Redemption Value | Book Value (principal + accumulated earnings) | Net Asset Value* | Market Value |
| Returns | Fixed for a period of time according to contracted crediting rate (may have a minimum rate) | Fluctuates based on changes in short-term interest rates | Fluctuates based on changes in interest rates |
| Investments/ Duration | Bond portfolio invested in the major fixed income sectors; duration 2-4 years | Weighted average maturity typically under 90 days | Bond portfolio invested in the major fixed income sectors' duration 2-4 years |
| Interest Rate Risk | Mitigated due to wrap contracts which allow asset valuation at book value vs. market value | Minimal interest rate risk | Moderate interest rate risk |

* New SEC rules state NAV will continue to be stable for U.S. Treasury, Government and Retail funds but will move to be floating for all money market funds defined as Institutional Municipal and Institutional Prime

Stable Value: How it Works

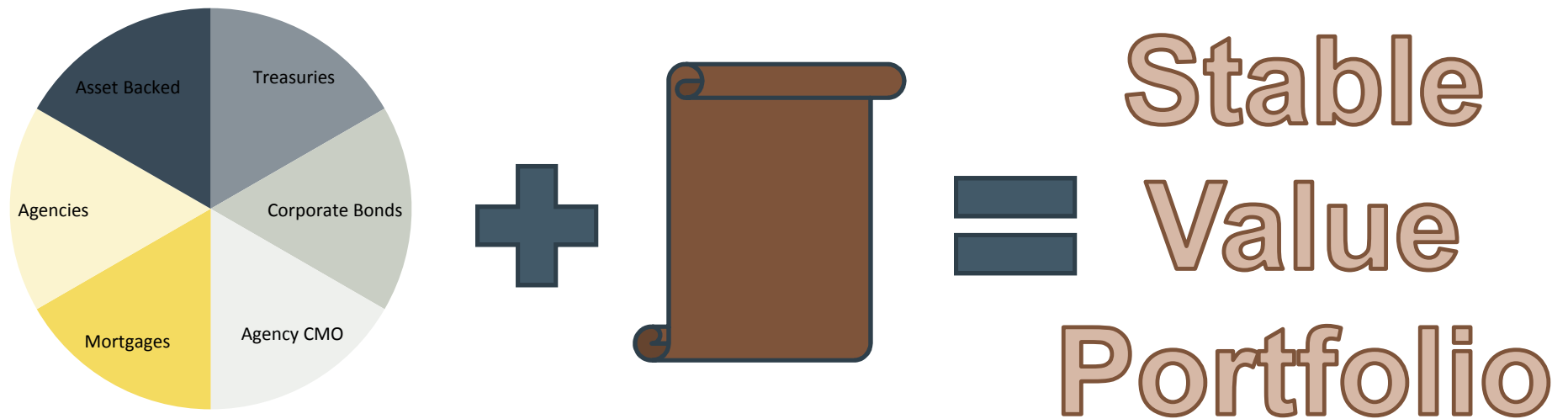
About the Asset Class

- Originated in the 1970's (40+ year history)
- Created as a conservative investment option for Defined Contribution (DC) plans
- As of the end of 2012, over \$700B covering more than 189,000 participants (~14% of DC plan assets)*
- Historically has provided gross returns similar to a short to intermediate duration bond strategy with less volatility
- Designed to protect principal, provide liquidity for participants, and generate a reasonable, stable return

* source: Stable Value Investment Association (SVIA) 17th Annual Investment and Policy Survey and ICI

About the Asset Class

- Invests in a portfolio of investment-grade fixed income securities combined with an assurance of principal protection in the form of an investment contract typically from a bank or insurance company provider(s)

