CITY OF Los Angeles
DEFERRED COMPENSATION PLAN

Board Report 20-44

Date: December 15, 2020

To: Board of Deferred Compensation Administration

From: Investments Committee and Staff

Subject: Stable Value Fund Request for Proposal (RFP)

Recommendation:

That the Board of Deferred Compensation Administration (Board): (a) review and consider reports and findings from the Deferred Compensation Plan (DCP) Investments Committee, investment consultant, and staff regarding responses to the DCP RFP for stable value fund management services; and (b) provide direction with respect to scheduling oral presentations, conducting further analysis, or proceeding to make a final selection decision.

Discussion:

A. Background

The DCP Stable Value Fund (DCP SVF) is an investment option offered within the DCP investment menu that seeks to protect investor principal while obtaining a higher rate of return than other conservative investment alternatives (such as money market or savings accounts). As of September 30, 2020, assets in the DCP SVF option totaled $1.38 billion, or approximately 18% of total DCP assets. The incumbent DCP SVF manager is Galliard Capital Management ("Galliard"). Contract No. C-127342 with Galliard will expire on December 31, 2021.

The Board has taken a number of actions with respect to procurements and search processes for DCP investment managers, including the DCP SVF. Following is a summary of the Board's actions to date regarding the search:

- On **June 19, 2019**, the Board directed staff to draft revisions to the DCP Investment Management Services and SVF Management Services RFPs to include an evaluation process aligning with the Board's established mutual fund search process. The Board also asked staff to work with the City Attorney's Office and Office of Contract Compliance to identify all nonapplicable provisions of the City's general contracting requirements for the investment of DCP funds.

- On **July 16, 2019**, the Board approved staff's proposed process to administer parallel mutual fund and institutional product searches for all DCP investment mandates.
- On **January 14, 2020**, the Investments Committee (Committee) reviewed and approved staff's proposed revised RFPs.
- On **February 18, 2020**, the Board approved and authorized the release of RFPs for (i) DCP Investment Management Services and (ii) SVF Investment Management Services.
- On **March 31, 2020**, the Board approved pausing release of the two RFPs as a consequence of market volatility occurring at that time, but subsequently on **May 19, 2020**, approved release of the RFPs.

The RFP was released on **July 20, 2020**. Responses were due **August 27, 2020**. Responses were received from the following 14 firms:

1) Columbia Threadneedle
2) Galliard Capital Management, Inc.
3) Goldman Sachs Asset Management
4) Great West
5) ICMA Retirement Corporation (ICMA-RC)
6) Invesco
7) JP Morgan
8) Mellon
9) PFM
10) Pacific Investment Management Company (PIMCO)
11) Principal
12) Putnam
13) T. Rowe Price
14) Vanguard

All 14 responses were first reviewed by the Personnel Department's Administrative Services Division (ASD) to ensure the City's general contracting requirements were met. All respondents were determined to have met the requirements necessary to proceed with further evaluation.

B. Evaluation Process

The RFP provides that the DCP consultant prepare a report analyzing the responses across the various evaluation categories as delineated within the RFP Proposal Questionnaire. The RFP further provides that the analysis and findings will be reviewed and evaluated in collaboration with the DCP staff and the Committee so as to allow the Committee to make recommendations for selection to the Board. The analysis includes the following evaluation factors:

- *Organizational Strength and Continuity* – this factor assesses business strength and resiliency, tenure of senior professionals, commitment to retaining overall personnel, and history of legal and regulatory proceedings.
- *Investment Experience* – this factor assesses each firm's history of managing stable value assets, the scale of stable value assets under management, and depth of staff specializing in stable value management.
- *Investment Approach and Process* – this factor assesses each manager's allocation decisions from an investment approach standpoint and includes consideration of targeted duration, utilization of external managers versus proprietary investments, cash buffer, use of fixed maturity investments versus open maturity investments, diversity and credit quality of wrap providers and investment managers, risk management capabilities and current/historical portfolio positioning (current yield, weighted average quality, market-to-book ratio, and exposure to insurance company general account risk).
- *Investment Performance* – this factor assesses the portfolio's composite ranking relative to the stable value peer group, average performance ranking of underlying investments proposed relative to comparable peer groups, and risk-adjusted performance of the intended underlying bond investments.
- *Portfolio Transition* – this factor assesses the ability of each manager to assume the current portfolio and formulate a transition plan.
- *Administrative and Reporting* - this factor assesses the managers' capabilities with regards to interfacing with the DCP's TPA, Voya, providing timely performance reporting for the DCP, supporting plan participant communications, and providing the City with back-office support as issues may arise.
- *Fees* – this factor assesses the competitiveness of fees on a total cost basis reflecting investment management fees paid to the manager, if any; fees paid to external managers; and wrap fees.

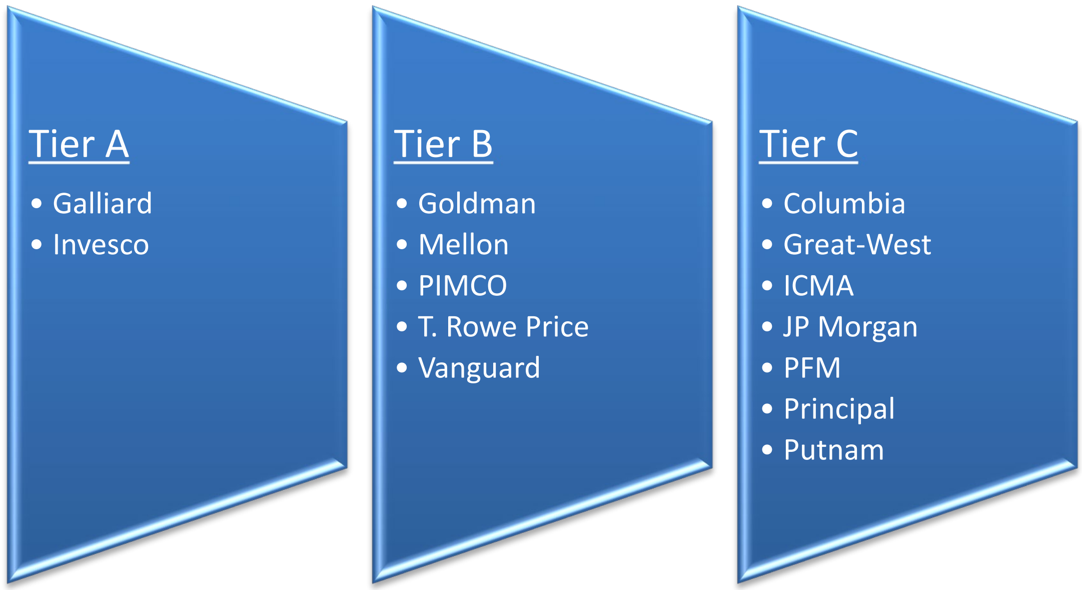
Evaluation proceeds through stages of consultant, Committee, and Board review. As the review process proceeds, the City has the option to request and consider updated performance information and portfolio characteristics from all RFP respondents. The City also has the option to request oral presentations of all of or the highest-ranked respondents prior to making a final selection. However, the evaluation and scoring of proposals is based strictly on respondent proposals. Respondents are not permitted to submit new materials or otherwise enhance their proposals as part of the oral presentation.

C. Reports and Findings

The first step in the review process is the Committee's consideration of the analysis and review prepared by Mercer Investment Consulting ("Mercer"). Mercer prepared a primer regarding stable value funds and its report and analysis of the 14 responses applying the evaluation criteria as indicated in the RFP. Mercer noted that the City received an exceptionally strong and diverse range of proposals, with all of the firms being established and competent SVF providers.

However, distinguishing characteristics were identified in certain evaluation criteria, including particularly *Investment Experience* and *Investment Approach and Process*.

Following the Investments Committee meeting, staff and Mercer further summarized the contents of the report incorporating feedback from the Committee and created the following banded ranking of proposals.[1]



Tier A is differentiated by those firms having distinguished themselves across virtually all of the rating factors included in the RFP. Tier B is differentiated by those firms having strength demonstrated in most but not all dimensions. Tier C is differentiated by those firms having exhibited characteristics noted as less desirable relative to their peers. Following are key findings regarding certain of the most crucial or distinctive factors:

- **Organizational Strength and Continuity** – Most all of the proposers satisfactorily demonstrated organizational strength as represented by key evaluation factors including continuity as an SVF provider, tenure of senior leadership, retention, and legal/regulatory issues.
- **Assets Under Management** – Galliard, Invesco, and Goldman Sachs are market leaders in overall stable value assets under management, which is valuable to the City in that larger managers generally both commit more resources to their practices while also exerting more influence in wrap and other service provider negotiations. Influence with wrap providers in particular is important in terms of fees and equity wash provisions. Certain providers (Columbia, ICMA, JP Morgan, PFM, and Principal) were viewed as less desirable (relative to peers) in terms of their total SVF assets under management relative to the size of the City's SVF.

[1] Banded rankings represent the evaluation of proposals for this specific mandate in light of the DCP's specific requirements and should not be misconstrued as Mercer's formal research ratings of the respective stable value strategies.

- **Separate Account Management** – The DCP SVF is structured as a separate account; plan sponsors benefits from broader experience in separate account management, as the construction of these individual arrangements often involves complexities unique to the plan sponsor – depth in experience means there are more issues the manager has previously addressed which can reduce risks and complications for the plan sponsor. Together, Galliard and Invesco manage approximately 44% of the separate accounts managed by the City's proposers. Both manage over 50% more separate accounts than the next highest proposer, further demonstrating their experience with separate account management.
- **Investment Approach and Process: Duration** – Duration is both the length of time to maturity for the underlying bond portfolio as well as how sensitive that portfolio is to broader changes in interest rates. Mercer targets historical duration of between 2.1 to 3.5 years as ideal. Virtually all of the proposers managed their portfolios within that range over the past ten years, with the exception of Columbia and PIMCO, although as separate account managers all of them could adhere to guidelines established by the City.
- **Investment Approach and Process: Wrap Provider Diversity and Quality** – The SVF uses insurance company wrap providers to protect the ability of participants to transact in the SVF at book value regardless of fluctuations in portfolio value. Having a diverse group of wrap providers helps to protect the City's account in the event economic or other issues are impacting wrap providers generally. Virtually all of the proposers were able to provide well-diversified protection, with the exception of issues noted for Great-West, ICMA, and Putnam. Vanguard, in contrast, proposes to use the greatest number of wrap providers, illustrating a greater level of expected wrap provider diversification.
- **Investment Approach and Process: Market to Book Value** – Market to book value measures the market value of the portfolio against the book value (the price at which participants transact). Market to book value will normally fluctuate depending on the macro interest rate environment. Mercer considers a range of between 95-105% ideal, indicating the manager has a measured approach to risk management. Virtually all of the proposers maintained their portfolios within that range over the ten-year review period, with exceptions noted for Goldman Sachs, Invesco, PIMCO, and T. Rowe Price.
- **Investment Approach and Process: Performance** – Because the SFV is a principal-guaranteed option, the focus for evaluating performance returns is on stability and how returns are achieved relative to the risk of the underlying portfolio. Returns for virtually all providers were generally in a consistent range with one another, though PIMCO tended to exhibit modestly better performance relative to the group.
- **Net Asset Value** – The net asset value (NAV) represents the daily valuation of the portfolio in units, which is the daily price at which participant transactions take place. Providing a plan sponsor with a daily net asset value is a critical function in a participant-directed defined contribution plan. Although plan sponsors can take other steps to arrange for daily valuation through a custodian, it's less administratively burdensome to have that function provided by the investment provider. Most of the proposers could provide daily valuation, excluding Mellon, PFM and Principal.
- **Self-Directed Brokerage Option (SDBO)** – Equity wash restrictions prevent participants from transferring directly between the SDBO and competing interest-bearing options

(such as the City's DCP Bond Fund or FDIC Savings Account). Equity wash provisions typically require that participants move assets to an equity option for 90 days before those funds can be moved to a competing option. Historically some wrap providers have viewed the SDBO as a competing option because interest-bearing options are available in the SDBO. However, as most participants do not use the SDBO for interest-bearing investments, the City's DCP has always resisted that restriction. This is a growing focus for the City as the DCP SDBO now exceeds 10% of DC assets. Only seven of the respondents were clear in their proposals that the SDBO would not be considered a competing option: Galliard, Great West, Goldman Sachs, Invesco, JP Morgan, Putnam, and Vanguard.

