



Observations on the Current State of Stable Value Funds

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What is Stable Value?

- A capital preservation option only available in retirement plans and select tuition assistance plans, including 401(k), 457, 403(b), and 529 plans
- Provides price stability while providing the return potential of a short to intermediate term bond fund
- Duration is typically between 2 – 4 years
- Two common stable value fund structures:
 - Synthetic/ Wrap structure where investment managers select wrap issuers to provide the book value guarantee upon withdrawals/termination when market value of underlying fixed income portfolio is less than book value
 - Traditional Guaranteed Investment Contract (GIC) which is an investment contract issued by an insurance company that usually pays a specified rate of return for a specific period of time, guaranteed principal and accumulated interest
- Typical fees range from 20 – 50 bps depending on share classes and investment minimum. Two main components of fees are investment management fees and wrap/contract fees

Common Stable Value Structures

Features	Synthetic/ Wrap Structure	Traditional GICs
Overseeing Firm	Stable value fund manager	Insurance company
Who Owns Plan Assets?	Owned directly by the plan trust	Owned by insurance company and are part of their general account
Wrap Providers	Multiple (Banks & insurance companies)	Single (Insurance company)
Crediting Rate Guarantee	Minimum rate is typically greater than 0%, without guaranteed minimum	Minimum rate is guaranteed and greater than 0%
Typical Portfolio Duration	2-4 years	3-5 years
Portfolio Risks	Passed through via rate; impairments may not be covered	Insurer bears risk of investment losses, especially impairments
Liquidity	Participants have daily liquidity. Plan sponsor typically has a 12-24 months waiting period depending on market conditions	Participants typically have daily liquidity. Plan sponsor termination is contract dependent with probable market value adjustment or 5-10 year payout period
Credit Risk	Subject to the credit/default risk of wrap provider	Subject to the credit risk of the insurance company general account

Current State of Stable Value Industry

In equilibrium... at least for now

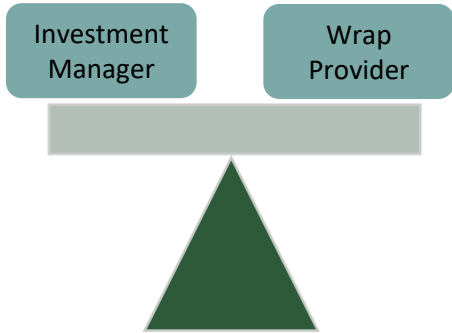
Pre-Global Financial Crisis



Post-Global Financial Crisis



Current



Wrap Fees: Low at 5 – 10 bps

Wrap Capacity: Ample and dominated by banks

Investment Guidelines: Aggressive

Contract Terms: Require Commitment Letters

Sector Allocation:

- Higher exposure to traditional GICs, MBS, and CMBS
- Lower exposure to corporates and treasuries

Spiked to 20 -25 bps

Low, banks exited, insurance companies enter

Conservative

Strict

- Higher exposure to treasuries and high-quality corporates with defensive tilt
- Decreased exposure to MBS and CMBS as mortgage bubble busted