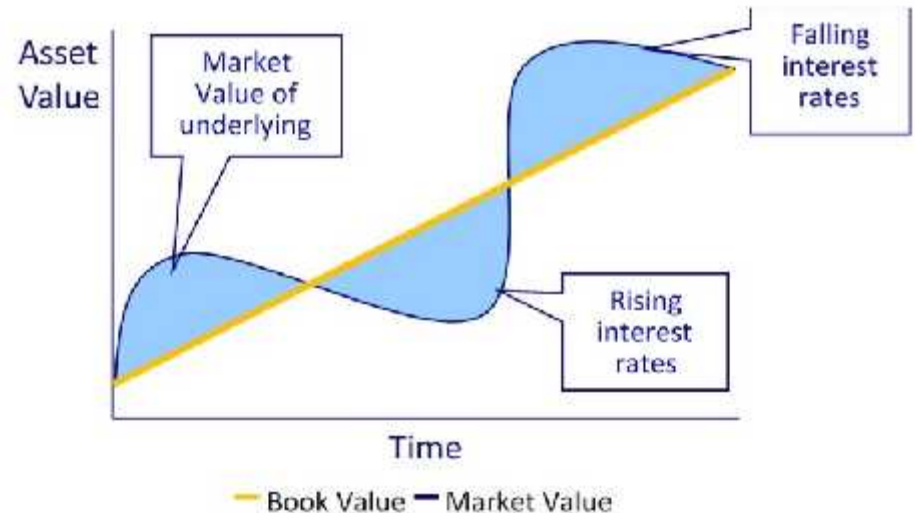


About the Asset Class

Investment Contracts

- Declare a crediting rate (monthly, quarterly, or annually) at which interest will accrue
- Provide Book Value Accounting for participant transactions
 - $\text{Book Value} = \text{Principal} + \text{Accrued Interest}$
 - Smooth the volatility associated with changes in market value due to changes in interest rates

Book Value Accounting



source: Stable Value Investment Association (SVIA)

Examples of Investment Contract Structures

| Guaranteed Insurance Account: General Accounts | Guaranteed Insurance Account: Separate Accounts | Synthetic Investment Contract (i.e. Wrap Contracts) |
|---|--|---|
| <ul style="list-style-type: none">• Contract issued by an insurance company• Called a Traditional GIC• Backed by General Account Assets | <ul style="list-style-type: none">• Contract issued by an insurance company• Called a Separate Account GIC<ul style="list-style-type: none">• May be created for one plan or several• Backed first by Segregated Separate Account Assets | <ul style="list-style-type: none">• Issued by a bank, insurance company, or other financial institution• Commingled Trust• Separately Managed Account |

Guaranteed Insurance Accounts

- Group annuity contract issued by a life insurance company
- Pays a fixed rate of return for a certain period of time
 - In separate account situations, return may be fixed or reset periodically based on the actual performance of the underlying assets
- Contracts are backed by either the issuer's general account assets or by assets in a segregated separate account
- In all cases, the insurance company owns the assets and the contract is backed by the financial strength and credit of the issuer
- Participants are creditors and do not have proprietary claim status to the general account
- Less flexibility in terminating the investment manager
- Less transparency with underlying holdings and fees

Synthetic Investment Contract (i.e. Wrap Contracts)

- Structurally different than a GIC but seeks to provide the same benefits
- Unbundles the investment and insurance components
 - Selection of the wrap issuer(s) is usually made separately from the selection of an investment manager investing the associated assets
- Fixed income portfolio with an insurance wrapper around it
- Plan owns the assets, not the insurance company
- Provides a credited rate of return that changes periodically (monthly or quarterly) to reflect the ongoing performance of the underlying investments
- Provides the plan with a means of diversifying away from the concentration risk associated with Guaranteed Insurance Accounts

Stable Value: Considerations for Fiduciaries in the Selection and Monitoring

Things To Consider

Primary things to consider when selecting and monitoring a stable value product:

- ☐ Level of experience the provider has with this product
- ☐ The terms of your contract for plan level termination
- ☐ Understanding how principal is guaranteed and what risk is associated with the guarantee failing
- ☐ The underlying investments of the portfolio

Primary Factors to Consider



Additional Factors to Consider

- Participant demographics
- Plan design limitations
- Understanding how the stable value fund handles “plan events”
- Experience and expertise of the investment manager and team
 - Risk management tools (i.e. credit analysis, modeling, and stress testing)
- Diversification and credit worthiness of wrap providers
- Reasonableness and transparency of underlying fees
- Plan sponsor/participant access to product information
- Portability and product termination provisions

