

## Item 11



# County of Fresno 457 DC Plan

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## Stable Value Investment Policy Comparison

On March 8<sup>th</sup>, 2018, the DCMC reviewed the results of the Stable Value RFP. Prior to making a final decision the Committee requested a summary comparison of the Great-West and T. Rowe Price investment policy. This analysis provides an overview of Great-West's and T. Rowe Price's guidelines for managing each respective stable value product. **On page two, we summarize our findings and provide the historical ranges of how each product was allocated over the past five years.** A Glossary is provided on page 6.

### Allocation Policy Summary

Sector Allocation	Great-West Current		T. Rowe Price	
	Min	Max	Min	Max
Asset Backed Securities	0%	50% <sup>1</sup>	0%	25%
Mortgage Backed Securities	0%	50%	0%	50%
Commercial Mortgage Backed Securities	0%	50%	0%	15%
Corporates	0%	50%	0%	55%
GICs	NA	NA	0%	10%
U.S. Government	50%	100%	0%	100%
Cash, Short Term & Other	0% <sup>2</sup>	NA	0%	20%
Effective Duration	0	5	1	4

### Credit Quality

AAA	0%	NA <sup>3</sup>	NA	50%
AA	0%	NA	NA	50%
A	0%	25%	NA	50%
BBB	0%	10%	0%	20%
Credit Rating at Purchase	BBB-	AAA	BBB-	AAA
Weighting in Single Issuer	0%	5%	0%	5%
Weighted Average Credit Quality	AA	AAA	AA-	AAA

### Maturity Breakdown

1-3 Yr	NA	NA <sup>4</sup>	25%	75%
3-5 Yr	NA	NA	50%	100%
5-7 Yr	NA	NA	25%	75%
7-10 Yr	NA	NA	0%	30%
10-20 Yr	NA	NA	0%	20%

<sup>1</sup> A maximum of 50% of the account assets may be invested in non-agency Asset-Backed Securities, Mortgage-Backed Securities, and Commercial Mortgaged-Backed Securities.

<sup>2</sup> The current IPS does not specify a maximum allocation to cash.

<sup>3</sup> The current IPS does not state specific amounts that are to be held in various levels of credit quality. The current IPS does state that a maximum of 10% may be held in BBB securities.

<sup>4</sup> The current IPS does not state specific amounts that are to be held in various maturity ranges. For further information, please see the 5-year historical ranges that includes historic data for Fresno County.

## Summary of Investment Policy Statements

Although both providers have compelling solutions, there are some distinct differences. The primary difference between Great West and T. Rowe Price policies are the flexibility in taking credit and interest rate risks as a source of yield.

Great-West has stricter credit quality standards and has a majority of assets held in government securities, specifically Agency MBS. To keep performance competitive, Great-West extends the maturities of holdings. This is reflected in their historical minimum duration of 3.2, which remains higher than T. Rowe's maximum duration of 3.1.

T. Rowe Price has more leeway to dip more into credit markets relative to Great-West. It is important to note the difference in investment vehicles allows diversification to play an important role. As a separate account, Great-West invests in 175 total securities (as of 12/31/17) on behalf of the County of Fresno. In comparison, T. Rowe manages a collective investment trust of pooled assets of over 2,500+ securities. As a simple comparison, that would mean Great-West's historical maximum (32.9%) and T. Rowe's historical minimum (39.2%) exposure to corporate bonds would estimate 58 and ~980 securities, respectively. The larger number of securities allows T. Rowe to be diversified among various sectors and issuers. Great-West and T. Rowe each have controls of no more than 5% in one single issuer. T. Rowe also uses derivatives to manage curve exposures and duration at the overall portfolio level. Great-West does not use derivatives in the current Fresno Stable Value fund.

### 5-Year Historical Ranges

Sector Allocation	Great-West		T. Rowe Price	
	Min	Max	Min	Max
Asset Backed Securities	3.8%	6.7%	9.2%	13.1%
Mortgage Backed Securities	0.0%	4.9%	8.1%	11.1%
Commercial Mortgage Backed Securities	0.0%	8.2%	3.2%	5.2%
Corporates	12.5%	32.9%	39.2%	46.6%
GICs	0.0%	0.0%	0.0%	5.9%
U.S. Government	57.8%	72.9%	22.3%	26.3%
Cash, Short Term & Other	1.9%	4.1%	5.9%	11.8%
Effective Duration	3.2	4.0	2.8	3.1
Weighted Average Credit Quality <sup>5</sup>	AA+	AAA	AA-	AAA
<b>Credit Quality</b>				
AAA	65.1%	80.9%	53.7%	61.8%
AA	4.3%	5.7%	5.5%	9.1%
A	5.9%	17.6%	15.8%	18.5%
BBB <sup>6</sup>	0.4%	9%	15.6%	22.4%
<b>Maturity Breakdown</b>				
1-3 Yr	44.0%	55.0%	41.9%	46.1%
3-5 Yr	22.0%	31.0%	17.7%	21.1%
5-7 Yr	10.0%	15.0%	12.0%	12.3%
7-10 Yr	7.0%	10.0%	8.0%	9.9%
10+ Yr	4.0%	9.0%	13.9%	17.6%