Finding equilibrium at 15 – 20 bps

Ample and dominated by insurance companies

Conservative, but appropriate for stable value

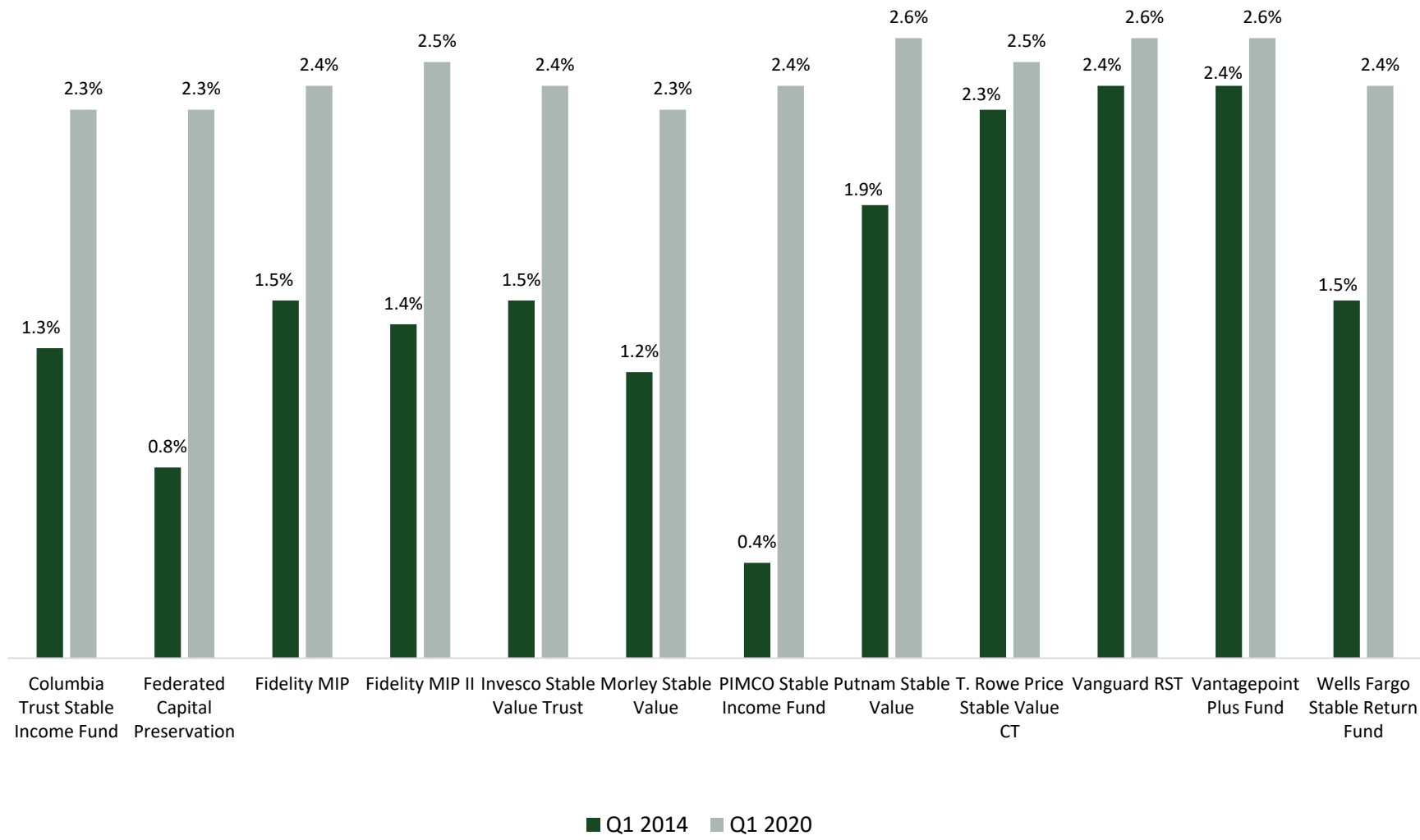
Balanced

- Traditional GICs are going out of favor
- Decreasing exposure to treasuries due to persistently low yields leading to higher exposure to securitized assets as well as A and BBB credits