County of Fresno Stable Value as of 12/31/2014

Key Characteristics

| Stable Value Type | Separate Account GIC |
|-----------------------------------|---|
| Issuer | Great West Life & Annuity Insurance Company |
| Market – to - Book | 101.6% |
| Average Quality (S&P/Moody/Fitch) | AA+/AAA/AAA |
| Average Duration | 3.2 Years |
| Yield | 2.58% |
| Crediting Rate (reset quarterly) | 2.20% |
| Liquidity* | 60 day notice at plan level and no notice required for participants |
| Fees | investment mgmt. fee of 35bps |

* Options for termination include selling all assets and receiving market value, or transfer of the assets in kind to the successor insurer at the determined value on the date of termination

Additional Facts

- Separate account managed exclusively for the County of Fresno; assets are not pooled with other plans
- Assets are insulated from general account liabilities
- Crediting rate is calculated quarterly and takes into account realized gains/losses of underlying assets
- Crediting rate never to be less than 0%
- No equity wash rule but cannot offer competing funds
 - Money market
 - Bond fund with a duration less than 3 years

Portfolio Characteristics

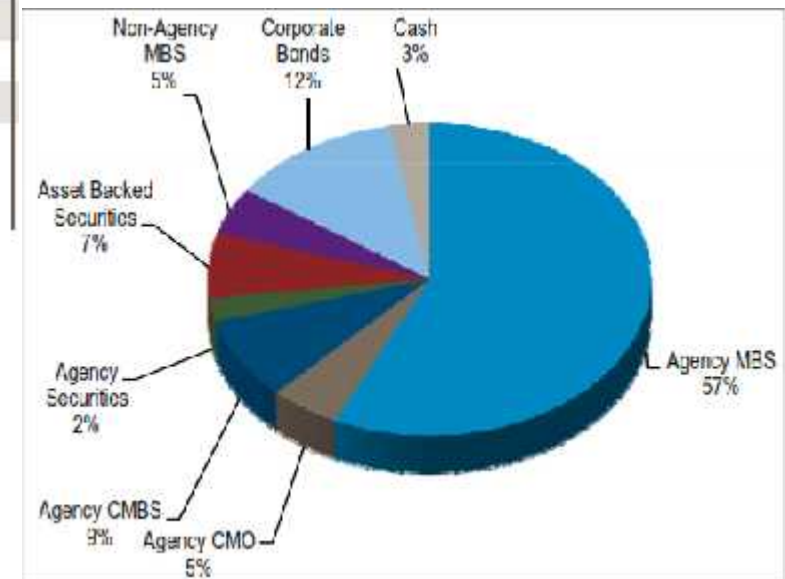
Fund Characteristics

| | 12/31/14 |
|---|---------------|
| Number of Long Term Holdings | 142 |
| Market Value of Assets | \$62.40 MM |
| Book Value Liabilities (participant account balances) | \$61.39 MM |
| Market Value of Assets to Book Value of Liabilities | 101.6% |
| Average Life | 4.2 Years |
| Average Duration | 3.2 Years |
| Credited Rate | 2.20% 4Q 2014 |
| Next Quarter Credited Rate | 2.20% 1Q 2015 |
| Average Rating (S&P / Moody's / Fitch) | AA+/AAA/AAA |

