

Item 9

County of Fresno: Money Market Review

Summary

At the September 28, 2023, DCMC Meeting, Northwest Capital Management (NWCM) was directed to assess the viability of adding a money market account as an investment alternative for the County of Fresno 457(b) and 401(a) Plans. After the meeting, NWCM met with Empower who stated that they prohibit the use of a money market fund as long as the Fresno Stable Value Fund remained in the plan. **As a result of the restriction and the current market-to-book ratio NWCM recommends retaining the County of Fresno Stable Value at this time.**

Differences Between Money Market and Stable Value Funds

Before reviewing the County’s unique situation, it’s important to understand money market and stable value funds and some of their key characteristics. Both money market and stable value funds are focused on capital preservation and providing current income, but they each have unique strategies and perform well in different rate environments.

Money Market Accounts invest in cash, cash equivalent and high quality short-term (generally less than 60 days to maturity) securities. Moreover, heightened short-term rates and recent market volatility have led to increased demand for money market accounts among participants, with money market funds paying above 5%. According to quarterly Federal Reserve data, money market assets were more than \$6 trillion at the end of the third quarter of 2023, roughly double what they averaged from 2011 to 2017.

Stable Value Funds invest in high quality short to intermediate term bonds (generally up to 2-4 years average duration). Additionally, stable value products purchase insurance to protect against daily price volatility. Stable Value offers a low-risk investment option with steady returns, typically higher over the long run compared to money market funds and cash as shown by the table below as of December 31st, 2023.

Annualized Performance

Index Name	Category	Total Return Annualized			
		1 Yr	3 Yr	5 Yr	10 Yr
County of Fresno Stable Value Fund	Stable Value Fund	1.90	1.81	1.98	2.13 *
Money-Market Taxable Average	Money Market Funds	4.72	2.00	1.62	1.01
Bloomberg US Govt/Credit 1-3 Yr	Short-Term Bonds	4.61	0.09	1.51	1.27
Bloomberg US Agg Intern	Intermediate-Term Bonds	5.18	-2.06	1.14	1.62

* Empower Stable Value Fund used for the 10 yr return.
Sources: Empower, Morningstar

Process

After the September 28, 2023 DCMC Meeting, NWCM met with Bill Thornton, CIMA®, Investment Director, Government Markets at Empower Investments. He verified that adding a money market, second stable value, bond fund with less than three-year duration, or a guaranteed rate product would be prohibited as long as the County of Fresno Stable Value fund remains as an investment alternative for the 457(b) and 401(a) Plans.

Subsequently, we reviewed the feasibility of terminating the Stable Value contract and replacing it with a fund that allows for a competing money market account. The exit/termination provisions for the County of Fresno Stable Value fund only offers current market value liquidations. The market-to-book ratio for the County of Fresno Stable Value fund as of 12/31/2023 was reported at 94.3%, indicating a significant financial penalty to investors should the stable value contract be terminated at this time.

Recommended Actions

- a. Receive and File a report on Money Market Accounts and Stable Value Funds.
- b. Approve maintaining the County of Fresno Stable Value Fund as an Investment Alternative.

Disclosures

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