- **Fees** – Fees represent a combination of fees to the SVF manager, fees charged by underlying portfolio managers, and wrap provider fees. Total proposer fees were generally found within a narrow range of between 21 and 28 basis points.

The Investments Committee identified four firms for further consideration, two from Tier A and two from Tier B:

Tier A

- ⇒ Galliard
- ⇒ Invesco

Tier B

- ⇒ PIMCO
- ⇒ Vanguard

Galliard and Invesco are two of the largest SVF providers in the industry and, as indicated in the attached reports, distinguished themselves across virtually all of the rating factors included in the RFP. PIMCO and Vanguard demonstrated strength in most but not all dimensions, with PIMCO being an outlier in terms of investment performance and Vanguard being an outlier in terms of having the largest number of wrap providers and also the lowest fees. A detailed provider and product summary for each of the four candidate funds is provided in **Attachment A**. Attachment A also includes as appendices (1) the stable value fund primer Mercer developed for the Investments Committee and (2) a brief synopsis of information/findings regarding all 14 proposals.

As noted previously, the Board has the option, but is not required, to request oral presentations of the highest-ranked respondents prior to making a final selection. The Board could act on the information provided in this report and attachments, or exercise the options of conducting additional analysis or hearing oral presentations from some or all of the proposers. Staff recommends that the Board provide direction with respect to scheduling oral presentations, conducting further analysis, or proceeding to make a final selection decision.

Submitted by: ______________________________

Steven Montagna, Chief Personnel Analyst

ATTACHMENT A

City of Los Angeles Deferred Compensation Plan

Stable Value RFP Response Finalist Analysis

December 15, 2020

welcome to brighter

Executive Summary

Background: The City of Los Angeles issued an RFP on July 20, 2020 seeking proposals from qualified stable value managers to manage the DCP Stable Value Fund. The successful bidder will demonstrate exemplary investment skills and experience while providing services at a reasonable expense. The term of the contract is five years effective January 1, 2022. As of September 30, 2020, assets in the DCP Stable Value Fund amounted to approximately $1.38 billion, including standalone investments in the Plan's risk-based "Profile" funds.

Since 2009, the DCP Stable Value Fund has been primarily invested in a separate account holding fixed income commingled funds backed by wrap insurance contracts. The RFP scope stipulated that the successful bidder would implement a similar investment approach to the current model employed today. Responses were received from 14 stable value investment managers that represent they can conform with this mandate. Each candidate met the minimum qualifications outlined in Section 2.2 of the Scope of Services of the RFP.

At the October 30, 2020 meeting, after substantive discussion, the Investments Committee selected four candidates as finalists (listed below). Following the Investments Committee meeting, staff and Mercer further summarized the contents of the report incorporating feedback from the Committee and created a banded ranking of proposals classifying them as either Tier A, B or C* as shown in Board Report 20-44.

Finalists for Stable Value Investment Management Services

Tier A	Galliard (Incumbent)
	Invesco
Tier B	PIMCO
	Vanguard

* Tier A is differentiated by those firms having distinguished themselves across virtually all of the rating factors included in the RFP. Tier B is differentiated by those firms having strength demonstrated in most but not all dimensions. Tier C is differentiated by those firms having exhibited characteristics noted as less desirable relative to their peers. Banded rankings represent the evaluation of proposals for this specific mandate in light of the DCP's specific requirements, and should not be misconstrued as Mercer's formal research ratings of the respective stable value strategies.

Executive Summary – Candidate Overview

Firm	Headquarter	Total Firm AUM ($M) as of 6/30/2020	Background
Galliard (incumbent)	Minneapolis, MN	$95,892	Galliard is a wholly owned subsidiary of Wells Fargo Asset Management, LLC, a holding company ultimately wholly-owned by Wells Fargo & Company.
Invesco	New York, NY	$1,145,230	Invesco was founded in December 1935 and is one the largest global investment firms, solely focusing on investment management. In 2019, Invesco completed its acquisition of OFI Global Asset Management (OFIGAM) with OFIGAM's parent company, MassMutual, becoming Invesco's largest shareholder.
PIMCO	Newport Beach, CA	$1,920,000	PIMCO is a majority-owned subsidiary of Allianz Asset Management of America L.P. ("AAM"), with minority interests held by certain of AAM's affiliates and by certain current and former officers of PIMCO.
Vanguard	Malvern, PA	$6,076,722	The Vanguard Group, Inc. (Vanguard) is a wholly and jointly owned subsidiary of the investment companies comprising the Vanguard Group of Investment Companies (the Funds).

Executive Summary – Evaluation Process

Mercer analyzed responses from all 14 candidates based on the evaluation process and review criteria outlined in section 5.1 of the RFP which were presented at the October 30, 2020 Investments Committee meeting. After substantive discussion, the Committee selected 4 candidates as finalists. The evaluation process focused on the following factors:

- **Organizational Strength And Continuity** - assesses business strength and resiliency, tenure of senior professionals, commitment to retaining overall personnel, and history of legal and regulatory proceedings.
- **Investment Experience** - assesses each firm's history of managing stable value assets, the scale of stable value assets under management, and depth of staff specializing in stable value management.
- **Investment Approach And Process** - assesses each manager's allocation decisions from an investment approach standpoint and includes consideration of targeted duration, utilization of external managers versus proprietary investments, cash buffer, use of fixed maturity investments versus open maturity investments, diversity and credit quality of wrap providers and investment managers, risk management capabilities and current/historical portfolio positioning (current yield, weighted average quality, market-to-book ratio, and exposure to insurance company general account risk).
- **Investment Performance** – assesses performance in a number of dimensions
- **Portfolio Transition** - assesses the ability of each manager to assume the current portfolio and formulate a transition plan
- **Administrative And Reporting** - assesses the managers' capabilities with regards to interfacing with the DCP's TPA, Voya, providing timely performance reporting for the DCP, supporting plan participant communications, and providing the City with back-office support as issues may arise.
- **Fees -** assesses the competitiveness of fees on a total cost basis reflecting investment management fees paid to the manager, if any; fees paid to external managers; and wrap fees.

Executive Summary - Mercer Summary Evaluation

In the following table, we provide a high-level assessment in accordance with the evaluation factors previously outlined. This summary evaluation is intended to provide a digest of the information contained in the RFP responses for the Board's reference.

	Galliard - City of LA	Galliard - Composite	Invesco	PIMCO	Vanguard
Organizational Strength And Continuity					
Business Strength And Resiliency	Excellent	Excellent	Excellent	Excellent	Excellent
Firm-wide Assets	Excellent	Excellent	Excellent	Excellent	Excellent
Tenure Of Senior Professionals	Excellent	Excellent	Excellent	Excellent	Excellent
Total Personnel Retention	Favorable	Favorable	Excellent	Excellent	Excellent
History Of Legal And Regulatory Proceedings	Favorable	Favorable	Favorable	Favorable	Favorable
Investment Experience					
History Of Managing Stable Value Assets	Excellent	Excellent	Excellent	Excellent	Excellent
Scale Of Stable Value Assets Under Management	Excellent	Excellent	Excellent	Favorable	Excellent
Depth of Stable Value Team	Excellent	Excellent	Excellent	Excellent	Excellent
Investment Approach And Process					
Duration	Favorable	Favorable	Excellent	Less Desirable	Excellent
External Managers Vs. Internal	Excellent	Excellent	Excellent	Favorable	Favorable
Liquidity	Excellent	Excellent	Excellent	Excellent	Excellent
Wrap Provider Diversity & Quality	Excellent	Excellent	Excellent	Excellent	Excellent
Quality Of Underlying Managers?	Excellent	Excellent	Excellent	Excellent	Excellent
Historical Market-To-Book	Excellent	Excellent	Favorable	Reasonable	Excellent
Investment Performance					
Overall Book Value Performance	Excellent	Excellent	Excellent	Excellent	Excellent
Underlying Short Duration Fund Risk-Adjusted Performance	Excellent	Favorable	Favorable	Excellent	Excellent
Underlying Intermediate Duration Fund Risk-Adjusted Performance	Excellent	Favorable	Excellent	Excellent	Favorable
Portfolio Transition	Excellent	Excellent	Excellent	Excellent	Reasonable
Administrative And Reporting					
Able to provide a daily NAV?	Excellent	Excellent	Excellent	Excellent	Excellent
Is PCRA brokerage option considered competing?	No (Excellent)	No (Excellent)	No (Excellent)	Possibly (Reasonable)	No (Excellent)
Fees	Excellent	Excellent	Excellent	Excellent	Excellent

Excellent	Favorable	Reasonable	Less Desirable

The Investments Committee requested clarification on:

1) PIMCO's ability to not treat PCRA as a competing option, which the manager confirmed they will not.
2) Vanguard's transition plan and to provide longer performance track record.

Note: City of LA DCP Stable Value Fund (managed by incumbent Galliard) displayed above to show DCP experience since all managers including Galliard were required to provide composite returns (i.e., average for group of similar accounts).

Executive Summary – Key Findings

- **Organizational Strength And Continuity** – All respondents exhibit traits of well run businesses. As such, this factor is of lesser differentiation between the candidates.
- **Investment Experience** – The incumbent and a select list of others stand out in this regard. *We believe this dimension provides a key area to focus on in distinguishing among the field.*
- **Investment Approach And Process** – While generally all respondents will implement reasonable investment approaches certain managers' stable value strategy characteristics and proposed approaches are less attractive as noted in this section of the report. Examples from a duration perspective include PIMCO (historically high). From a wrap diversification or insurance product exposure standpoint, all finalists have adequate diversification. Vanguard having the greatest number of wrap providers potentially providing greater diversification in addition to fees.
- **Investment Performance** – Historical book value performance (as well as underlying fund performance) for all candidates has generally been very competitive though there is limited dispersion displayed across the managers.
- **Portfolio Transition** – All managers appear capable of managing the transition though some provided far more detailed responses than others in their transition plan explanation.
- **Administrative And Reporting** – All managers will provide adequate reporting to the Board and Plan service providers. Key differentiators are the ability (or lack thereof) to provide the TPA with a daily unit value similar to how the incumbent does, which all four finalists can provide. Finally, from an administrative perspective, some providers clearly state that the self-directed brokerage window is not a "competing option" that requires an "equity wash." Others were less committal or indicated PCRA would be a "competing option." This is important given the substantial growth of PCRA assets in recent quarters.
- **Fees –** All-in costs are remarkably similar across the playing field with a modest differentiator being operational costs that are difficult to quantify for certain respondents. Notably, current pricing for the SV Fund does not appear out of line with market.

Manager Background

Galliard

Firm Background:

Galliard Capital Management (Galliard) is a wholly owned subsidiary of Wells Fargo & Company (Wells), one of the nation's largest financial services companies. Galliard specializes in stable value management and have managed stable value assets since 1985. The firm was founded as an independent subsidiary in 1995 and is located in Minneapolis, Minnesota. Galliard remains independent from an investment decision-making and personnel management perspective, but as a wholly-owned subsidiary of Wells, relies on the parent company for various back-office functions such as compliance, finance, technology, and legal.

Team:

Galliard manages their portfolios with a team approach. According to Galliard, all members of the investment team have shared responsibility for all strategies. Ajay Mirza, who has been with Galliard since 1995, serves as chairman of the investment committee and is responsible for asset selection and strategy formulation for the firm's portfolios. Nick Gage, with Galliard since 2008, manages contract negotiations with wrap providers. Matt Robertson, Brandon Kanz and Andrea Johnson also serve as portfolio managers on the stable value team.

Process/Philosophy:

Galliard's stable value portfolios are managed with a conservative approach, by maintaining high quality and broad diversification through a disciplined value investing process with an emphasis on risk control. As one of the most conservative investment options in a plan's investment line up, Galliard's primary emphasis in managing stable value portfolios is safety of principal. Investment strategies are designed and implemented with this primary objective in mind. Maintaining appropriate liquidity is also a key investment objective, as portfolio liquidity must be sufficient to accommodate participant needs and to provide plan sponsor flexibility. To this extent, Galliard seeks income generation with the goal of actively managing risk while emphasizing downside risk protection and low tracking error.