Allocation ranges for 2013-2017

<sup>5</sup> Based on Moody's ratings

<sup>6</sup> Includes split rated securities

	Great-West Separate Account	T. Rowe Price Collective Investment Trust
<i>Investment Objectives</i>	<ul style="list-style-type: none"> <li>• Earn a high level of return consistent with the other objectives of the fund</li> <li>• Provide sufficient liquidity to pay plan benefits</li> <li>• Provide stable and predictive returns</li> <li>• Preservation of principal</li> </ul>	<ul style="list-style-type: none"> <li>• Preservation of principal value</li> <li>• Invest in contract instruments intended to provide withdrawals without penalty for               <ul style="list-style-type: none"> <li>• Participant initiated transactions</li> <li>• Plans, with advance notice</li> </ul> </li> </ul>
<i>Types of Investments</i>	<ul style="list-style-type: none"> <li>• Treasury and U.S. Agency securities</li> <li>• Mortgaged-backed securities issued by government agencies</li> <li>• Collateralized mortgage obligations (CMOs) issued by government agencies</li> <li>• Instruments of commercial banks in the U.S. and guaranteed by FDIC</li> <li>• Commercial paper, Corporate bonds, Asset backed securities (ABS)</li> </ul>	<ul style="list-style-type: none"> <li>• Primarily invest through Synthetic investment contracts (SICs) but also purchase GICs, separate account contracts (SACs) and bank investment account contracts (BICs)</li> </ul> <p>Within SICs:</p> <ul style="list-style-type: none"> <li>• Treasury and U.S. Agency securities</li> <li>• Corporate debt issued by U.S. companies</li> <li>• Preferred and trust preferred instruments</li> <li>• Mortgage-backed securities, agency and non-agency</li> <li>• Convertible bonds which do not convert to equities</li> <li>• Asset backed securities (ABS)</li> <li>• Private placement obligations</li> <li>• Non-U.S. dollar and dollar denominated obligations by foreign governments</li> <li>• A short-term investment fund or money market</li> <li>• Municipal securities</li> <li>• A comingled fund managed by the trustee with average credit of at least AA-</li> </ul>
<i>Short-Term Investments &amp; Liquidity</i>	<ul style="list-style-type: none"> <li>• All money for deposit will be invested same day. If monies received at a time of day which is impractical, monies will be invested in interest bearing commercial bank account.</li> </ul>	<ul style="list-style-type: none"> <li>• A reserve comprised of marketable securities and money market instruments will allow for access to cash for participant liquidity</li> </ul>

	Great-West Separate Account	T. Rowe Price Collective Investment Trust
<i>Investment Credit Quality</i>	<ul style="list-style-type: none"> <li>Minimum 50% of account to be invested in U.S. Treasury debt, agency mortgage-backed securities of CMOs</li> <li>Maximum 50% of assets invested in corporate bonds or ABS'</li> <li>Weighted average quality of AA or better</li> <li>No more than 25% in A rated securities</li> <li>No more than 10% in BBB securities</li> <li>No more than 5% in any one corporate issuer</li> <li>Corporate or government bonds must be U.S. dollar denominated but can include Foreign sovereigns, supranationals (e.g., European Economic Committee) foreign agencies</li> </ul>	<ul style="list-style-type: none"> <li>A security purchased must be rated at least BBB- or its equivalent by at least one nationally recognized ratings organization</li> <li>A cash equivalent instrument at the time of purchase must be rated at least A-1 or equivalent (see min/max on page 2)</li> <li>The fund may continue to hold an investment that is downgraded below the applicable credit quality requirements. However, if it rated less than BB or its equivalent, the fund shall endeavor to sell it within 90 days</li> </ul>
<i>Derivatives</i>	<ul style="list-style-type: none"> <li>The current Investment Policy Statement does not include derivatives.</li> </ul>	<ul style="list-style-type: none"> <li>May enter into derivative transactions designed to either manage risk or enhance return</li> <li>Use of derivatives must be consistent with Investment Guidelines</li> <li>Foreign exchange exposure may be achieved using derivatives. The fund may use derivatives to hedge currency</li> <li>Swaps will not be entered into if net amount owed or to be received under existing swap agreement exceeds 5% of the fund's value. At the time the swap agreement is entered into, the counterparty must be rated at least an A- or equivalent.</li> </ul>
<i>Duration of Investments</i>	<ul style="list-style-type: none"> <li>Average duration will not exceed four years</li> </ul>	<ul style="list-style-type: none"> <li>Under normal circumstances duration will range from 1.0 to 4.0 years (see page 2)</li> </ul>
<i>Credit Quality of Wrap Providers</i>	<ul style="list-style-type: none"> <li>Great West Life &amp; Annuity (GWL&amp;A) is the sole wrap provider for the account. The credit rating at this time for GWL&amp;A is AA (S&amp;P rating).</li> </ul>	<ul style="list-style-type: none"> <li>At the time of purchase as SIC or SAC must have a minimum credit rating of A by T. Rowe Price. At the time a GIC is purchased the contract must have a minimum rating of AA- by T. Rowe Price.</li> </ul>
<i>Wrapper Diversification</i>	<ul style="list-style-type: none"> <li>GWL&amp;A is the sole wrap provider for the account</li> </ul>	<ul style="list-style-type: none"> <li>At the time a Contract is purchased, the maximum per issuer wrap exposure may not exceed 25% of the fund's total value. Currently utilizes 11 wrap issuers.</li> </ul>

