ADVERTISING SUPPLEMENT

STABLE VALUE

Visit www.pionline.com/stablevalue for exclusive featured content, white papers and web seminar

SPONSOR DIRECTORY

Aviva Investors North America
375 Park Avenue, Suite 2101-4
New York, NY 10152
Contact: Eric Hasenauer
Managing Director and Head of Sales
Phone: 212-593-5606
eric.hasenauer@avivainvestors.com
www.avivainvestors.us

Galliard Capital Management
800 LaSalle Avenue, Suite 1100
Minneapolis, MN 55402
Contact: Carrie Callahan
Partner
Phone: 612-667-1793
Carrie.a.callahan@galliard.com
www.Galliard.com

Morley Financial Services, Inc.
1300 SW Fifth Avenue, Suite 3300
Portland, OR 97201
Contact: Ron Heath
Managing Director – Sales & Marketing
Phone: 503-484-9309
heath.ron@morley.com
www.morley.com

Prudential Financial
200 Wood Avenue South
Iselin, NJ 08830
Contact: John Barrasso
Vice President, Institutional Solutions
Phone: 732-482-8748
john.barrasso@prudential.com
www.prudential.com/retire

CONTENTS

4 — **Stable value, a strategy that continues to deliver**
Funds still beating competitors in retirement plans

6 — **Wrap contracts market stabilizes after shuffle**
But wrap capacity still needed remains north of $50 billion

10 — **Stable value, managers take on more conservatism**
Tighter investment guidelines imposed by wrap providers

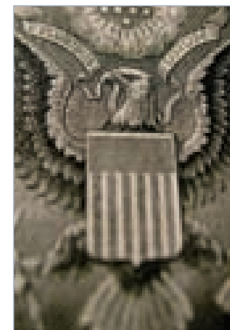
12 — **Stable value, caught in regulatory mayhem**
SEC, CFTC to determine whether wraps are swaps in the fall

14 — **Regulatory bodies asking for more disclosure, education surrounding stable value**
Next step could involve new rules for stable value players

This special advertising supplement is not created, written or produced by the editors of Pensions & Investments and does not represent the views or opinions of the publication or its parent company, Crain Communications Inc.

Stable value,

a strategy that continues to deliver



Funds still beating competitors in retirement plans

Stable value continues to be a winner, outperforming numerous strategies and asset classes. That's according to David Babbel of The Wharton School at the University of Pennsylvania and Miguel Herce of Charles River Associates, two experts on stable value fund performance since the 1970s. The pair recently updated their economic literature on stable value performance through December 2009, which they released in January.

Stable value funds were created in the late 1980s, although earlier forms of stable value funds have been around since the early 1970s, coinciding with the development of U.S. defined contribution plans. The returns have always been fully guaranteed by insurance contracts regardless of the performance of underlying assets in the portfolio.

They typically invest in high-quality, short-maturity — usually under five years — corporate and government bonds, mortgage-backed securities and asset-backed securities, and are protected by so-called wrap contracts, which guarantee book value in case of redemption.

"From an investor's viewpoint, stable value funds operate like a passbook savings account," said Mr. Babbel and Mr. Herce. "They accrue interest at a prespecified rate that is generally updated every one to three months to incorporate changing market conditions. Their principal is secure and grows over time by the amounts of interest credited to their account."

Looking at the data through December 2009, which include the financial crisis years, stable value funds have shown they can provide higher returns and lower volatility than their closest competitors, money market funds and intermediate-bond funds.

"With very few exceptions, they appear to have weathered the recent financial crisis of 2007-2008, even while the number of wrap providers dwindled briefly from 25 to less than a dozen, precipitating steep increases in wrap fees among those remaining," the research found. These exceptions included the Lehman Brothers bankruptcy, which resulted in a small monthly decline in fund value of 1.7% in December, albeit an overall positive return of 2% over the year. "By 2010, the number of wrap providers had increased again, including some new entrants."