Invesco

Firm Background:

Invesco was originally incorporated in December 1935; however, Invesco in its modern form was created by the 1997 combination of two asset management businesses: Invesco and AIM, both of which had been founded in the 1970s. The firm is listed on the New York Stock Exchange, and employees retain approximately 10% of the ownership of the firm. In 2010, Invesco completed its purchase of Morgan Stanley Investment Management's retail asset management business, including Van Kampen Investments. In 2019, Invesco completed its acquisition of OFI Global Asset Management (OFIGAM) with OFIGAM's parent company, MassMutual, becoming Invesco's largest shareholder. On October 1, 2020, activist hedge fund Trian Fund Management amassed an approximately 10% stake of Invesco. Invesco offers products in multiple assets classes and has investment and client service offices around the world.

Team:

George Baumann is responsible for developing objectives and guidelines that meet client needs, monitoring the investment of assets in accordance with agreed upon objectives and guidelines, and reporting portfolio progress. Chris Utz provides investment support to Invesco's existing stable value relationships, and assists Invesco's sales team with consultant meetings and new business opportunities. Portfolio managers are responsible portfolio construction including daily liquidity management, rebalancing the stable value portfolio to the target building block allocation, oversight of external sub-advisors and interaction with wrap providers. The stable value product is team managed and led by Jennifer Gilmore. Gilmore has been a portfolio manager since 2002 and is responsible for stable value separate accounts ranging from $70 million to $5.5 billion, as well as the Invesco Stable Value Trust. There are also 7 senior client portfolio managers and 15 account management, operations and wrap administration personnel dedicated to the stable value product.

Process/Philosophy:

Invesco believes the keys to achieving principal preservation are diversification and portfolio quality. The strategy uses a customized ‘component’ approach for portfolio construction, with the underlying fixed income assets allocated to short, intermediate and core investment component strategies. In addition to healthy allocations to US Treasury and other US government-backed securities, Invesco’s short, intermediate, and core duration components each emphasize high quality, securitized spread sectors including AAA-rated ABS, MBS and CMBS where bonds are backed by specified pools of collateral, as well as investment grade corporate bonds. This focus on high quality and diversification, at both the market and book value levels of the strategy, is in keeping with the primary objective of principal preservation.

PIMCO

Firm Background:

Pacific Investment Management Company (PIMCO) was established in 1971 as a subsidiary of Pacific Mutual Life Insurance Company (Pacific Life). In 1994, PIMCO merged with four other Pacific Life investment subsidiaries and the Thomson Advisory Group to form PIMCO Advisors L.P. In 2000, Allianz AG, a large insurance and financial services company based in Germany, acquired a majority interest in PIMCO Advisors L.P. Allianz now owns 100% of the company, and PIMCO operates as a separate and autonomous subsidiary. PIMCO are headquartered in Newport Beach California, and have investment offices across the world.

Team:

David Braun serves as the head of the stable value portfolio management team, overseeing management of fixed income investment portfolios for institutional and retail clients. Braun is supported by seven generalist portfolio managers: Alfred Murata, Scott Mather, Mohit Mittal, Chitrang Purani, Marc Seidner, Jerome Schneider and Vinayak Seshasayee. The team is assisted by Sudi Mariappa, who manages risk for the strategy. Henry Kao leads stable value product management. Henry's team has a total of six members.

Process/Philosophy:

PIMCO emphasizes capital preservation while attempting to deliver consistent and competitive returns through a relatively straightforward portfolio structure. Therefore, this team's objective is to preserve participant's principal in all market environments while delivering consistent, competitive returns by employing a simple, transparent structure at an attractive relative cost. The firm places significant importance on risk management, as it believes minimizing downside risk is critical to achieving consistent performance over time in stable value. Its risk management focus is illustrated by risk management personnel directly embedded in the Stable Value Team. The approach closely resembles asset duration-liability matching techniques employed in the pension-LDI space.

Vanguard

Firm Background:

The Vanguard Group (Vanguard) was formed in 1975. The firm has its own independent officers and staff and is organized differently than most mutual fund companies. Vanguard's mutual fund shareholders are the owners of the firm. Conceptually, the firm's sole function is to manage assets and service fund shareholders. Vanguard established the first indexed mutual fund in 1976, and is now one of the largest providers of mutual fund services in the United States. The firm is headquartered in Malvern, Pennsylvania.

Team:

Patricia Selim is a portfolio manager and head of Stable Value Investments in the Vanguard Fixed Income Group. She and her team are responsible for managing over $30 billion in stable value assets for defined contribution and 529 plans. The team also manages wrap provider allocations and relationships. Mark Dorfler has been a portfolio manager on the Retirement Savings Trust (Vanguard’s CIT stable value fund) since 2003. His expertise includes stable value product structure, contract negotiations, trading, and portfolio transition strategies. Michael Montanez is a portfolio manager and has been a key member of the Stable Value Team since joining Vanguard in 1997. Prior to being named assistant portfolio manager in 2010, he was the senior trader for the team and continues to play an integral role in negotiating investment guideline and contract terms for our investment products. Mr. Montanez currently oversees several separate accounts, as well as the team's efforts in the 529 space, while maintaining his head trader responsibilities for the stable value product.

Process/Philosophy:

All separate accounts are managed to a unique Investment Policy Statement (IPS) established with each client. The strategy is implemented by investing in a combination of synthetic contracts (backed primarily by Vanguard fixed income funds), traditional investment contracts, and cash (money market fund). Preserving principal is Vanguard’s stable value fund’s first priority. Risk measurement and control are fundamental to achieving this priority, establishing safety through investment with issuers with credit ratings of A–or better, and in contracts backed by diversified funds, with securities rated investment-grade or higher. By using cash investments and shorter-term contracts, they manage the portfolio so that it can support participant-directed activity cost-effectively.

Organizational Strength And Continuity

Summary of Organization Strength and Continuity

All the candidates exhibit signs of well-managed businesses with a significant number of personnel and office locations. While some firms have slightly more favorable characteristics in certain dimensions, **generally this grouping of Evaluation Factors does not seem a critical differentiator amongst the Proposers.**

- **Business strength and resiliency –** Generally all have a significant degree of business continuity.
- **Firm-wide AUM –** All firms exceeded $75 billion in total AUM (not just SV), and have adequate capacity.
- **Senior leadership tenure** – All respondents had leadership teams with long-term tenure which we view favorably.
- **Total personnel retention –** All organizations appear to have reasonable or better levels of retention and personnel stability over the past 3 years. Those growing overall workforce (>5%) were viewed "Excellent", 0-5% were viewed as "favorable," and those with modest reductions were considered "reasonable."
- **Legal & Regulatory -** All firms responded that there were no material proceedings affecting the services they would provide. Mercer is unable to evaluate the veracity of this assertion, though we viewed these responses to be satisfactory.

	Organizational Strength And Continuity				
	Business Strength And Resiliency	Firm-wide Assets ($M)	Tenure Of Senior Professionals	Total Personnel Retention (% change 2017 to 2019)	History Of Legal And Regulatory Proceedings
Galliard	Stable	$95,892	10+ years	0	
Invesco	Stable	$1,145,232	10+ years	10	
PIMCO	Stable	$1,920,000	10+ years	13	
Vanguard	Stable	$6,076,722	10+ years	10	

Excellent	Favorable	Reasonable	Less Desirable

Investment Experience

Summary of Investment Experience

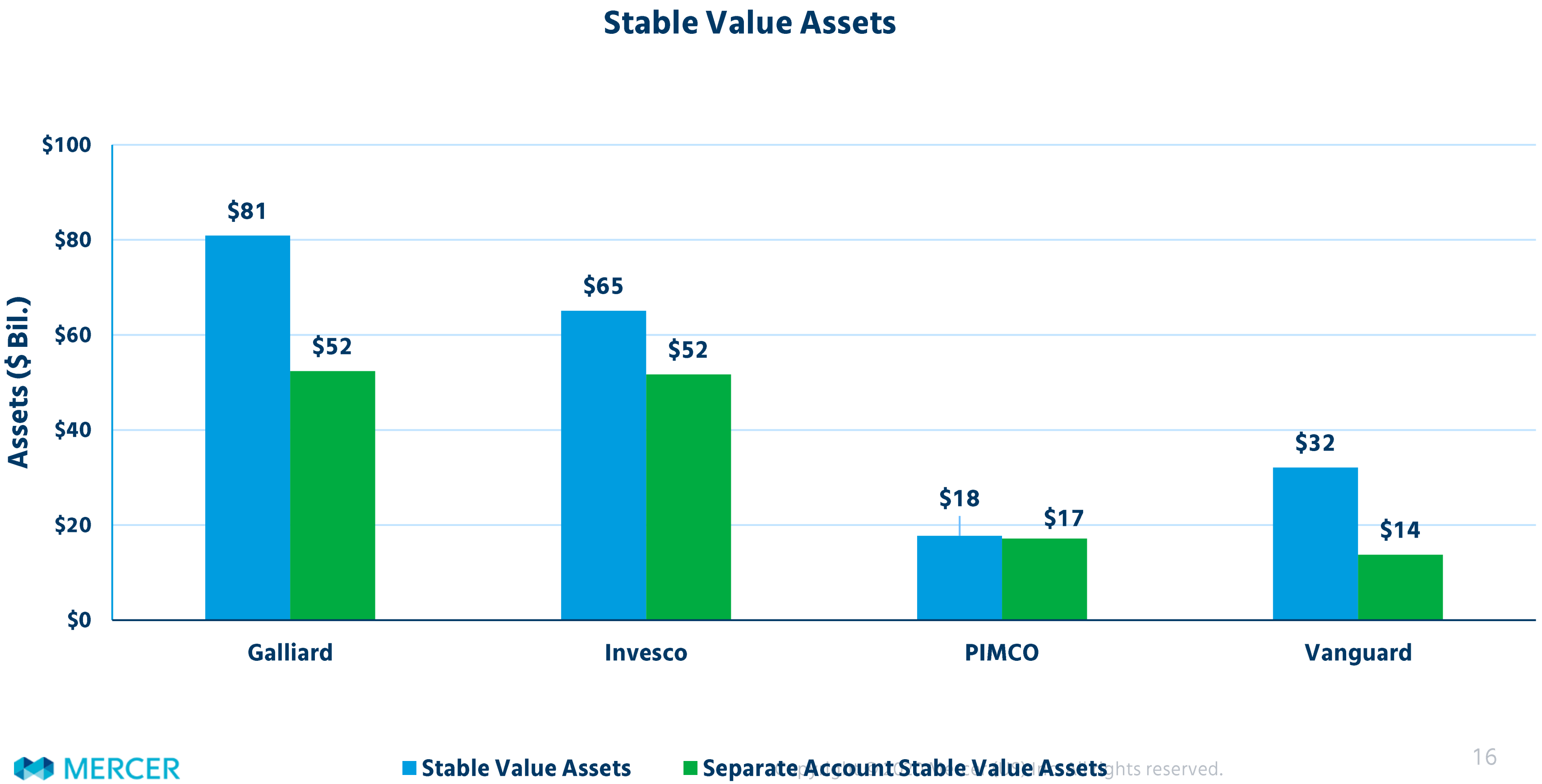
- **History managing SV:** All finalists have ample history in managing stable value solutions and a good knowledge of the stable value space.
- **SV AUM scale:** Given DCP's stable value assets of approximately $1.38 billion, we believe a candidate's asset size and experience in managing stable value separate accounts matter.
- **Depth of SV team:** Including dedicated SV portfolio managers and analysts, all teams demonstrate significant depth

	Investment Experience			
	History Of Managing Stable Value Assets (years)	Strategy Inception	Scale of Stable Value Assets Under Management (Relative to DCP)	Depth of Stable Value Team
Galliard	**24**	**1995**		
Invesco	**35**	**1996**		
PIMCO	**28**	**2008**		
Vanguard	**35**	**1989**		