Crediting Rates*

This equilibrium has led to narrowing rates dispersion

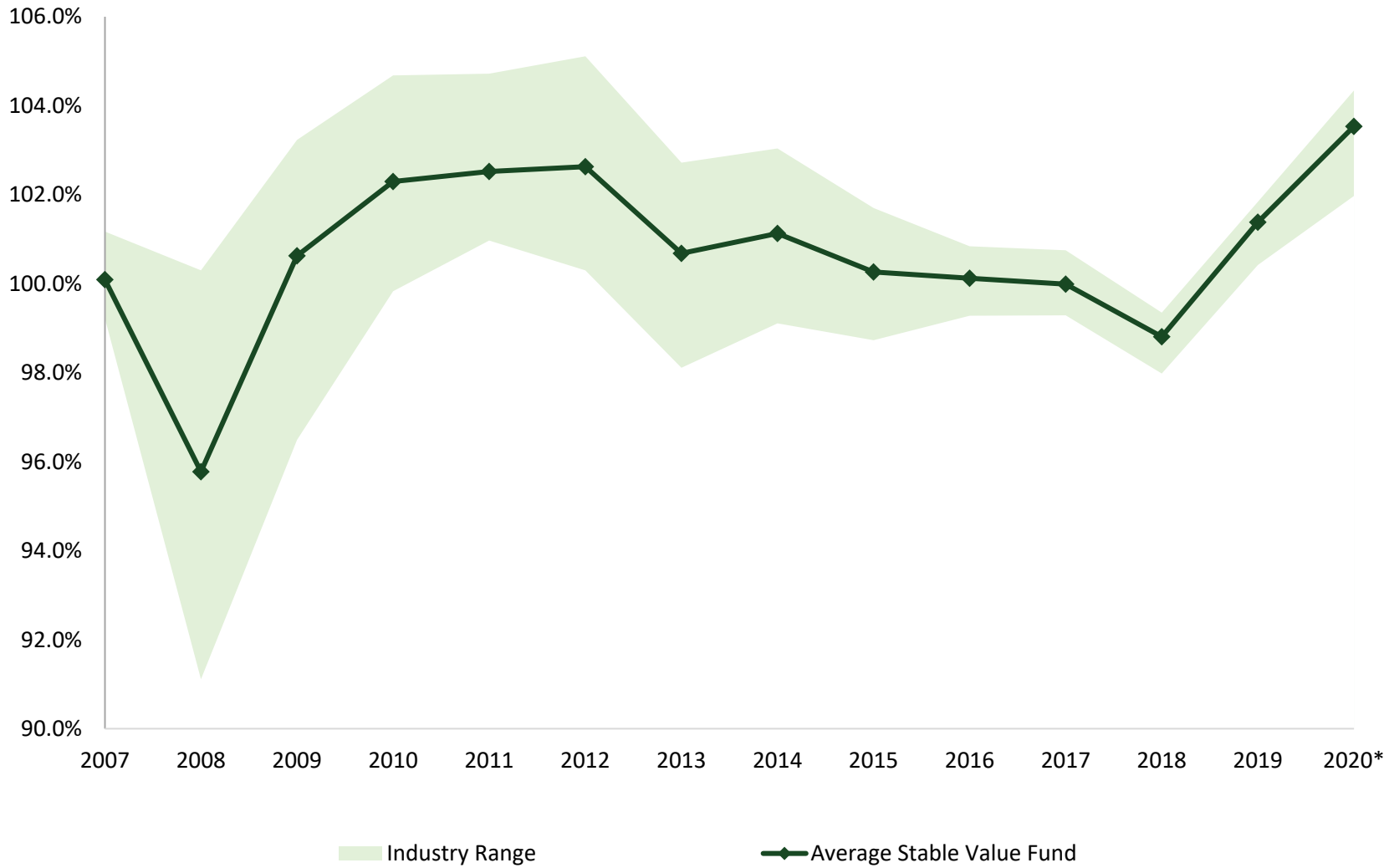


* Gross of investment management fees and net of wrap fees



