

County of Fresno Stable Value Search Summary

Departure of long-time Great West fixed income manager, Cathe Tocher, Initiated RFP to ensure stable value services are consistent with the current market place

After a filtering process, 4 finalists remained: ICMA-RC, Goldman Sachs, Great-West and T. Rowe Price. Scoring of finalists across multiple quantitative and qualitative characteristics resulted in the options of retaining Great-West or selecting T. Rowe Price.

Northwest Capital Management (NWCM) issued a Request for Proposal (RFP) seeking proposals from qualified stable value managers on behalf of the County of Fresno's 457 Deferred Compensation Management Committee (DCMC). The intent of the RFP was to evaluate the stable value product delivered by the incumbent provider, Great-West, following the departure of long-time fixed income manager, Cathe Tocher. Additionally, to ensure that the DCMC is receiving stable value investment management services consistent with the current marketplace.

A total of 14 responses were received. After an initial screening and removal of those providers that invest primarily in General Investment Contracts (GICs), we were left with a total of 10 responses. We further screened out providers whose market-to-book value fell in the bottom half of all respondents. Lastly, we screened out those respondents whose portfolios' crediting rates fell in the bottom-half of the range on a 5-year annualized basis. This process yielded four finalists: ICMA-RC, Goldman Sachs, Great-West and T. Rowe Price.

After scoring the finalists, the following two options emerged:

1. Retain Great-West
2. Select T. Rowe Price as a replacement

Filtering Process of 14 Respondents

Filter	Remaining
Remove GICs	10
2008 MV/BV > 50 th Percentile	7
5yr Crediting Rate > 50 th Percentile	4
Finalists Remaining	
ICMA -RC	Goldman Sachs
Great-West	T. Rowe Price

Fund Evaluation

Category	TRP	GS	GW	ICMA
Organization	90	84	80	95
Experience	80	71	42	74
Approach	220	220	216	173
Performance	231	217	208	222
Transition	90	90	85	90
Administrative	50	45	43	30
Fees	113	134	150	128
Total	874	861	824	812

Source: RFP Responses

T. Rowe Price (TRP); Goldman Sachs (GS); Great-West (GW)

NWCM Recommendation

Both Great-West and T. Rowe Price are appropriate investment options. Although T. Rowe Price provides a compelling option, NWCM recommends retaining Great West for the Stable Value mandate.

Both the Great-West (GW) and T. Rowe Price (TRP) Stable Value Funds are appropriate investment options for the County of Fresno's 457 Deferred Compensation Plan. After surveying the stable value marketplace utilizing NWCM's rigorous review process, **NWCM is recommending Great West be retained for the Stable Value mandate.**

T. Rowe Price provided a compelling solution based upon their management team's experience, the products diversification of underlying securities, and the firm's collective experience in the stable value industry; however, the logistical challenges of establishing a separate account investment "hybrid" to amortize the market-to-book losses proved problematic with the timeline for this meeting. Additionally, it was determined that Nationwide would require a 0.01% fee to record to record keep TRP's separate account product. This nominal fee would be eliminated with maturity of the five-year GIC and the transition of all stable value assets into the Collective Trust Account.

Trailing Performance

Return (%)	3-Mo	YTD	1-Yr	3-Yr
GW	0.51	1.00	2.01	2.06
TRP	0.53	1.03	2.00	1.92
Peer Performance by Percentile				
5th	0.61	1.19	2.29	2.18
25th	0.51	0.99	1.95	1.80
50th	0.44	0.85	1.64	1.49
75th	0.38	0.72	1.39	1.24

Source: Morningstar, Great-West. As of 6/30/18
 Great-West (GW); T. Rowe Price (TRP)
 Collective Trust Class B
 Morningstar Category: SA/CITs – Stable Value

As the incumbent provider, Great-West has provided sufficient returns relative to peers with a more restrictive investment policy. GW, as a firm, has extensive experience managing stable value solutions with approximately \$6.2 billion in public sector assets as of 6/30/18. Jack Brown, Great West's Lead Stable Value Portfolio Manager, has strong experience of working in a credit-oriented / risk management portfolio where investment policy statement revisions may give him more flexibility to increase the crediting rate and/or cushion the market-to-book value. Under his tenure, Brown has produced returns in the top quartile relative to peers for the trailing 3-months, year-to-date and the trailing year, respectively.

Taking into consideration that GW's stable value solution received one of the highest scores in our evaluation process, the challenges with transition logistics within this timeline, and the fact that County will be conducting a recordkeeping RFP in Q1 of 2019, NWCM recommends retaining the Great West Stable Value product and would recommend the DCMC consider their proposed investment policy changes at the next DCMC meeting.

Alternative Action

If the DCMC determines that T. Rowe Price remains the appropriate decision despite the logistical challenges and minimal additional recordkeeping fee assessed by Nationwide, NWCM will continue to work with County Staff, Nationwide, and T. Rowe to facilitate the process. With the approval to go with TRP's collective trust product, there would be a transition phase for a portion of the assets that are currently below market-to-book value.

Portfolio Transition

In the event the DCMC chooses to proceed with the "alternative action", T. Rowe Price provides two (2) options for transitioning the current Great-West separate account to the T. Rowe Price Stable Value. Collective Trust.

Option #1: T. Rowe Price will be replacing Great-West as the separate account manager where the portfolio will remain outside of the collective trust until a market-to-book ratio over 100% can be achieved.

Option #2 To ensure the timing of the transition into the collective trust, TRP will utilize an Equalizer GIC.

Both options provide portfolio diversification by investing in the underlying T. Rowe Price fixed income strategies with multiple wrap providers.

Transition Recommendation

In the event the DCMC chooses to proceed with the "alternative action", NWCM recommends option #2 with approximately 80% of assets invested in the T. Rowe Price Stable Value Common Trust Fund and the remaining 20% of assets invested in a high-quality Equalizer GIC to amortize the market-to-book value loss. This option ensures the timing of the transition by mitigating the impact of future interest rate movements. The equalizer GIC remains portable over its term, if the County elected to exercise its 12-month put provision. Lastly, the 0.01% Nationwide recordkeeping fee would be eliminated when the GIC assets mature and are transferred to the Collective Trust product.

If selected, the process of transitioning to T. Rowe Price involves two (2) options that differ in timing but allow portfolio and wrap diversification.