Excellent	Favorable	Reasonable	Less Desirable

Scale of Stable Value Practice

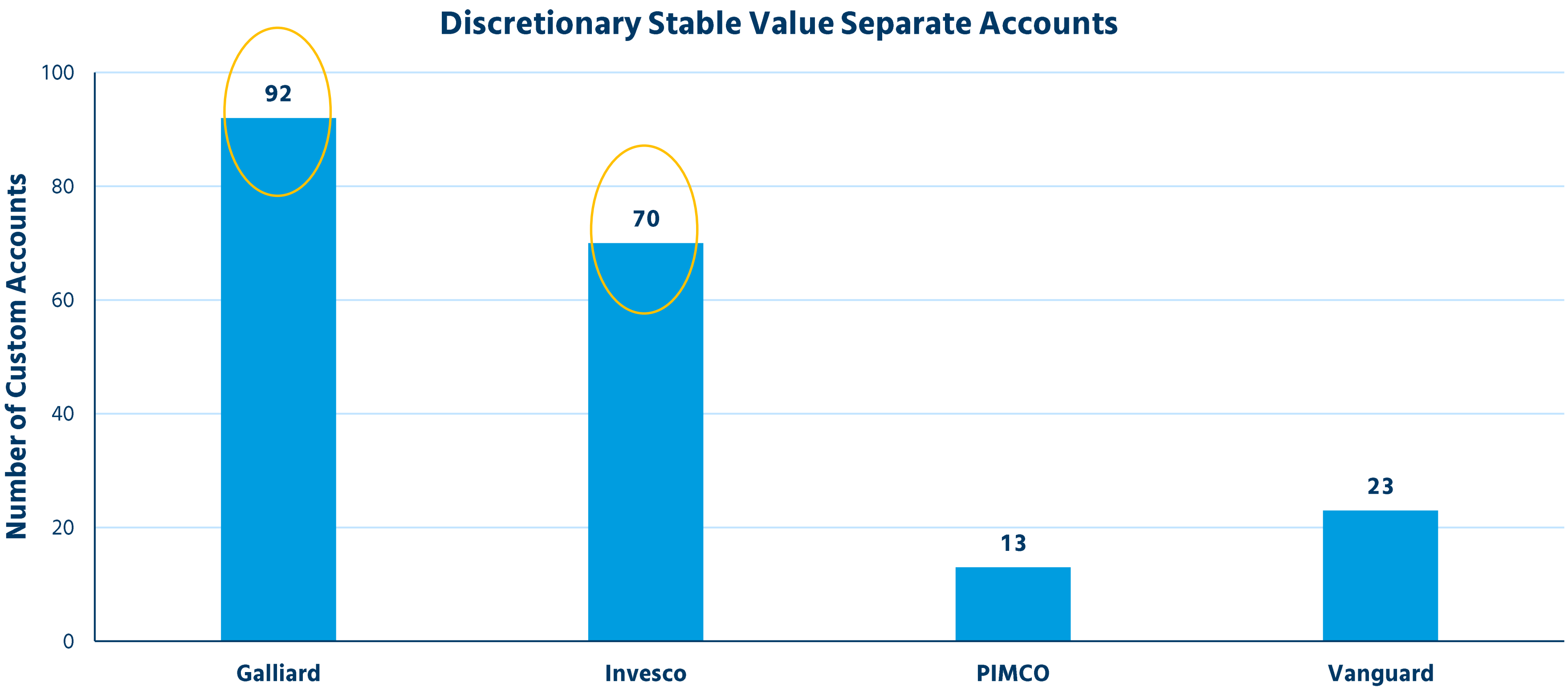
- Galliard (incumbent) and Invesco are market leaders in terms of overall stable value assets under management. Generally, higher assets enable a manager to commit more resources to its stable value practice and conceivably exert more influence in wrap and other service provider negotiations.



MERCER

Stable Value Separate Accounts

- Our belief is that Stable Value separate account managed takes a specialized skill-set
- Together, Galliard and Invesco manage approximately 44% of the separate accounts in context of all separate accounts managed by all the original 14 candidates combined, making them distinctive.



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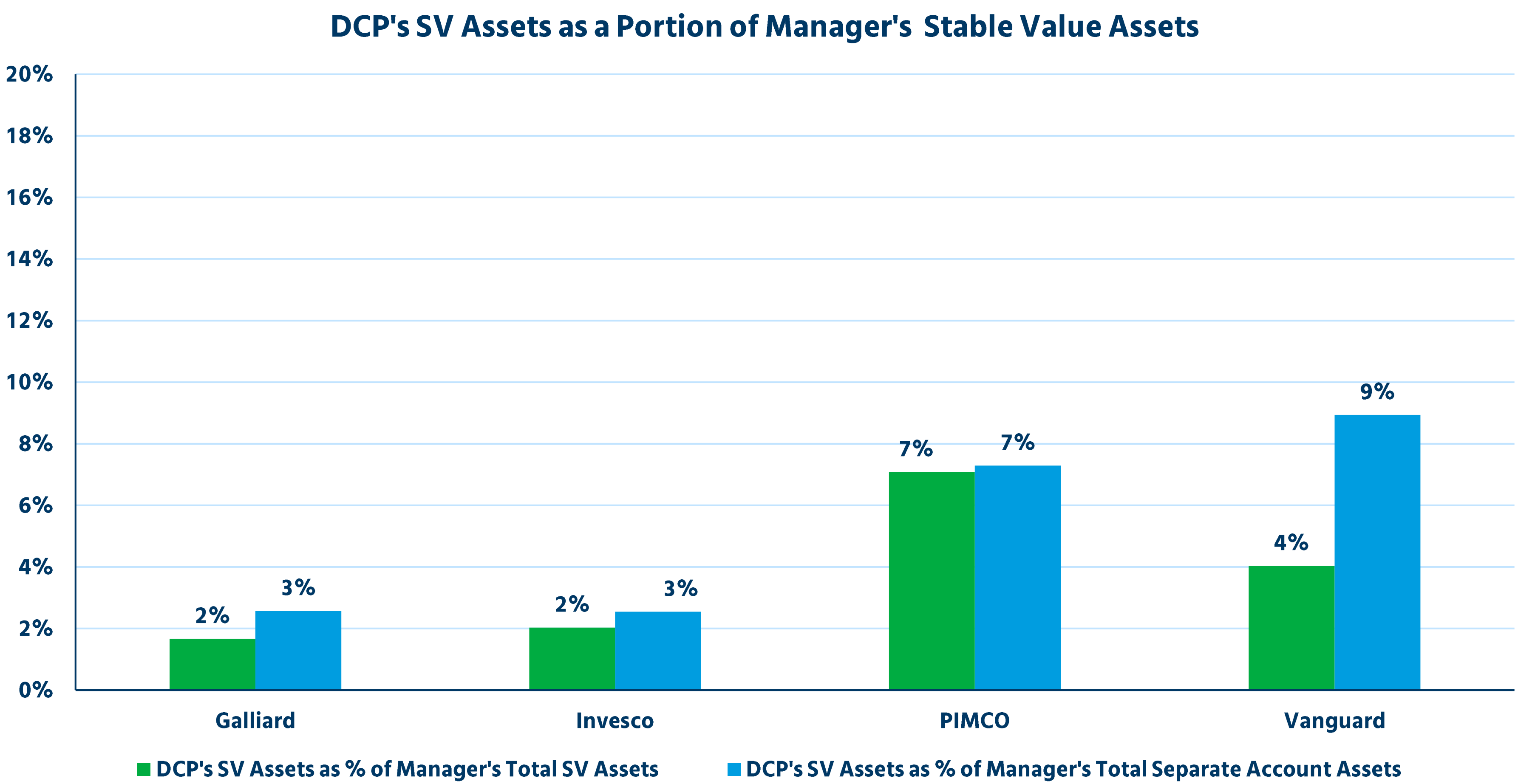
DCP SV Asset Impact on Manager's SV Business

- For all finalists, the DCP's stable value assets would not represent a substantial portion of either their overall stable value assets or separate account assets.
- DCP Policy has been to target less than 20% of strategy AUM at time of hire.



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Investment Approach And Process

Summary of Investment Approach and Process

	Investment Approach And Process					
	Historical Duration	External Managers Vs. Internal (%)	Liquidity	Wrap Provider Diversity & Quality	Avg Quality Of Underlying Managers	Historical Market-To-Book
Galliard		30/68	2			
Invesco		35/62	3			
PIMCO		0/97	3			
Vanguard		0/97	3			

Excellent	Favorable	Reasonable	Less Desirable

Evaluation Criteria:
Investment Approach and Process

Duration - Duration is a measure of interest rate sensitivity and is a key driver of return (i.e. investment in longer maturities should deliver higher returns over time but can lead to rapid market value losses in times of rising interest rates). Thus we believe exposure to duration should be meaningful, yet measured. For this dimension, managers that typically held duration greater than 2.1 to 3.5 years were viewed favorably. Those that often exceeded 3.5 years (DCP guideline maximum) were viewed less desirable. Likewise, managers which tended to run short duration were viewed unfavorably.

External vs. Internal Managers - Portfolios proposed with 30% to 70% assets managed internally and remainder of the assets managed externally (excluding cash) received 'Excellent' rating while portfolios managed predominantly internally/externally (less than 30% internally or externally) received 'Favorable' rating.

Liquidity – Proposed portfolios with 2% - 5% allocation to cash received 'Excellent' rating. Portfolios with no cash sleeve or cash in excess of 5% received 'Less Desirable' rating.

Wrap Provider Diversity and Quality

- **Excellent:** Portfolio with 4 or more wrap providers and zero GICs and 25% or less allocation to a single wrap provider.
- **Favorable:** 4 or more wrap providers and zero GICs but allocation between 25% - 33% to a single wrap provider.
- **Reasonable:** Portfolios with 4 or more wrap providers and 10% or more allocation to GICs or more than 33% allocation to a single wrap provider.

Quality of Underlying Managers - Based on Mercer's investment manager research ratings, portfolios with higher exposure to highly rated strategies were viewed more favorably while those exposed to lower or unrated strategies ranked lower.

Historical Market-to-Book Value Ratios – Preference was given to generally maintaining market-to-book ratios above 100% indicating the manager had historically navigated interest rate and credit cycles well. Very high market-to-book, however, are not viewed positively, as these may be reflective of undesired risks being taken or crediting rates amortizing at a slower pace than may be optimal.

Investment Approach and Process

Historical Duration

Key points: Most managers manage duration fairly close to one another. PIMCO is on the high-end.

	3/31/2010	6/30/2010	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013
Galliard	2.8	2.5	2.6	2.7	2.5	2.7	2.6	2.5	2.6	2.5	2.4	2.5	2.6	2.7	2.7
Invesco	3.2	3.1	3.0	3.3	3.3	3.3	3.0	3.0	3.1	3.2	3.1	3.1	3.2	3.4	3.4
PIMCO										2.9	3.3	3.3	3.5	3.8	3.7
Vanguard	2.7	2.3	2.5	2.7	2.7	2.8	2.6	2.6	2.8	2.6	2.6	2.7	2.9	3.1	3.1

	12/31/2013	3/31/2014	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Galliard	2.7	2.7	2.7	2.7	2.6	2.6	2.7	2.6	2.7	2.7	2.7	2.7	2.8	2.9	2.8
Invesco	3.2	3.2	3.3	3.3	3.3	3.2	3.3	3.2	3.3	3.2	3.3	3.3	3.4	3.2	3.3
PIMCO	3.8	3.8	3.4	3.5	3.4	3.2	3.4	3.4	3.6	3.4	3.4	3.4	3.9	3.8	3.6
Vanguard	2.8	2.7	2.7	2.8	2.5	2.6	2.8	2.7	2.8	2.7	2.6	2.6	2.8	3.0	3.1