Market-to-Book Ratio

... So has the dispersion in M/B ratio

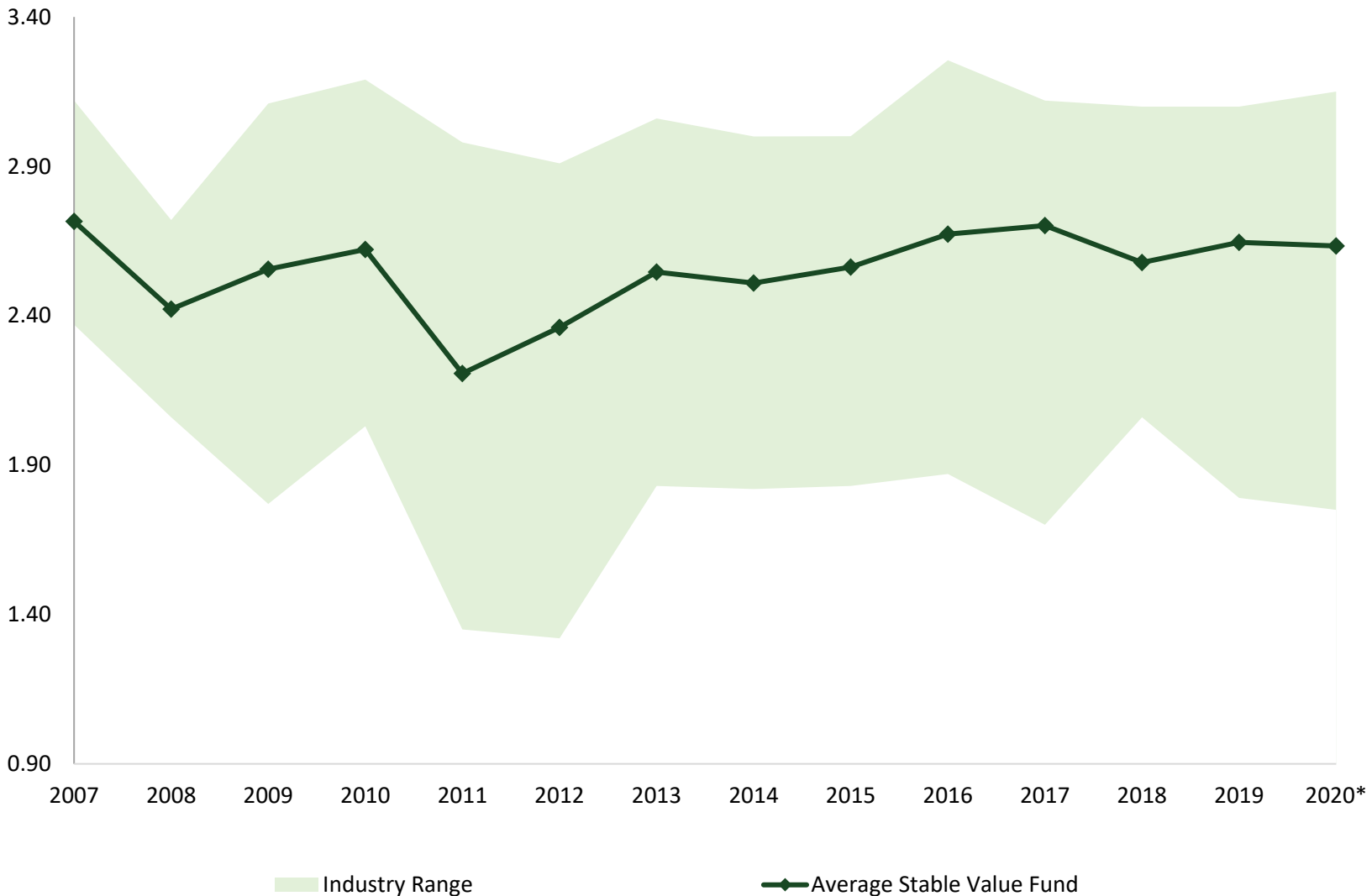


* 2020 data are through June 30.