Mr. Babbel and Mr. Herce added that at the height of the financial crisis in December 2008, the average market value of assets dipped to as low as 95% of their book value, but a year later climbed to 101% and by September 2010 had reached 104%. "The 95% ratio of December 2008 was an aberration, as historically market-to-book ratios have ranged from 96% to 104%," according to their research. A few funds exhibited market-to-book ratios below 90%, but they have been worked out and these managers had issues specific to their funds.

One interesting thing their research found is how quickly market values of stable value funds that dropped during the crisis bounced back. This phenomenon is explained in part by their short duration and high credit quality, which allowed for a quick recovery. The fact that 401(k) investors flew to the safe haven of stable value funds during the financial crisis also contributed to their fast and prompt recovery.

As a result, members of the Stable Value Investment Association reported average yields as of June 30, 2010, in excess of 3% per annum, while intermediate-term government bond yields, at 1.4%, were less than half of that level, six-month bank certificate of deposits averaged 0.3% and money market rates still hovered over zero.

Stable value funds continue to prove their resilience. "Their stability, predictability and preservation of principal help to foster consistent savings habits, which can add a measure of confidence among savers as they prepare for their future needs," Mr. Babbel and Mr. Herce concluded. •

Visit www.pionline.com/stablevalue for exclusive featured content, white papers and web seminar

A Guaranteed Managed Solution For Stable Value

Aviva Investors' experienced fixed income professionals provide a bundled solution that enables our clients to offer a stable value fund to retirement plan participants.

Aviva Guaranteed Managed Solution (GMS).

Together with Aviva Life & Annuity Company, GMS was created for plan sponsors and stable value funds as a low-risk product designed to produce current income, while providing book value withdrawals for participants.

To learn how you can capitalize on Aviva Investors' strengths and capabilities, contact us today.

Aviva Investors North America, Inc. 215 10th Street, Suite 1000, Des Moines, IA 50309-3945 Tel: 800-281-4607 www. avivainvestors.com
Guaranteed investment contract group annuity issued by Aviva Life and Annuity Company, 7700 Mills Civic Pkwy, West Des Moines, IA 50266. 15798 0535110

Wrap contracts market stabilizes after shuffle

But wrap capacity still needed remains north of $50 billion

The stable value industry, especially the industry for wraps, is finally calming down after significant changes in recent years following the financial crisis.

Stable value funds performed relatively well during the crisis and for the most part continue to provide both returns and protection of principal as they've always been expected to. But because of excessive risk taking by some stable value fund managers in the years leading up to the crisis, wrap providers have been reshaping the industry, mostly by imposing higher fees and tightening investment guidelines.

Stable value is a major component of the retirement industry. These funds are available in most U.S. defined contribution plans, 457 governmental plans and 401(k) plans. The 25 members of the Stable Value Investment Association managed $437 billion in wrapped assets as of September 2010, and total stable value funds hold nearly $561 billion in 401(k) assets.

Stable value funds provide the safety and low volatility of money market funds with the higher returns of intermediate bond funds, thanks to a crediting rate that allows funds to smooth returns over time regardless of fluctuations in the value of their underlying portfolios. Stable value funds are also protected from interest rate volatility through wraps, which are contracts from banks and insurance companies. These wraps guarantee a book value to plan participants wanting to withdraw their money from a fund, even if market value is below book value. There are some exceptions to that book-value guarantee in cases including layoffs and bankruptcies.

The fees that wrap providers charge have been increasing since the financial crisis of 2008, which culminated with the bankruptcy filing of Lehman Brothers.

Visit www.pionline.com/stablevalue for exclusive featured content, white papers and web seminar

While they were in the single digits in the years leading up to the financial crisis, they have now stabilized in the mid-teens to the mid-twenties in terms of basis points. There are some exceptions, though, with unsubstantiated rumors of a wrap provider outside of the 15 to 25 basis point range. Eric Hasenauer, managing director and head of sales for Aviva Investors North America Inc., which has roughly $1 billion under management, noted that 15 basis points is at the low end, while most wrap fees are between 19 and 25 basis points. The increase in fees for wrapping assets in stable value funds is the result of wrap providers being less willing to take risk as well as of demand for wraps outpacing supply. "For the foreseeable future, they'll remain in that range," he said. "Risk has been priced in."