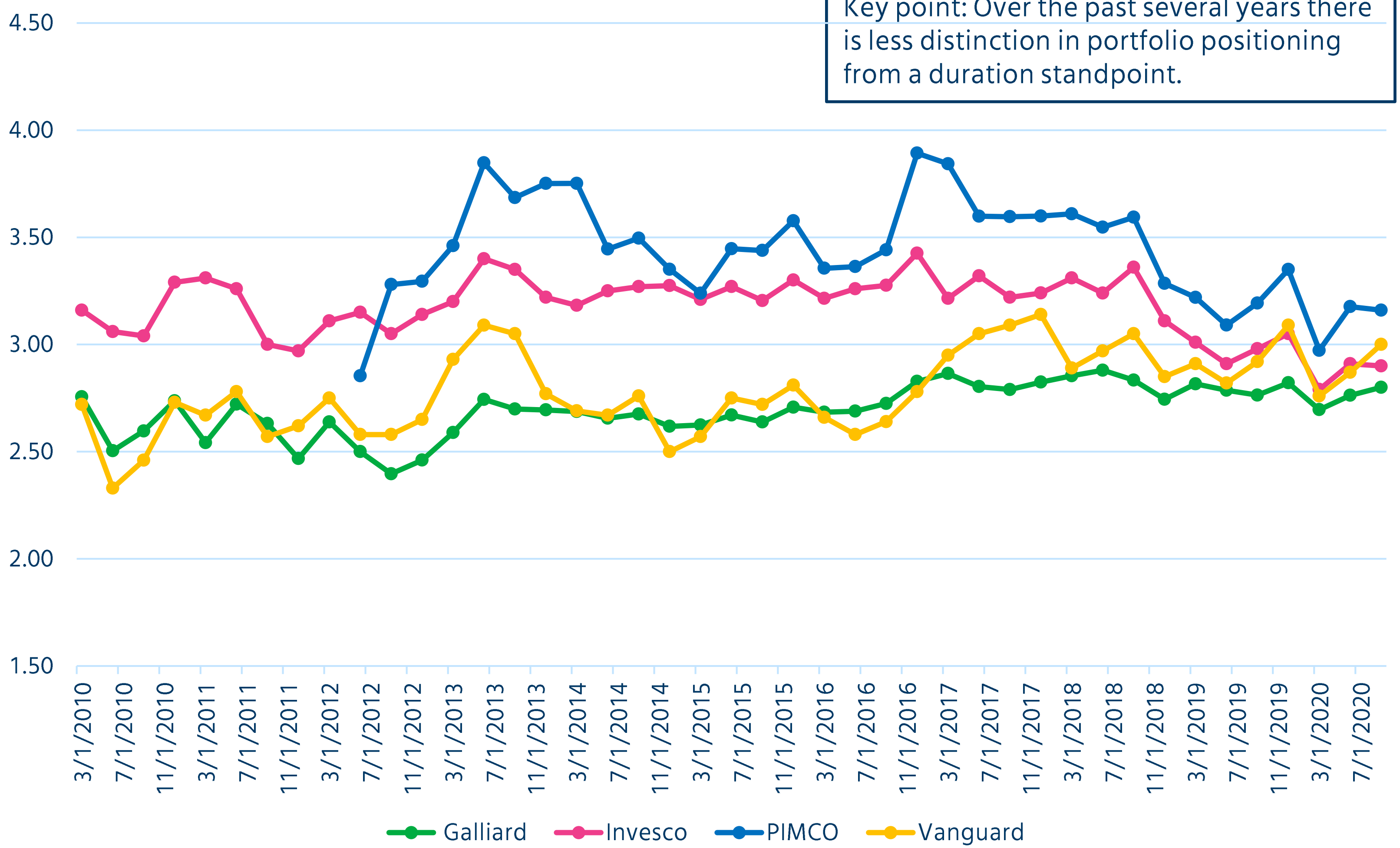
	9/30/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020
Galliard	2.8	2.8	2.9	2.9	2.8	2.7	2.8	2.8	2.8	2.8	2.7	2.8	2.8
Invesco	3.2	3.2	3.3	3.2	3.4	3.1	3.0	2.9	3.0	3.1	2.8	2.9	2.9
PIMCO	3.6	3.6	3.6	3.5	3.6	3.3	3.2	3.1	3.2	3.3	3.0	3.2	3.2
Vanguard	3.1	3.1	2.9	3.0	3.1	2.9	2.9	2.8	2.9	3.1	2.8	2.9	3.0

Excellent	Favorable	Reasonable	Less Desirable
2.8-3.5 years	2.1-2.8 years	<2.1 years	>3.5 years

Note: PIMCO provided composite Duration values through June 30, 2012

Investment Approach and Process
Historical Duration

Key point: Over the past several years there is less distinction in portfolio positioning from a duration standpoint.



Note: PIMCO provided composite Duration values through June 30, 2012

Proposed Portfolio Allocations

	Cash	Short	Intermediate	Core	Total
Galliard	2%	41%	57%	-	**100%**
Invesco	3%	47%	30%	20%	**100%**
PIMCO	3%	22%	75%	-	**100%**
Vanguard	3%	25%	72%	-	**100%**

Estimated Number of Underling Funds	External Managers Vs. Internal (%)
6	**30/68**
10	**35/62**
3	**0/97**
3	**0/97**

Wrap Provider Diversity and Quality

- All finalists expect to wrap the DCP's SV portfolio in a generally well-diversified manner utilizing at least 4 synthetic wrap providers with no more than 25% allocated to a single wrap provider (see green row at bottom).

Provider	Galliard	Invesco	PIMCO	Vanguard
Traditional GICs				
Jackson National				
Lincoln				
MetLife				1.5%
Minnesota Life				
New York Life				1.5%
Principal Life Ins Co				
Prudential				
United of Omaha				
Synthetic Wraps				
American General Life Ins. Co.				6.0%
American United Life Ins. Co.				
Great-West				
JPMorgan				10.0%
Lincoln		16.2%		6.0%
Massachusetts Mutual Life Ins Co				10.0%
Met Tower Life		16.2%		
Metropolitan Life Ins Co	19.6%		24.3%	10.0%
Nationwide				8.0%
New York Life				10.0%
Pacific Life Ins. Co.	19.6%	16.2%	24.3%	8.0%
Principal Life Ins Co				
Prudential	19.6%	16.2%	24.3%	10.0%
RGA Reinsurance Company				
Royal Bank of Canada				
State Street Bank				10.0%
Transamerica	19.6%	16.2%	24.3%	6.0%
Voya Retirement And Annuity Co.	19.6%	16.2%		
Unwrapped Cash and Others				
Proprietary Collective Fund				3.0%
Cash/STIF	2.0%	3.0%	3.0%	
Total	**100%**	**100%**	**100%**	**100%**
Number of Synthetic Wrap Providers	**5**	**6**	**4**	**11**

Sector Allocation of Underlying Bond Portfolio

Sector	Galliard	Invesco	PIMCO	Vanguard
ABS	11.3	16.9	0.1	15.6
US Agency	0.1	0.6	2.2	0.2
Agency CMBS				
Agency CMO	1.0	1.0		
Agency MBS	17.4	21.6	27.9	
Cash	6.8	1.0	22.6	3.3
Cash (wrapped)				
CMBS		7.0	6.4	2.3
CMO		0.8		
Corporate		26.4		26.9
Investment Grade Credit	30.3		23.2	
Non-Investment Grade Credit	0.4			
Foreign			1.0	5.1
Foreign (Emerging)			0.5	
Traditional GICs				3.3
Synthetic GICS				
Open Maturity Commingled Trust				
Open Maturity Insurance Company Sep Accts				
Open Maturity Non-Insurance Sep Accts				
Government				
High Yield Credit				
MBS				
Muni		0.0	2.4	
Muni (Taxable)	5.0			
Non-Corporate Credit				
Non-Agency CMBS	4.6			
Non-Agency MBS	0.9			30.9
Private Placements				
RMBS				
Short-Term				
Stable Value Pooled Fund				
Supranational	0.0			
US Treasury	17.0	24.5	13.8	12.4
Other (Please specify)		0.1		
Govt Related Other (Foreign)				
Govt Related (U.S. and Foreign)	5.3			
Total	**100.0**	**100.0**	**100.0**	**100.0**

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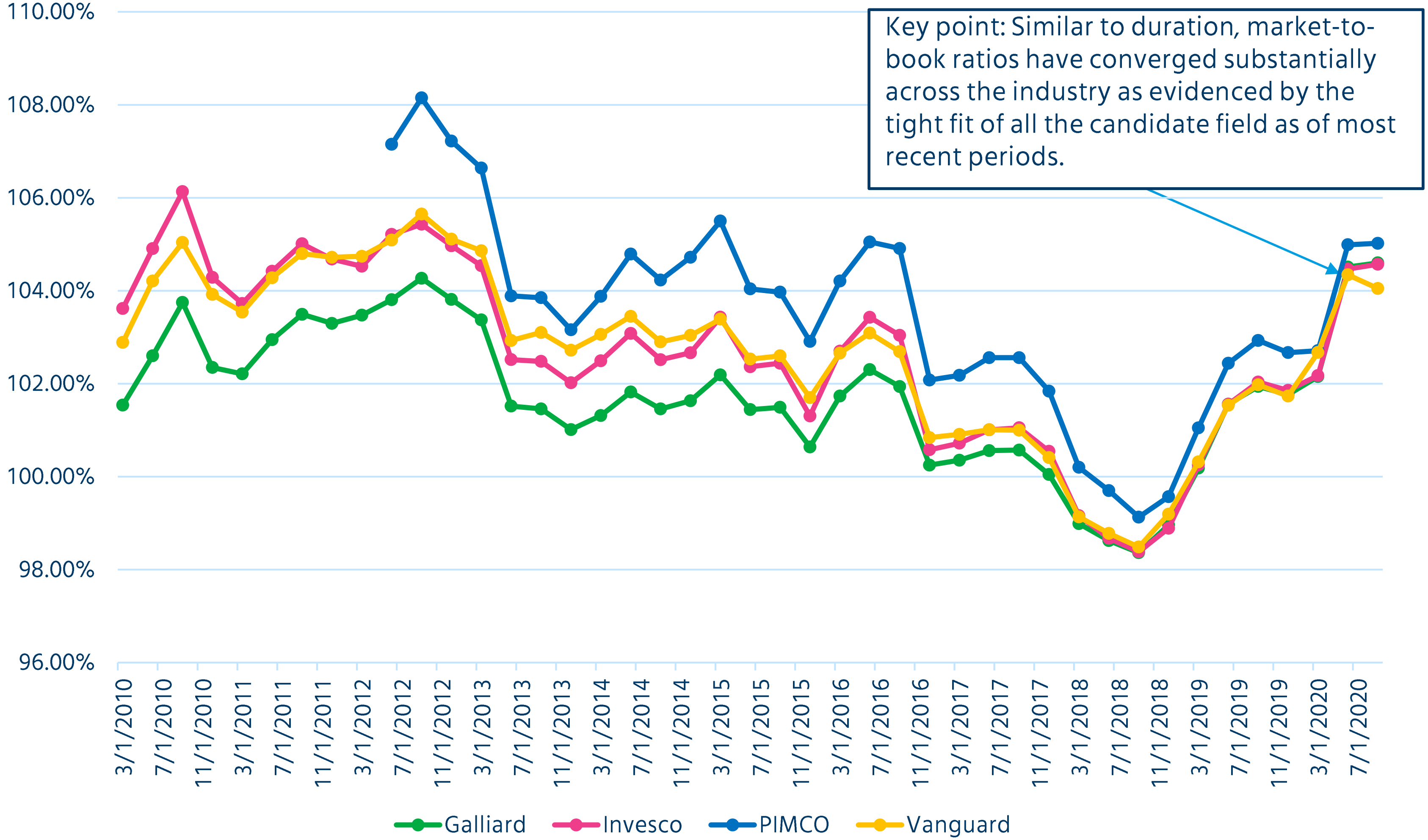
Investment Approach and Process
Market to Book Value



Note: PIMCO provided composite Market-to-Book values through June 30, 2012

Investment Approach and Process

Market to Book Value (%)

Key points: Over past 10 years, SV managers generally have maintained MV/BV ratios solidly above 100% on average with some exceptions. Recent rate declines have benefited all of the managers in this search.