Duration

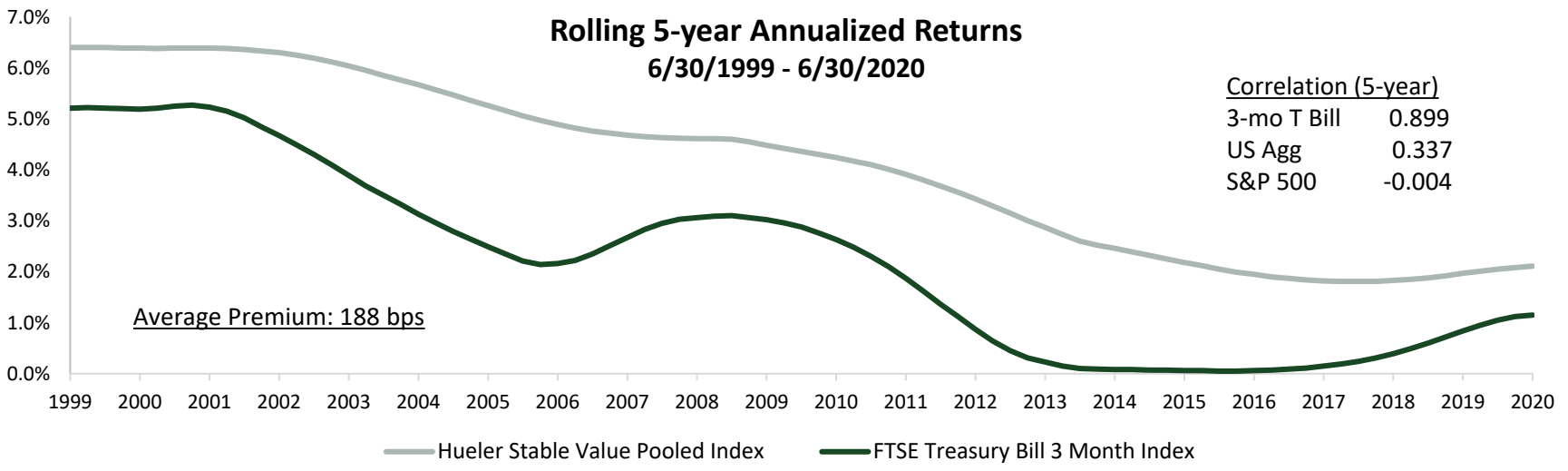
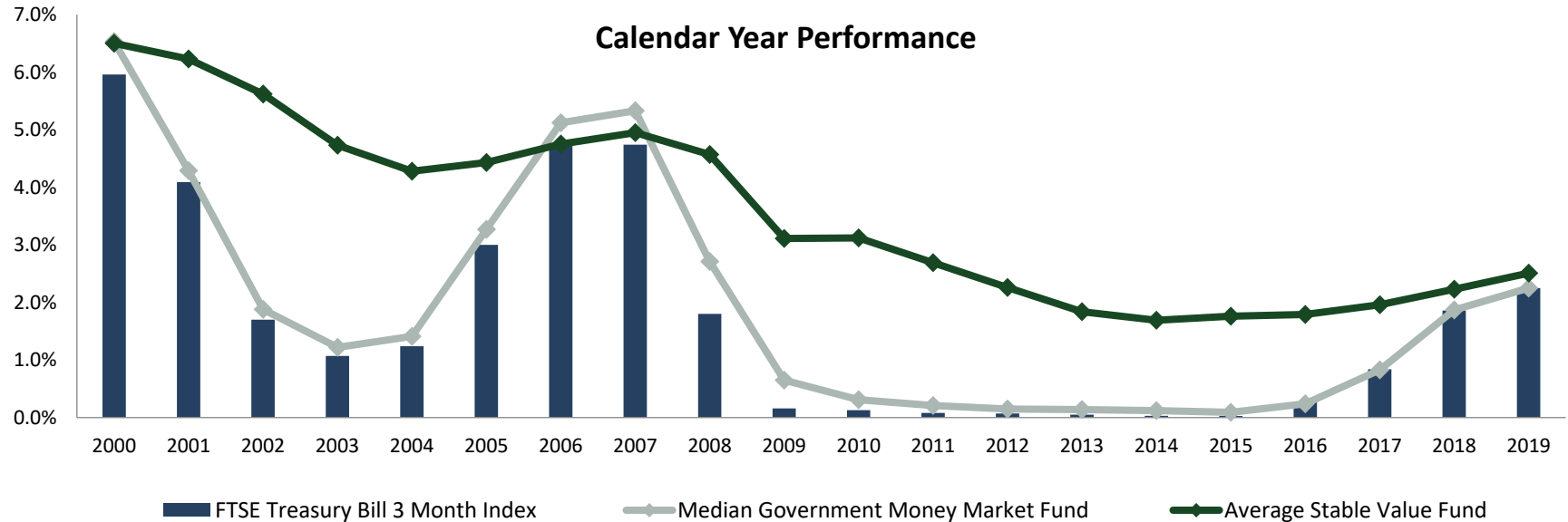
No big duration bets has always been the case



