Frequently Asked Questions

We've answered some of your most common questions about stable value.

What is stable value?

Stable value is an asset class that is typically designed to provide capital preservation and relatively stable returns consistent with its comparatively low risk profile, and liquidity for benefit-responsive payments. Most investment managers of stable value funds strive to provide a high credit quality, well-diversified portfolio. When comparing stable value to other investment options, although past performance is not an indicator of future results, you may find that historically the stable value asset class has provided returns that, over a full market cycle, have been similar to short term bond funds. However, stable value seeks to provide price stability which a bond fund does not typically enjoy. For a more detailed look into stable value funds and how they work, please refer to our video presentation located in the Knowledge section of our website www.Morley.com.

Who can invest in stable value?

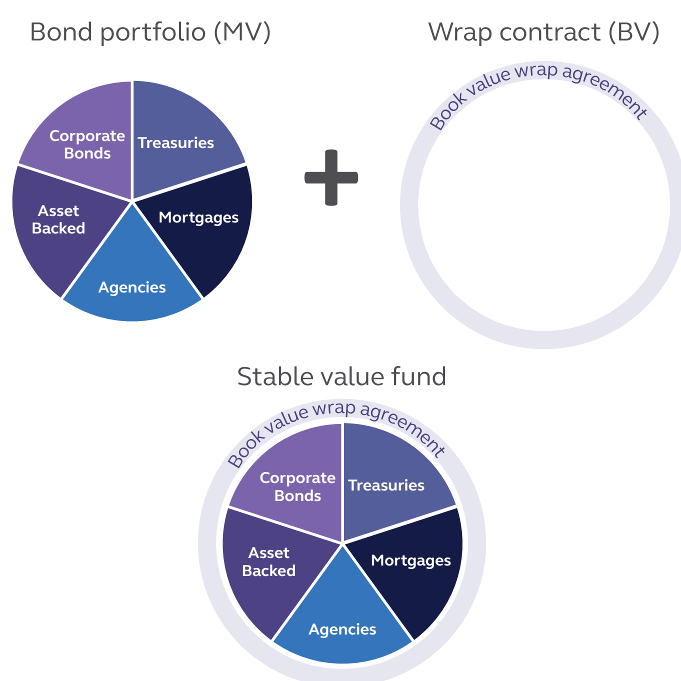
Stable value funds are only available within an employer-sponsored deferred compensation or retirement savings plan. Stable value has been a staple of many plans since the late 1970's. Plan types include, but are not limited to: 401(k), profit sharing, money purchase and Governmental 457 plans. It is important to note that stable value funds cannot accept investments directly from individuals. This means that while individuals may select a stable value fund as an investment option through various retirement plans they cannot invest in a stable value fund directly through an investment broker or adviser.

What are some of the potential benefits of investing in stable value?

A typical stable value fund's objective is not only to preserve capital, but also to provide a positive rate of return with limited fluctuation relative to other investment options. Capital preservation means investors should expect to maintain 100% of their initial investment.

What is a wrap?

Stable value is one of the few asset classes in retirement plans that are designed to provide plan participants the ability to transact at book value, which means the value of an investment plus earned interest minus withdrawals. The ability for participants to transact at book value is accomplished by the use of stable value investment contracts, also referred to as wrap contracts or investment contracts. These are contracts issued by insurance companies, banks, and other financial institutions that provide book value accounting treatment. Investment contracts do not insure the value of a fund and are not insurance against fund losses but rather by applying book value accounting standards permit the amortization of gains and losses over time through the crediting rate, thus providing capital preservation.



How is the crediting rate determined?

The rate of return credited to the book value of a stable value fund, expressed as an annual percentage rate is calculated based on a book value dollar weighted basis gross of the Trustee/Adviser, Recordkeeping Off set and Other Expenses but net of Wrap Fees, Sub-Adviser Fees, and Acquired Fund Fees. A crediting rate is determined per investment contract which may remain fixed for the term of the contract or may be reset at predetermined intervals based upon portfolio characteristics including yields, market value, book value and duration. The data is provided for general informational purposes and the return received may be higher or lower than the crediting rate provided. A typical formula for determining a crediting rate on a wrap contract is shown below. Rates on wrap contracts in Morley products are generally calculated on a monthly basis and used in the determination of the fund's daily crediting rate.

$$\text{Wrap CR} = (1+Y) * (\text{Market Value}/\text{Book Value})\ \hat{}\ (1/D) - 1 - F$$

Represents the yield of underlying fixed income portfolio.

This shows whether the portfolio has a gain or loss based on current value of securities. A gain (MV>BV) increases the yield credited while a loss (MV<BV) lowers it over time.

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What does book value represent?