	3/31/2010	6/30/2010	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013
Galliard	101.5	102.6	103.7	102.3	102.2	102.9	103.5	103.3	103.5	103.8	104.3	103.8	103.4	101.5	101.5	101.0
Invesco	103.6	104.9	106.1	104.3	103.7	104.4	105.0	104.7	104.5	105.2	105.4	105.0	104.5	102.5	102.5	102.0
PIMCO										107.2	108.2	107.2	106.6	103.9	103.9	103.2
Vanguard	102.9	104.2	105.0	103.9	103.5	104.3	104.8	104.7	104.7	105.1	105.7	105.1	104.9	102.9	103.1	102.7

	3/31/2014	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016	9/30/2016	12/31/2016	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Galliard	101.3	101.8	101.5	101.6	102.2	101.4	101.5	100.6	101.7	102.3	101.9	100.2	100.4	100.6	100.6	100.0
Invesco	102.5	103.1	102.5	102.7	103.4	102.4	102.4	101.3	102.7	103.4	103.0	100.6	100.7	101.0	101.1	100.5
PIMCO	103.9	104.8	104.2	104.7	105.5	104.0	104.0	102.9	104.2	105.1	104.9	102.1	102.2	102.6	102.6	101.8
Vanguard	103.1	103.5	102.9	103.0	103.4	102.5	102.6	101.7	102.7	103.1	102.7	100.8	100.9	101.0	101.0	100.4

	3/31/2018	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020
Galliard	99.0	98.6	98.4	99.0	100.2	101.6	101.9	101.8	102.2	104.5	104.6
Invesco	99.2	98.7	98.4	98.9	100.3	101.6	102.0	101.9	102.2	104.5	104.6
PIMCO	100.2	99.7	99.1	99.6	101.1	102.4	102.9	102.7	102.7	105.0	105.0
Vanguard	99.1	98.8	98.5	99.2	100.3	101.5	102.0	101.7	102.7	104.3	104.1

Excellent	Favorable	Reasonable	Less Desirable
100% - 105%	100% - 95%	<95%	>105%

Note: PIMCO provided composite Market-to-Book values through June 30, 2012

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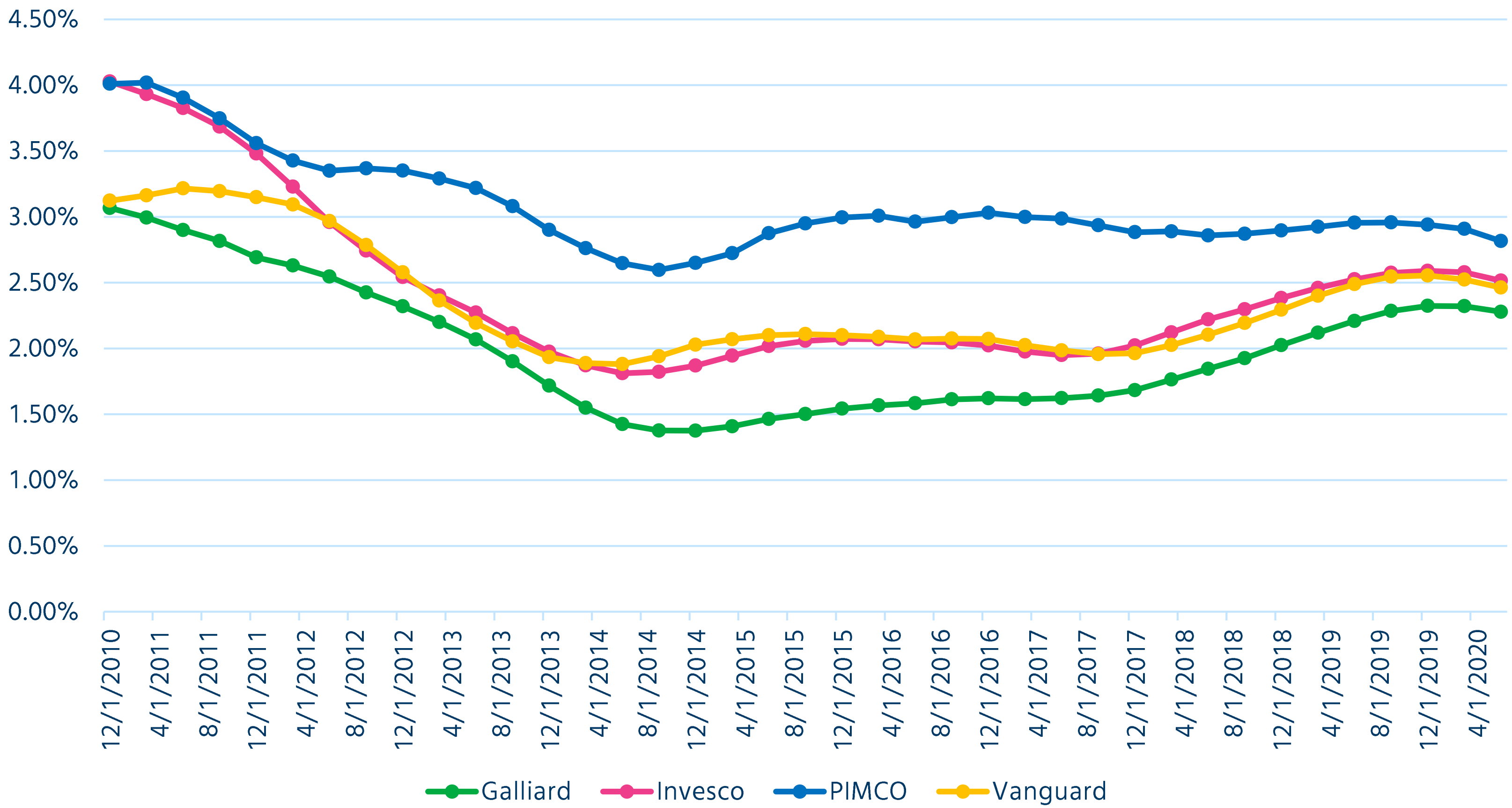
Investment Performance

Investment Performance as of 9/30/2020

Rolling 1-Year Net of Fee Book Value Performance

Key point: Book value returns are generally very similar for most managers with PIMCO exhibiting higher performance likely due to its longer duration posture.



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Investment Performance
Cumulative Fund Performance (net) as of Sept 30, 2020

	3 mths (%)		CY (6 mths) (%)		1 yr (%)		3 yrs (%pa)		5 yrs (%pa)		10 yrs (%pa)	
Galliard – Composite	0.51	(37)	1.60	(29)	2.20	(29)	2.14	(32)	1.93	(33)	1.97	(43)
City of LA DCP SV Fund	0.59	(8)	1.81	(3)	2.49	(1)	2.45	(1)	2.28	(1)	2.37	(1)
Invesco	0.49	(44)	1.70	(17)	2.35	(5)	2.41	(1)	2.25	(1)	2.36	(1)
PIMCO	0.63	(1)	1.97	(1)	2.71	(1)	2.85	(1)	2.89	(1)	3.02	(1)
Vanguard	0.52	(31)	1.71	(14)	2.34	(6)	2.36	(1)	2.22	(1)	2.32	(5)
3-Yr CM + 50	*0.17*	*(100)*	*0.76*	*(100)*	*1.28*	*(100)*	*2.32*	*(12)*	*2.08*	*(27)*	*1.64*	*(71)*
Median	*0.47*		*1.51*		*2.04*		*2.06*		*1.86*		*1.85*	

Note: City of LA DCP Stable Value Fund displayed above to show DCP experience since all managers including Galliard were required to provide composite returns (i.e., average for group of similar accounts).

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Portfolio Transition, Reporting and Administrative

Portfolio Transition, Administration and Reporting

- ***Transition:*** Most managers provided the steps for a thoughtful transition plan where transaction costs would be minimized, whenever possible receiving the holdings in-kind and contemplating the retention of current wrap providers. One finalist's (Vanguard) response was less definitive in how they would manage the asset transfer.
- ***Daily NAV:*** All finalist managers would be able to strike a daily NAV for the recordkeeper.
- ***Brokerage Window a competing option ("equity wash" requirement):*** All finalists (PIMCO included now) confirmed no restrictions on participant movement from Stable Value directly to the PCRA window without an "equity wash." This is favorable given the importance of PCRA to participants.
- ***Deemed IRA:*** All four firms indicated that regulatory issues involved with Deemed IRAs would require structural modifications to their products or alternative products.

	Galliard - City of LA	Galliard - Composite	Invesco	PIMCO	Vanguard
Portfolio Transition					
Administrative And Reporting					
Able to provide a daily NAV?					
Is PCRA brokerage option considered competing?	No	No	No	Possibly	No

Excellent | Favorable | Reasonable | Less Desirable

Note: City of LA DCP Stable Value Fund displayed above to show DCP experience since all managers including Galliard were required to provide composite returns (i.e., average for group of similar accounts).

Fees

Fees

We find that the fees proposed by the candidates are competitive. We estimate the total fees are within 20% of the original 14 managers estimated median fee of 25.2 bps. A key source of difference in total fees is if external subadvisors are used. Since external management can be viewed as a method of diversifying risk, nominally incremental expense for external management seems appropriate.

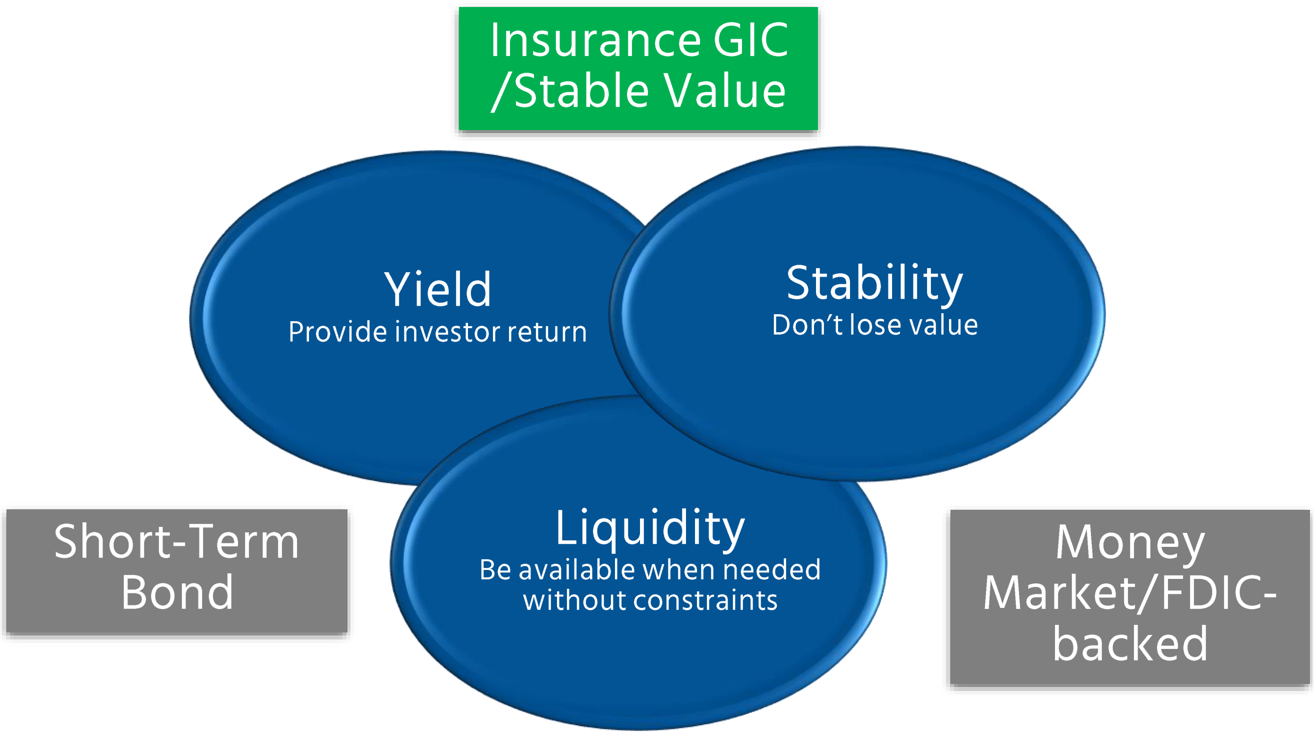
	Internal Investment Mgmt. Fee	External Subadvisor Investment Mgmt. Fee	Investment Contract (Wrap) Fees	Other Fees*	Estimated Total Fee
Galliard	0.0675%	0.0260%	0.1490%	0.0290%	**0.2715%**
Invesco	0.0619%	0.0410%	0.1500%	0.0000%	**0.2529%**
PIMCO	0.1100%	0.0000%	0.1500%	0.0100%	**0.2700%**
Vanguard	0.047%	0.000%	0.15%-0.16%	0.0230%	**0.22% - 0.23%**

* Based on ultimate portfolio construction, we expect “Other Fees” could change, especially for the candidates representing 0% for Other Fees.