* 2020 data are through June 30.



Performance vs Money Market

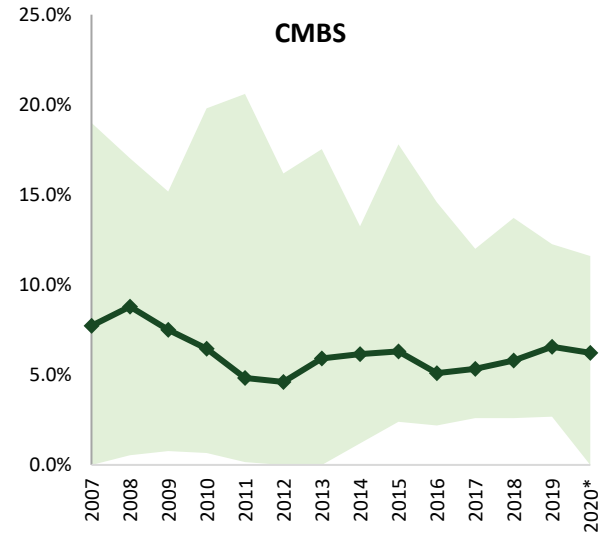
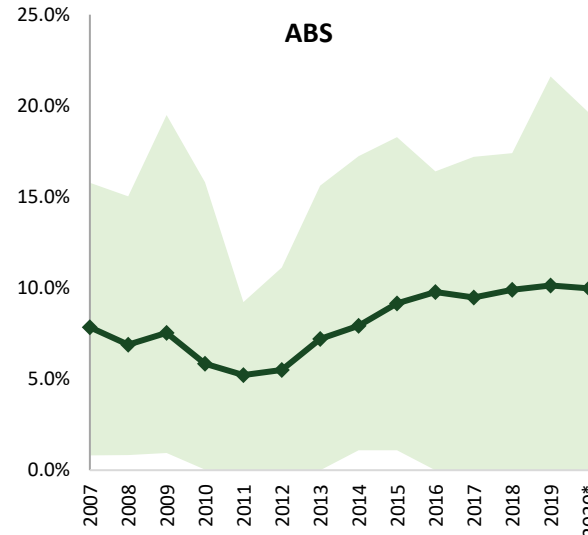
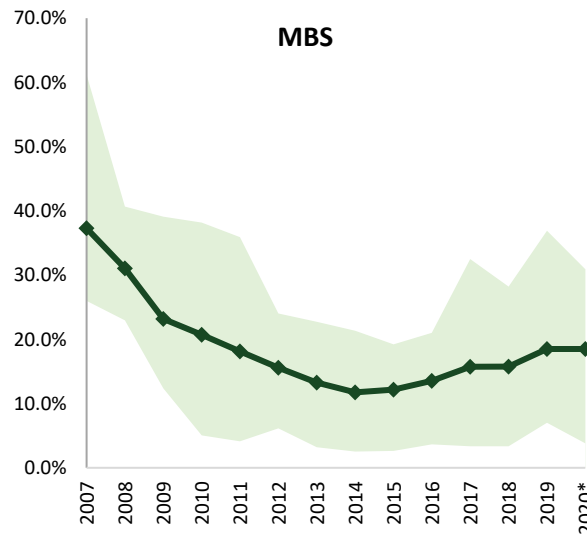
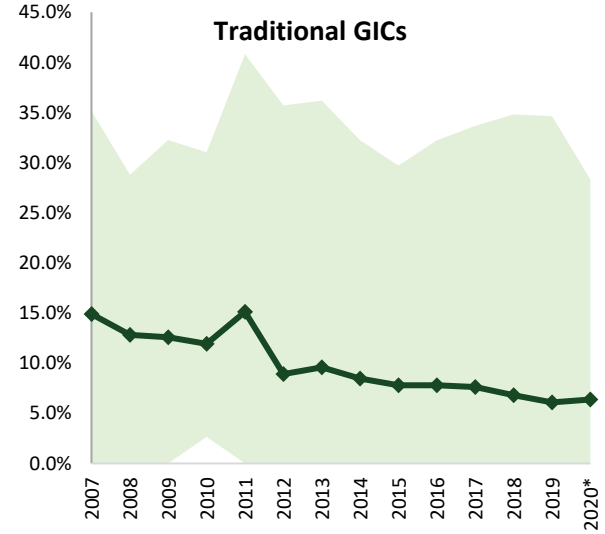
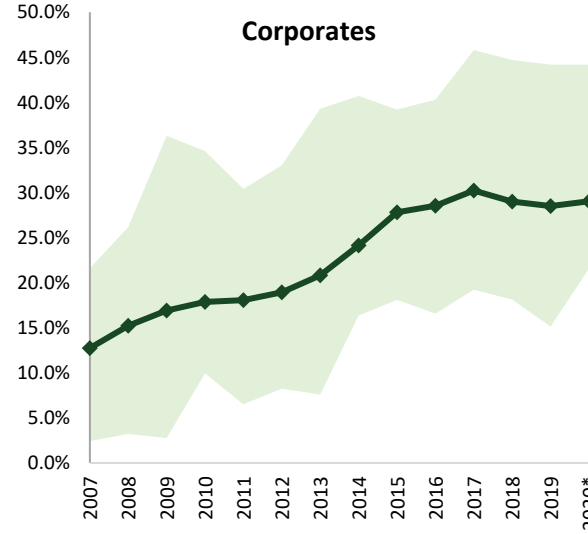
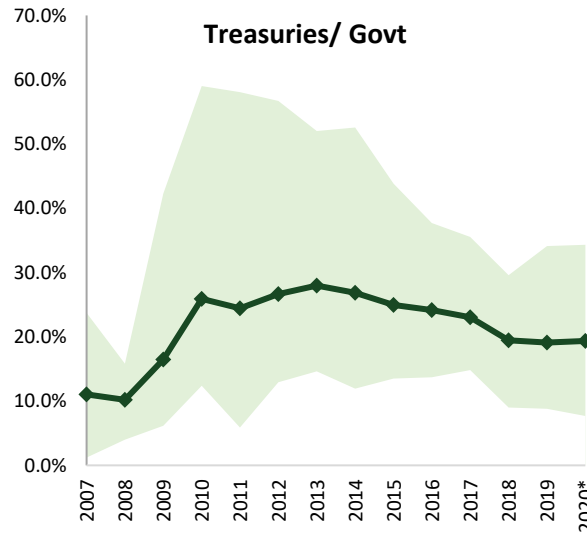


Sources: FTSE, and Hueler Analytics. Stable value performance data are gross of management fees and net of wrap/contract fees. Quarterly Hueler Stable Index returns are calculated by taking a straight average of the quarterly returns of all funds in the Hueler universe.