"Fees have pretty much been accepted by the stable value managers," concurred James King, senior vice president and head of stable value markets at Prudential Retirement. "We are at an equilibrium with most market participants at this point." Among its general accounts, separate accounts and guaranteed investment contracts, Prudential manages more than $60 billion of stable value assets.

For Ron Heath, managing director of sales and marketing at Morley Financial Services Inc., which has $14 billion of assets under management, the fact that the industry has seen an increase in activity at the 15 to 25 basis point fee level likely means it has found a level where wrap providers are earning a sufficient return on capital to make the business attractive to them.

Higher fees attracting new entrants

Aviva Life and Annuity Co. and Mutual of Omaha started offering new wraps last year. Prudential Retirement and Principal Life Insurance Co. also recently jumped back into the game. "It's an attractive market for wrap providers," Mr. Heath said. Additional firms are also said to be looking to enter the market for wraps, with Goldman Sachs being one of them.

"We're seeing some more new entrants come in, especially in the last six months," Mr. Hasenauer said. "Reasons prompting new entrants include higher fees, the recovery of market-to-book ratios in stable value and investment guidelines being more closely watched over."

The main providers of wraps currently are large insurance companies like Prudential, Principal Life Insurance Co., MetLife and New York Life. Principal Life is an affiliate of Morley Financial Services.

"We believe the market for stable value wrap contracts has stabilized and is in the early stages of turning the corner," said Karl Tourville, managing partner at Galliard Capital Management, which has more than $67 billion in assets under management for 220 institutional clients. "We're expecting additional wrap capacity in the marketplace this year as the combination of higher fees and reduced risk attracts new entrants. The market, however, is evolving. Banks, which have been significant providers of wraps for almost two decades, are expected to shrink their book of business modestly while life insurance companies, who were the dominant players in stable value during the 1970s and 1980s, are increasing their market presence." The shift back to insurance companies as main wrap providers over banks is because banks have been forced to shrink their balance sheets and their business as a result of the financial crisis and increased regulations.

Although new entrants and existing wrap providers offer a substantial chunk of wrap services, the financial crisis also prompted existing wrap providers to exit the market. These include UBS, Rabobank and American International Group. For some of them, like AIG, exiting the wrap business was a direct consequence of the financial crisis, while others, like Rabobank, exited because stable value wasn't a core competency for them and no longer fit into their business models. "We're seeing an exit of some wrap providers," Mr. King said. "But it's a controlled and orderly exit, not a run through the door."

These three firms alone still account for about $46 billion, or 11%, of the wrap market today, according to a December Pensions & Investments article. And some wrap providers have upped their capacity.

Mutual of Omaha initially provided $5 billion and later increased it to close to $10 billion. The annuity company Aviva has said that it can provide at least $10 billion in wrap capacity. Prudential, which started offering wraps again in recent years, had in-force wraps of $17.8 billion as of Dec. 21, 2010. ING's U.S. Retirement Services division has been growing and said in November that it expanded its capacity to provide new wrap coverage to meet increased market demands. It also reported that it posted stable value asset sales of $3.6 billion throughout the first three quarters of 2010 and wraps more than $25 billion in stable value assets.

But despite new entrants in the wrap business and due to UBS, Rabobank and AIG exiting, there continues to be a shortage of wrap offerings. "Wrap capacity has been coming back and is increasing, but there's still a need for wrap capacity," Mr. Heath said. The exact wrap capacity still needed in the market is unclear, but some estimates put it between $50 billion and $70 billion.