Appendix 1
Stable Value Fund Primer

Capital Preservation in Retirement Plans

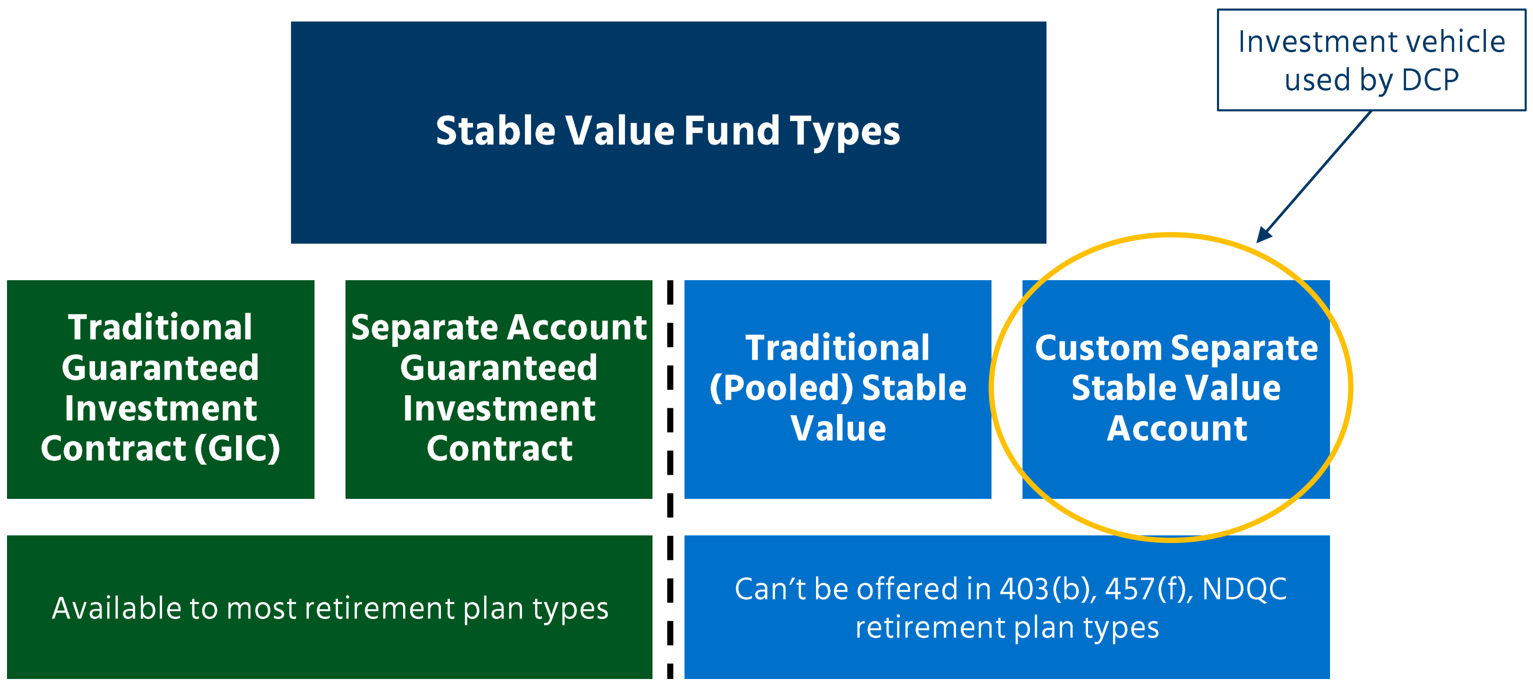
Typically 3 Objectives



Stable Value Fund

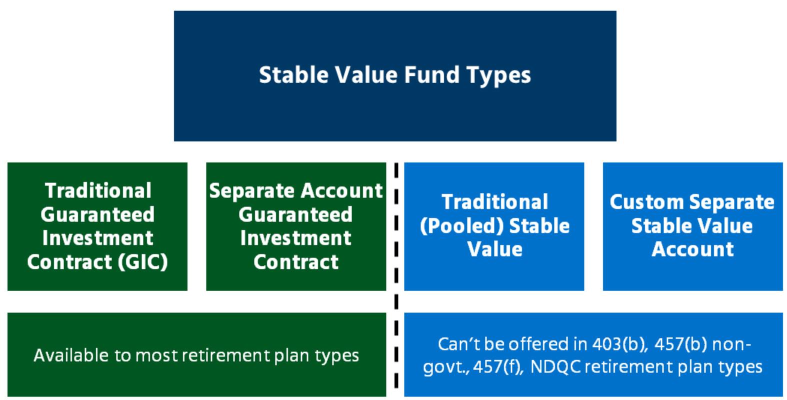
A stable value fund invests in mostly high quality corporate, asset-backed, and government bonds generally with short-to intermediate-term maturities. Stable value is commonly offered through retirement savings plans, some college tuition savings plans, and health reimbursement account plans. Stable value is not available in a mutual fund, or in Individual Retirement Accounts (IRAs).

Below are the main types of stable value funds.



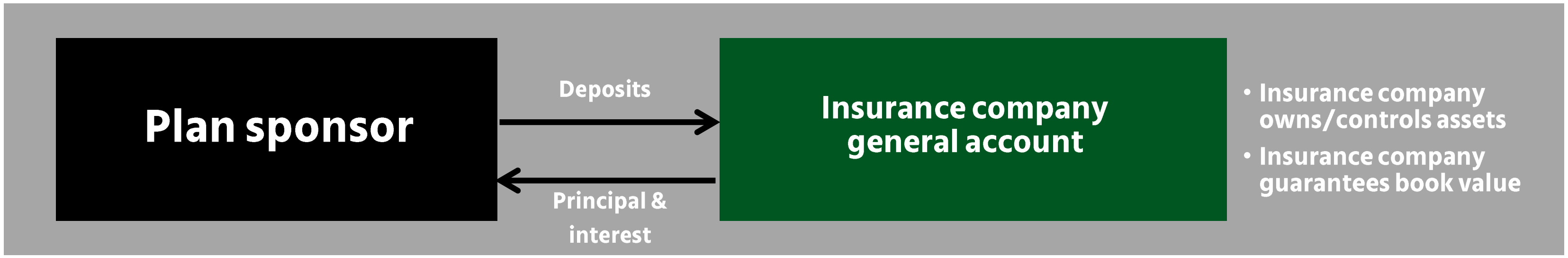
Stable Value Fund Types

1. **Traditional Guaranteed Investment Contract:** The assets are owned by the insurance company, and are part of the insurer's General Account. The plan sponsor and participants are creditors of the insurer, and do not have priority claim status on the General Account assets of the insurance company. In this structure, a single insurance company normally guarantees the principal and accrued interest related to the stable value assets.
2. **Separate Account Guaranteed Investment Contract:** The assets are collectively held for the exclusive benefit of contract owners and are insulated from insurance company obligations through a legal separate account structure. In this structure, a single insurance company normally guarantees the principal and accrued interest related to the stable value assets. *Some states may not allow plan sponsors to offer this structure.*
3. **Traditional (pooled) stable value fund:** The manager 'contracts' insurance companies and/or large banks to wrap (guarantee) portions of the portfolio a stable price. The wrap contracts ensure that participants can transact at book value (get their principal plus accrued interest), without experiencing the price fluctuations of the underlying bonds. In this structure, several plans participate in the pooled fund (product). The pooled portfolio of bonds is ultimately owned by the plan sponsors.
4. **Custom Separate Stable Value Account:** The portfolio and insurance company wrap structure is similar to the traditional (pooled) stable value fund. In this structure, the portfolio is customized to a large stable value mandate (generally over $100 million). The assets are owned by the plan sponsor.



Stable Value Overview

Insurance Company General Account Stable Value



Insurance Company Separate Account Stable Value

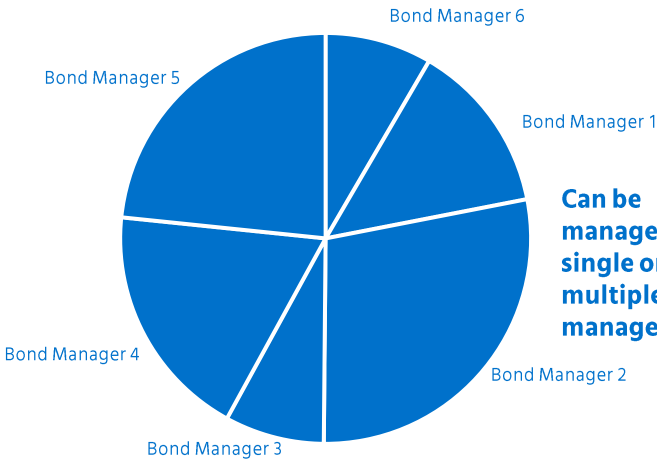
'Pooled' Stable Value or Custom Stable Value Separate Account*

**Assets managed by investment manager(s) in a commingled fund. For larger stable value mandates (generally over $100 million), investment managers can create a custom separate account.*

Stable Value Portfolio Structures (Underlying Investment and Wraps)

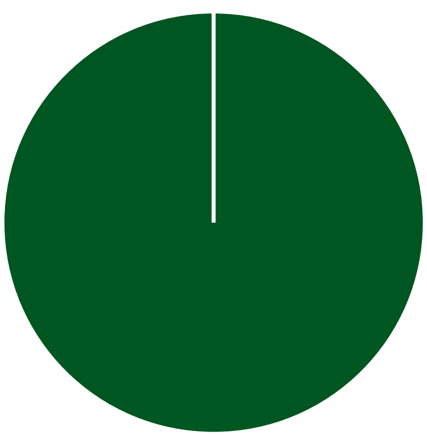
Underlying Investment Structure

Hypothetical SV Separate Account



Can be managed by a single or multiple bond managers.

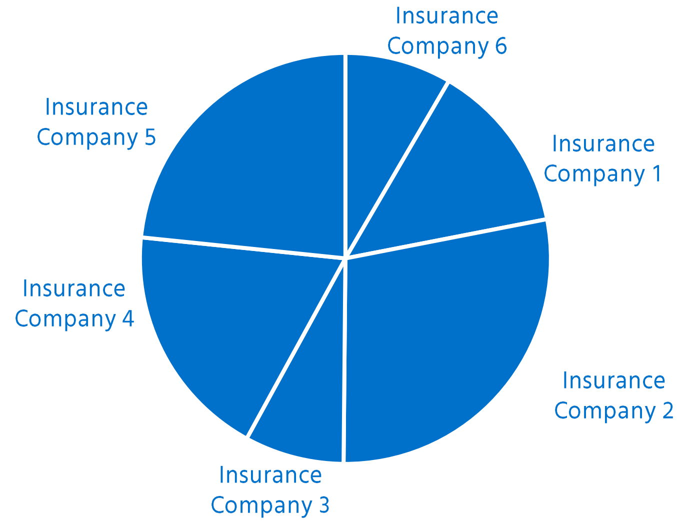
Insurance Company Product



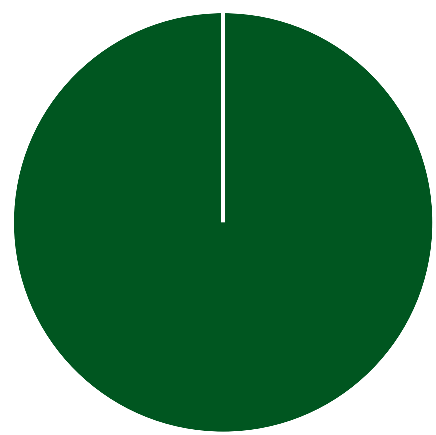
100% of the portfolio is typically managed by the insurance company. However, we have seen portfolios managed by multiple bond managers.