Fund Allocation

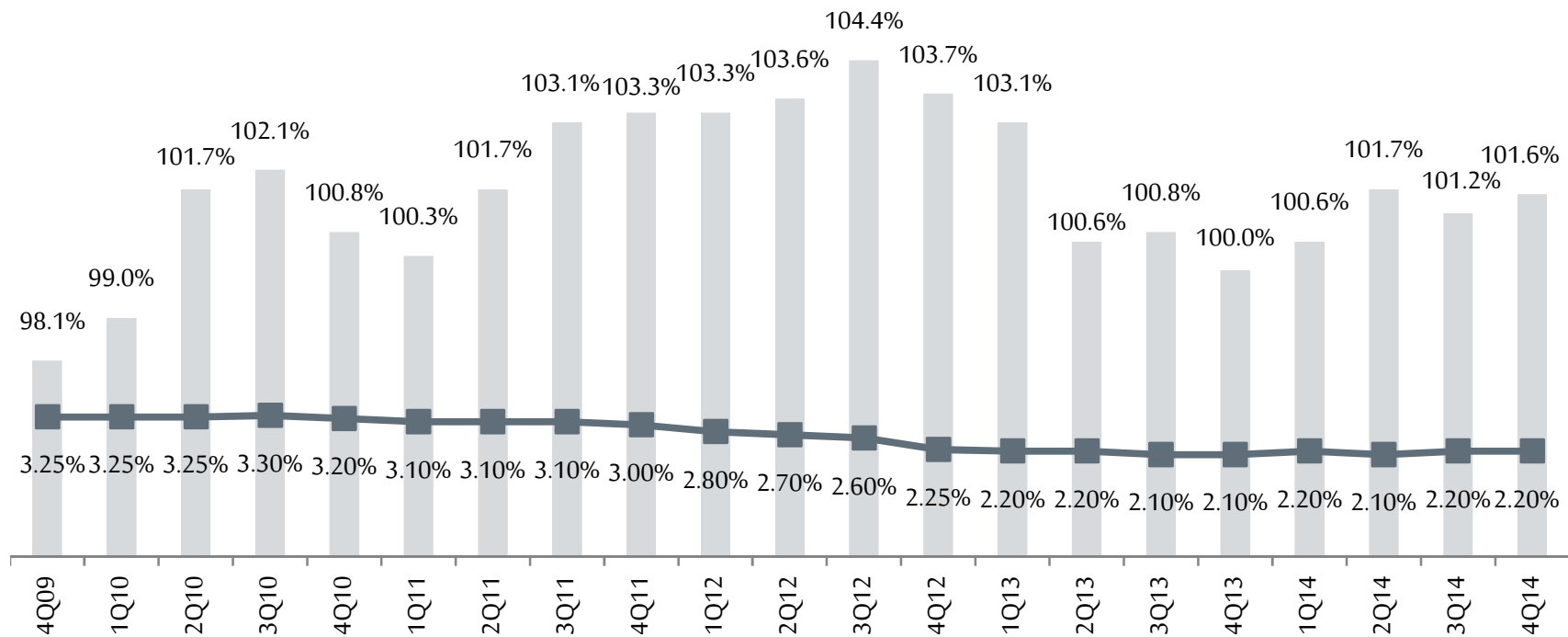
(in millions)

| | 12/31/14 | |
|--|--------------|----------------|
| | Market Value | % of Portfolio |
| Agency MBS | \$ 35.80 | 57.0% |
| Agency CMO | \$ 3.15 | 5.0% |
| Agency CMBS | \$ 5.32 | 8.5% |
| Agency Securities | \$ 1.50 | 2.4% |
| Asset Backed Securities | \$ 4.18 | 6.7% |
| Non-Agency MBS | \$ 3.03 | 4.9% |
| Corporate Bonds | \$ 7.79 | 12.5% |
| Total Market Value of Long Term Holdings | \$ 60.56 | 97.1% |
| Cash, Short Term & Other | \$ 1.84 | 2.9% |
| Total Market Value of Assets | \$ 62.40 | 100.0% |



Performance Measurement

Market-to-Book Ratio and Crediting Rate



Next Steps

- Schedule portfolio manager presentation with the DCMC
- HPA to put together a comparison document that looks at the Great West product as well as other alternatives
- Have a discussion with the goal of re-affirming the decision to use the Great West stable value product or pursue a different option
- No less than annually, with the assistance of your independent advisor conduct a “deep-dive” performance review of the fund chosen

Further resources

- DOL published a report back in 2009 on viewpoints of the stable value industry:
- <http://www.dol.gov/ebsa/publications/2009ACreport3.html>
- Stable Value Investment Association:
- <http://stablevalue.org>