Accounting practices allow for stable value investments to be held at book value, which is generally representative of the principal invested in each contract and any earnings, as credited to the investment vehicle, based upon a contractually negotiated crediting rate. Book value performance is generally illustrative of participants' performance, earnings and potential liquidation value and is not subject to market fluctuations. Additionally, the accounting methodology allows a fund to amortize market value gains and losses over time through the fund's crediting rate thus providing capital preservation.

What does the Market Value/Book Value (MV/BV) ratio represent?

MV/BV, or market to book value ratio, represents a measurement of the market value of a stable value fund's underlying securities as compared to its book value; typically quoted as a percentage. Generally, participant transactions occur at book value even if the market value is above or below the book value.

What does market value represent?

Market value is the cumulative value of securities consistent with a valuation standard and calculation methodology. Many of the securities underlying investment or wrap contracts are publicly traded and valued by third party public pricing sources. Other stable value contract types are not publicly traded and are fair valued based on internal standards and regulatory guidance. Investments in certain pooled investment vehicles, including stable value collective investment trusts (CITs) may be valued at book value even if the market value of the CIT is below book value based upon the principal and liquidity protection structure of such investments. The type of securities being valued, general market conditions and the valuation process may all influence the final market value determinations and the corresponding performance information. Market value and corresponding market valued returns are typically provided for informational purposes only.

What should be understood about duration?

Duration is a measure of the price sensitivity of a fixed-income security or portfolio to a change in interest rates and is commonly presented in years. The longer the duration the more sensitivity the fund or security is expected to have to interest rate changes.

What does the average credit quality represent?

Average credit quality represents an average of the market value dollar weighted credit quality of the underlying securities in a fund as obtained by applicable credit rating agencies. Morley's funds are not rated by these agencies. Average credit quality calculation methodologies may vary across the industry which may impact the validity of comparisons.

What is an insurance company Separate Account Contract?

A Separate Account Contract is an investment contract that is backed by the assets of an insurance company's separate account rather than its general account. The interest rate on a separate account resets periodically based upon the earnings of the separate account assets. The securities held in the separate account are owned by the insurance company, but are held for the exclusive benefit of the plan or plans participating in the separate account. These plans are policyholders of the insurance company where any guarantees on Separate Account Contracts are also supported by the insurer's general account assets and surplus.

What is an insurance company General Account Contract?

A General Account Contract is an investment contract that is backed by the general account of an insurance company. The insurer pledges principal protection and participant benefit payments at book value. Interest rates on these types of contracts reset periodically at the discretion of the insurance company. The securities held in the general account are owned by the insurance company. Such contracts are backed by the claims paying ability of the issuing entity.

What is a pooled fund?

Collective Investment Trusts (CITs) also known as pooled funds are comingled investment accounts, for which multiple clients may invest in the same pooled fund. CITs are exempt from registration with the Securities and Exchange Commission as an investment company under Section 3(c)11 of the Investment Company Act. CITs are maintained by banks or trust companies which are regulated by federal regulatory agencies including the Office of the Comptroller of the Currency (OCC) and/or state banking & trust agencies. CITs are designed exclusively for certain qualified pension, profit sharing, and government plans including 401(k) plans, governmental 457(b) plans, and Taft-Hartley plans.

What is a Guaranteed Investment Contract (GIC)?

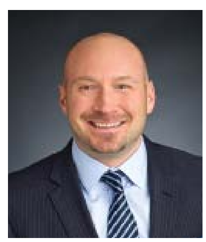
Guaranteed Investment Contracts, (also known as Guaranteed Insurance Contracts or Guaranteed Interest Contracts) are typically issued by insurance companies and offer a specified rate of return for a specific period of time. Such contracts are backed by the claims paying ability of the issuing entity.

What are some of the risks associated with stable value?

While stable value is generally considered a conservative investment option, stable value assets do carry potential risks. They may lose value and may be worth more or less than the original cost when redeemed, and there is no assurance that a stable value fund's objective will be achieved. Risks include, but are not limited to, 1. investment contract risk which includes the risk of maintaining book value accounting standards and the risk that investment contract issuers may default on their obligations under the contract; 2. interest rate risk which includes the potential that an increase in market interest rates may decrease the value of fixed income securities (bonds); 3. credit risk which reflects the potential that the issuer of fixed income securities will be unable to make the required payments of interest and/or principal when due. Please review the disclosure document of prospective stable value funds for additional information regarding fund structure, investment objective and strategy, risks and expenses and carefully consider such factors before investing. Stable value funds are not a deposit, obligation, guaranteed or insured by the trustee of the fund, and are not insured by the Federal Deposit Insurance Corporation (FDIC) or any other federal or state government agency. Many stable value funds and the offering of their units have not been registered under the U.S. securities laws. Therefore, investors will not have the benefit of the protections for registered securities afforded by the Securities and Exchange Commission (SEC).

Have other questions about Stable Value? Contact us or visit us at www.morley.com.



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