	Great-West Separate Account	T. Rowe Price Collective Investment Trust
<i>Trading Authority</i>	<ul style="list-style-type: none"> <li>GWCM has the authority to buy and sell any securities in the account that it judges to be in the best long-term interest of the account and participants with the understanding that the Investment Manager may raise cash by selling assets to provide liquidity to pay benefits and withdrawals</li> </ul>	<ul style="list-style-type: none"> <li>The trustee may take whatever actions believed to be necessary and consistent with its fiduciary duties. Such actions may be in addition to those duties expressly authorized by the Declaration of Trust.</li> </ul>
<i>Plan Initiated Withdrawal/Termination Provision</i>	<ul style="list-style-type: none"> <li>Upon termination of the contract, the Plan may transfer assets in-kind or elect to receive market value of the account at any time. 30-day notice required</li> </ul>	<ul style="list-style-type: none"> <li>A participating plan may make withdrawals for any reason following either 12 months' or 30 months' written notice. Generally, a plan is required to provide 30 months' advance notice if it owns 5% of the total units in the trust. All withdrawals will occur at book value.</li> </ul>
<i>Competing Funds Policy / Equity Wash Rules</i>	<ul style="list-style-type: none"> <li>Competing funds are not allowed. Competing funds would include any guaranteed/stable value/money market investments as well as a bond fund with a duration of three years or less.</li> </ul>	<ul style="list-style-type: none"> <li>Competing funds (money market funds, bond funds with a duration less than three years) are permitted to be in the plan. However, transfers from the stable value fund to the competing fund will be subject to a 90-day restriction (equity wash)</li> </ul>

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## Glossary

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Asset backed security (ABS)	An ABS is a security that has its income payments collateralized by a specific pool of underlying assets. The pool of assets can include payments from credit cards, auto loans, mortgage loans, leases.
Collateralized mortgage obligations (CMOs)	CMOs are types of mortgage-back securities that contain a pool of mortgages bundled together. CMOs are sensitive to interest rate changes, foreclosure rates, prepayment rates and other economic factors.
Guaranteed Investment Contracts (GICs) Bank Investment contracts (BICs)	A GIC is an investment where the Trust (managed by provider in this case T. Rowe Price) deposits a sum of money with the issuer (or bank in the case of the BIC) of the GIC and the issuer promises to repay principal amount plus interest. Withdrawals may be made from the GIC prior to maturity without incurring adjustments for market value fluctuations. The GIC does become part of the general account of the issuer.
Synthetic Investment Contracts (SICs)	A SIC is an investment contract that is issued by an insurance company, bank or other issuer. SICs are supported by portfolios of underlying assets that consist of fixed income securities. The SIC's interest rate (also called a credit rate) fluctuates and is based on the return of the underlying portfolio. Gains and losses are amortized so that it limits fluctuations.
Separate Account Contracts (SACs)	A SAC is a contract where the Trust agrees to deposit cash and/or securities with an insurance company in order to create a fixed income portfolio. The SAC calculates its interest rate similar to the SICs. The assets in the SAC are segregated from the insurer's general account thus protecting it from claims of insurers and threats of insolvency. The Trust (T. Rowe Price in this example) would be retained by the insurer to manage the assets although the insurer has the right to replace them.
Swaps	Swaps are a form of derivative contracts in which two parties exchange investment instruments. Most swaps involve cash flows based on a principal amount. The principal does not change hands. Usually one leg of the cash flows is fixed while the other is floating. Most common swaps are interest rate swaps which do not trade on exchanges but usually done between financial institutions and/or businesses. Interest rate swaps are typically used to hedge against interest rate risk. Other types of swaps include: commodity swaps, currency swaps, debt-equity swaps.