Wrap Structure

Hypothetical SV Separate Account



Insurance Company Product



100% Backed by ABC Insurance Company (hypothetical firm)

Risk Diversified

Risk Concentrated

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Stable Value Custom Separate Account Structure

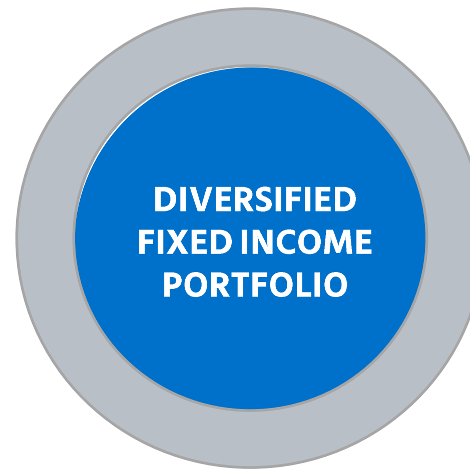
1. FIXED INCOME PORTFOLIO

- ✓ Underlying Assets invested in **Fixed Income Market** run by one or multiple managers
- ✓ **Primarily in AAA-rated** with portfolio average of AA or higher
- ✓ Invested along Yield Curve with **Average Duration of 2-3.5 years**

2. WRAP AGREEMENT(S)

- ✓ Typically issued by one or more **Banks or Insurance companies**
- ✓ Permits participants to **transact at book value** by having **Wrap Contracts**
- ✓ Amortizes gains/ losses over the time through the **Crediting Rate.** Crediting rate is a direct result of underlying portfolio performance as defined by Wrap providers

3. STABLE VALUE PORTFOLIO



- ✓ Diversified portfolio of **high credit-quality assets**
- ✓ **Stable Share Price** and relatively **stable return.** Wrap agreements also provide a guarantee of principal (crediting rate never <0%).
- ✓ **Higher Returns than most money market options** in full market cycles

Stable Value Funds: Considerations for Plan Participants

When using a stable value fund, there are several important considerations that plan participants should be aware of, including:

- **Equity Wash Provision:** Most stable value offerings have an equity wash provision, which is also known as a "competing fund rule". These provisions restrict direct transfers from stable value funds to other competing funds within the plan. Competing funds include:
  - Money market funds
  - Fixed income funds with a duration of less than three years
  - Self-directed brokerage window

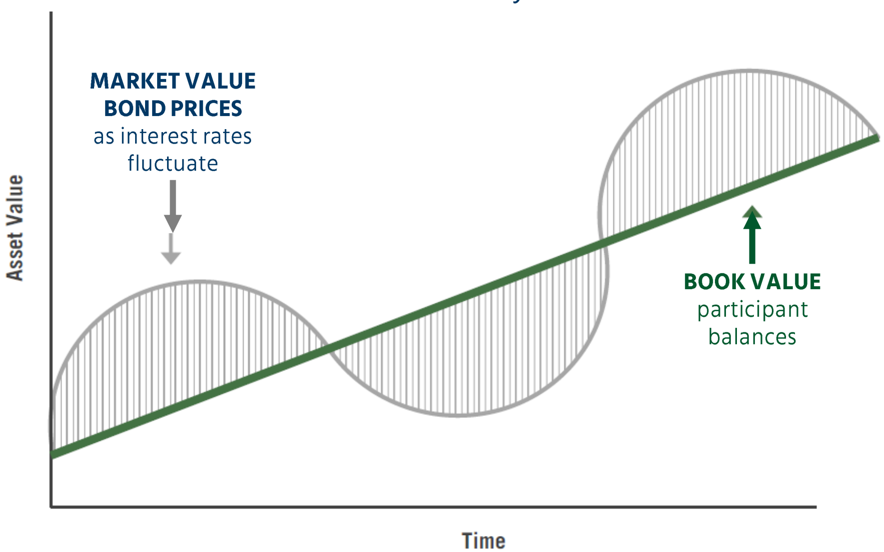
  The provision requires transfers from a stable value fund to be to a non-competing fund (i.e., equities) for a set period of time, which is normally 90 days. After the restricted period, the funds can be transferred into any other plan option. The equity wash provision is an attempt to restrict participants from attempting to arbitrage interest rates.

- **Structural Complexity:** participants view stable value funds as equivalent to money market funds without appreciating the differences. Stable value funds are more complex than money market funds. An understanding of the below matters aid in participant decision making.
  - Difference between book value and market value
  - Use of insurance wrappers to maintain a stable NAV for a portfolio of short-term bonds
  - Potential risks of an employer-initiated event and a corresponding fair market value adjustment
  - Equity Wash provision

Stable Value Fund Primer
Additional Exhibits

Example of ‘Pooled’ Stable Value Mechanism

Stable value contracts smooth the effects of bond market volatility



Book value: participants’ principal + accrued interest

Market value: value of underlying fixed income assets

Difference between market value and book value

Example: $1 million change (loss) in portfolio value

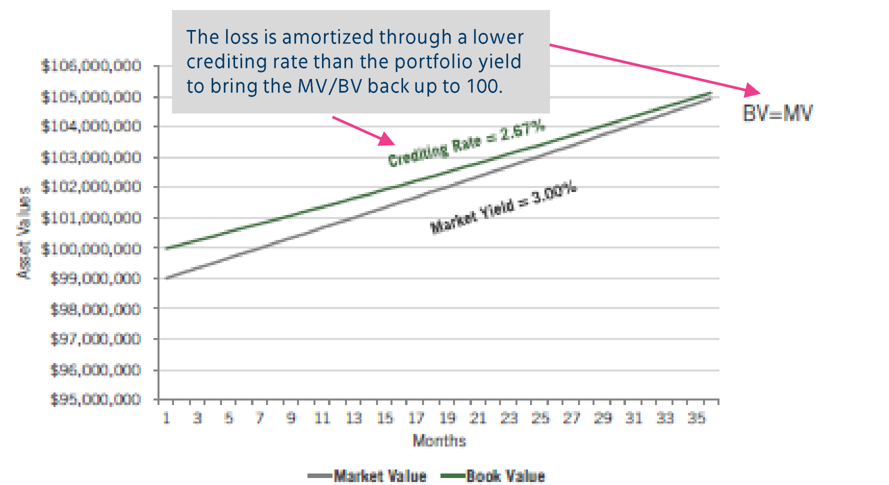
Simple Formula

Book Value	$100,000,000	**Gain/(Loss)**	(1.00%)
Market Value	$99,000,000	**Portfolio Yield**	3.00%
Loss	($1,000,000)	**Portfolio Duration**	3.0 Years

3.00 % - (1.00%/3) = Estimated Crediting rate of 2.67%

The crediting rate formula spreads the 1% loss over a 3-year period, from the rate reset data.

Amortization: The crediting rate amortizes gains/losses (in this example a loss) over the duration of the portfolio to smooth the rate earned by participants



Note: Analysis and example provided by Galliard.

For illustrative purposes only.

Stable Value Funds: Considerations for Plan Sponsors

Stable value options historically have provided better returns for participants than money market funds. There are several important considerations that plan sponsors should be aware of, including:

- **Employer-Initiated Events** – In most cases, stable value fund managers impose withdrawal restrictions at a plan level when employer-initiated actions trigger large stable value outflows. Most often, the market value and book values of a fund are very close (less than 2% difference). However, during periods of market stress (i.e., 2008) or in a rising interest rate environment, the market value can fall below the book value and stable value fund managers are likely to impose liquidity restrictions during these times. Employer-initiated events potentially include:
  - Plan terminations
  - Employer bankruptcies
  - Record keeper changes
  - Early retirement window programs
  - Large layoffs
  - Other employer driven events that cause unanticipated cash flow disruptions to the stable value fund
  - Re-enrolling the participants to QDIA (*fairly common*)

- **Termination Provisions** – Potential issues can arise when replacing or terminating the stable value fund from an investment lineup, or when a change in record keeper occurs. Under these scenarios, generally the plan sponsor has to wait for a certain time (contract dependent) to receive the full principal and accrued interest, or receive less than the principal and accrued interest for an immediate payment (i.e. pay a penalty).
  - When a plan sponsor decides to terminate its contract with a pooled stable value fund, a common provision is a "12-month put," which is simply a 12-month waiting period that is imposed to ensure fair liquidation and no harm to the remaining plans in the investment. However, all plan participants have daily liquidity at book value plus accrued interest during the termination period.

  - When a plan sponsor decides to terminate its contract with a GIC stable value type fund, the waiting period to receive all of funds can extend over five plus years. Depending upon the specifics of a contract, the participants may not have daily liquidity once the contract goes in a termination phase (dependent on the provisions of the contract).

Pooled Stable Value Funds
Key Concepts

- **Stable Value Fund –** A stable value fund is a conservative fixed income investment vehicle that seeks to provide capital preservation and a relatively stable rate of return.
- **Investment Make-Up –** Stable Value funds consist of a portfolio of fixed income and cash investment instruments combined with an insurance component (wrap insurance contracts) that provides stability (guarantees principal value and interest).
- **Principal Guarantee –** Participants are guaranteed original principal and additional contributions plus interest. The interest rate (often referred to as the crediting rate) can be fixed or variable.
  - If variable, the crediting rate may change based on the performance of the underlying investments. However, the volatility of the crediting rate is low because it amortizes gains and losses over time which creates a smoothing effect.

Pooled Stable Value Funds
Key Concepts (Continued)

Crediting Rate

- The crediting rate is the interest rate earned on the contract value (principal plus accrued income) expressed as an effective annual yield. The crediting rate also acts as a stabilizing mechanism by amortizing investment gains and losses so that participants are protected from short-term changes in market value.

Market to Book (Contract) Value Ratio

- The relationship between the market value and the book value (original investment) of the underlying bond portfolio. This determines whether the crediting rate will be more or less than the yield of the bond portfolio. Relative to the bond portfolio's yield, a market value "deficit" (MV<BV) decreases the yield credited to participants, and a market value "surplus" (MV>BV) increases the yield. If market value and book value are equal (i.e. 100%), the net crediting rate will be equal to the yield of the underlying bond portfolio, less investment management, wrap insurance contract and administrative fees. Keeping all other variables constant, an increase in the MV/BV ratio will improve the crediting rate, while a decrease in the ratio will result in a lower crediting rate. This holds true whether market value is greater than or less than book value.

Appendix 2
Summary Evaluation of all Proposals

Summary Evaluation

In the following table, we provide a high-level assessment in accordance with the evaluation factors previously outlined. This summary evaluation is intended to provide a digest of the information contained in the RFP responses for the Board's reference.

	Columbia	Galliard - City of LA	Galliard - Composite	Great-West	Goldman Sachs	ICMA	Invesco	J.P. Morgan	Mellon	PFM	PIMCO	Principal	Putnam	T. Rowe Price	Vanguard
Organizational Strength And Continuity															
Business Strength And Resiliency															
Firm-wide Assets															
Tenure Of Senior Professionals															
Total Personnel Retention															
History Of Legal And Regulatory Proceedings															
Investment Experience															
History Of Managing Stable Value Assets															
Scale Of Stable Value Assets Under Management															
Depth of Stable Value Team															
Investment Approach And Process															
Duration															
External Managers Vs. Internal															
Liquidity															
Wrap Provider Diversity & Quality															
Quality Of Underlying Managers				N/A						N/A					
Historical Market-To-Book															
Investment Performance															
Overall Book Value Performance															
Underlying Short Duration Fund Risk-Adjusted Performance															
Underlying Intermediate Duration Fund Risk-Adjusted Performance															
Portfolio Transition															
Administrative and Reporting															
Able to provide a daily NAV?															
Is PCRA brokerage option considered competing?	Yes	No	No	No	No	Possibly	No	No	Possibly	Possibly	Possibly	Possibly	No	Possibly	No
Fees															

Excellent | Favorable | Reasonable | Less Desirable

Executive Summary – Key Findings

- **Organizational Strength And Continuity** – All respondents exhibit traits of well run businesses. As such, this factor is of lesser differentiation between the candidates.
- **Investment Experience** – 5 managers (Columbia, ICMA, JPMorgan, PFM, and Putnam) rank less appealing in terms of Stable Value separate account management experience (i.e., number of accounts and asset under management). Galliard (incumbent), Invesco and GSAM are stable value market leaders. *We believe this dimension provides a key area to focus on in distinguishing among the field.*
- **Investment Approach And Process** – While generally all respondents will implement reasonable investment approaches certain managers' stable value strategy characteristics and proposed approaches are less attractive as noted in this section of the report. Examples from a duration perspective include Columbia (historically low duration) and PIMCO (historically high). From a wrap diversification or insurance product exposure standpoint, Great-West, ICMA, and Putnam rank below the broader group. Here again, *this factor presents significant differentiation* from which to judge the candidates.
- **Investment Performance** – Historical book value performance (as well as underlying fund performance) for all candidates has generally been very competitive though there is limited dispersion displayed across the managers.
- **Portfolio Transition** – All managers appear capable of managing the transition though some provided far more detailed responses than others in their transition plan explanation.
- **Administrative And Reporting** – All managers will provide adequate reporting to the Board and Plan service providers. Key differentiators are the ability (or lack thereof) to provide the TPA with a daily unit value similar to how the incumbent does. Mellon, PFM, and Principal will not serve this role and do not readily provide a turnkey alternative like some others offer. Finally, from an administrative perspective, some providers clearly state that the self-directed brokerage window is not a "competing option" that requires an "equity wash." Others were less committal or indicated PCRA would be a "competing option."* This is important given the substantial growth of PCRA assets in recent quarters.
- **Fees –** All-in costs are remarkably similar across the playing field with a modest differentiator being operational costs that are difficult to quantify for certain respondents. Notably, current pricing for the SV Fund does not appear out of line with market.

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