New entrants in the wrap industry have also changed the business in that many of them are offering

continued on page 8

continued from page 7

wrap contracts in combination with investment management services. As a result, wrap-only offerings are becoming less common. "The wrap-only business is certainly scarce," said Mr. Hasenauer of Aviva. Mutual of Omaha, for example, is one of the few wrap-only providers remaining in the market. "It's in small pockets. It's now being offered in the form of a package with investment services."

There are advantages and drawbacks to having a bundled product.

On the positive side, a bundled product with both wraps and investment management services allows the wrap provider to offer flexible investment guidelines. For example, Aviva's annuity arm, Aviva Life and Annuity Co., which provides wraps, has more flexible investment guidelines with Aviva Investors, which is the investment manager, than with outside managers. "One of the advantages of having a bundled product is that there's the ability to offer flexible investment guidelines, since there is an assumed level of trust and comfort between the wrap issuer and investment manager," Mr. Hasenauer said. Terms are also more negotiable and fees more competitive. On the other hand, some companies are forced to relinquish control over the investment management. "To give that up and the revenue associated with it could be an issue," he said.

New York Life, which entered the market in summer 2009, is organized in a similar fashion to Aviva. New York Life Insurance Co. offers wraps, while New York Life Investment provides investment management services. Neither Aviva nor New York Life offers wrap-only products.

Higher fees pushing some managers out

Higher wrap fees have also had the consequence of forcing some stable value fund managers to exit the market. "The fee pressure is certainly considerable," said Mr. Hasenauer. "It flows through to a plan and there are some ramifications as far as return objectives."

For example, State Street Global Advisors said in June 2010 that it would close down its stable value asset management business by the end of 2010. As of March 31, 2010, SSgA had $8.4 billion of client money in the firm's stable value strategy. Its decision to exit the business reflected a broad range of uncertainties in the market, it said, including persistent challenges stable value providers have faced recently in obtaining new wrap insurance capacity, according to a June article in P&I. SSgA was one of the few, if not the only, stable value manager that had to inject capital into its funds during the market turmoil. The company decided instead to pick a money market fund as a cash option in its defined contribution offering.

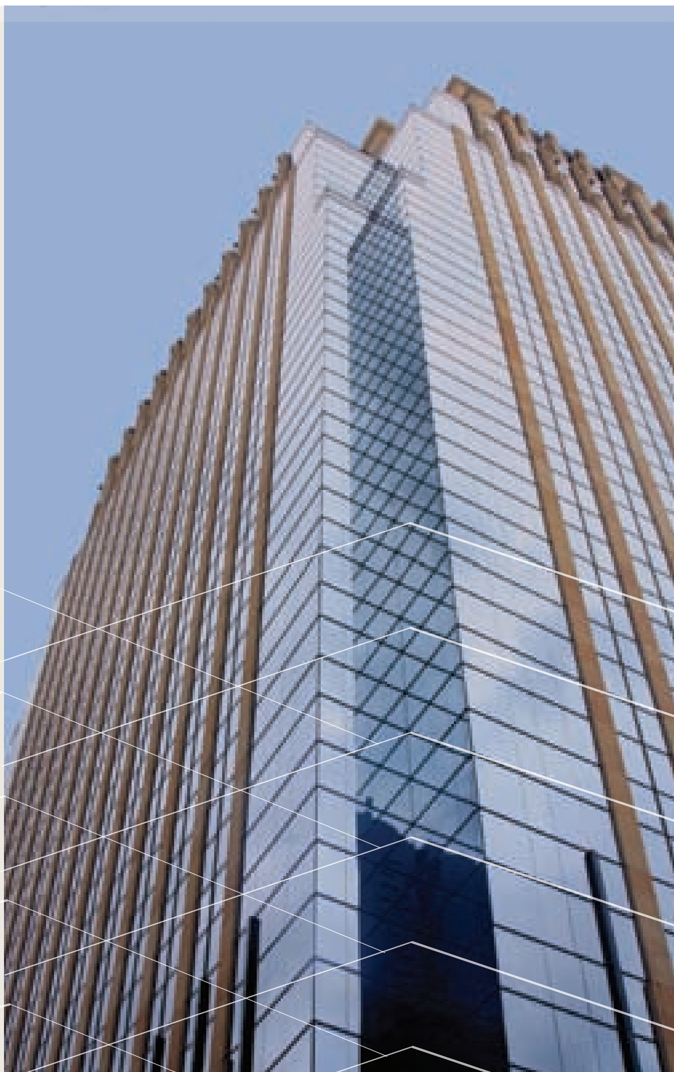
"There have been a number of stable value providers that have terminated their funds as a consequence of a number of factors including higher fees," Mr. King said. In another example, Merrill Lynch closed its $10 billion fund. "Book values were covered and they had the ability to terminate the funds," he added, referring to both instances.