Sector Allocation

Low yields in treasuries led to higher exposure to IG corporates and high-quality securitized assets



Industry Range

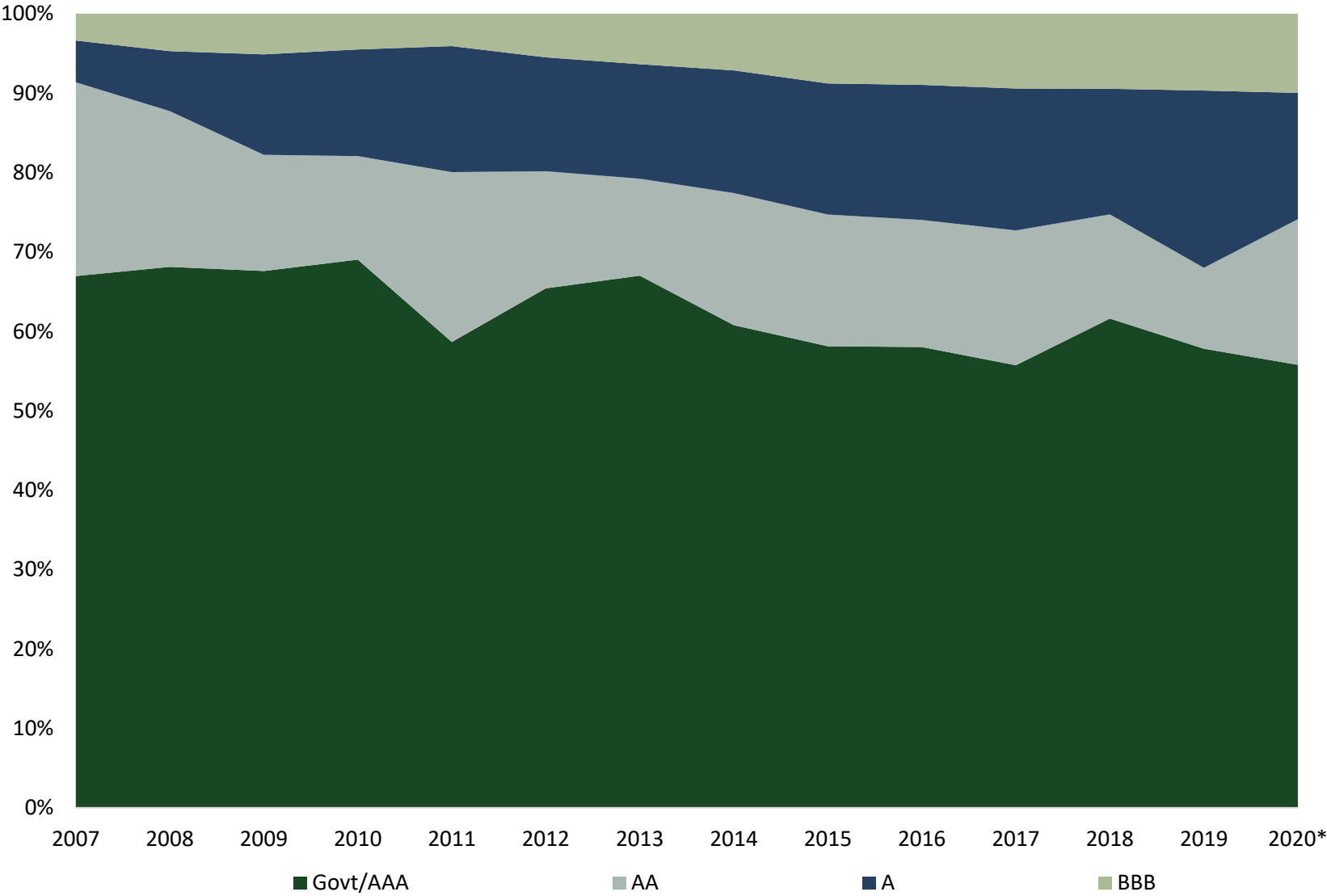
Average Stable Value Fund

* 2020 data are through June 30.



Credit Quality

Like sector allocation, low yields in Govt/AAA space has led to higher exposure to A and BBB buckets



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