Meanwhile, stable value is still attracting plan sponsors. Los Angeles County Deferred Compensation and Thrift Plan and its Savings Plan said in December they would issue a request for proposals for a stable value consultant for its $5.5 billion 457 plan and $1.5 billion 401(k) plan. The search came as the contract of its existing consultant, Mercer, expired at the end of 2010. As of Oct. 31, the deferred compensation plan had $2.6 billion in its stable value fund, while the savings plan had $654 million in its stable value fund.

What remains to be seen is whether the wrap industry, as well as potential new wrap providers, will continue to take advantage of the opportunity in the marketplace and finally fill the gap in needed capacity once and for all. ●

Visit www.pionline.com/stablevalue for exclusive featured content, white papers and web seminar

Stable Value and Fixed Income Management Specialists



Galliard Capital Management is a registered investment advisory firm that specializes in stable value and fixed income management for institutional clients. Income generation and risk control have always been the primary objectives of our fundamental, value-based investment approach. Galliard's conservative investment approach is ideally suited to stable value management.

The firm is an independently operated subsidiary of Wells Fargo & Co., one of the nation's premier financial services companies. Because of its unique structure, Galliard can offer its clients the focus, commitment, and expertise of a specialized investment management firm plus the vast resources of Wells Fargo.

GALLIARD

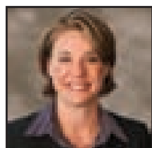
Specialist in stable value and fixed income management for institutional investors

Consistent, disciplined approach

Offering separately managed portfolios and commingled funds

Over $67 billion in assets under management

For More Information Contact:



Carrie Callahan
Partner
612-667-1793
Carrie.A.Callahan@Galliard.com

Stable value, managers take on more conservatism

Tighter investment guidelines imposed by wrap providers

After excessive risk-taking in the years leading up to the financial crisis, stable value managers have centered their investment strategies on more conservative practices.

The move is due to the unexpected under-performance of highly-rated structured securities and pressure from wrap providers, which decided against insuring portfolios that had become too risky. The prospect that interest rates, which have been at historically low levels, are bound to rise soon is also prompting safer investments in stable value funds.

Some of the trends in investment practices at stable value managers include focusing on shorter durations and higher quality paper. They are also imposing more restrictions on competing funds.

Higher credit, shorter duration

"There's a general trend toward less credit exposure and shorter duration, two major risks that wrap providers had," said James King, senior vice president and head of stable value markets at Prudential Retirement.

"Wrap providers are generally wrapping portfolios with more conservative investment guidelines," agreed Ron Heath, managing director of sales and marketing at Morley Financial Services Inc., which has $14 billion under management. "They're putting more duration constraints on portfolios."

Stable value funds had traditionally focused on bonds with high credit ratings and short duration, but investments in high-yield securities and long credit had become common at many stable value managers in the years leading to the financial crisis, mostly to increase yields and boost returns. Wrap providers are now forcing stable value fund managers to go back to basics, asking managers to be more conservative as providers refuse to bear the brunt of risk.

While investing in junk bonds wasn't common at all stable value managers, the strategy wasn't unheard of between 2006 and 2008. Now the credit quality of investments requested by wrap providers has to be much higher. Typical investments in stable value funds again include agency bonds, securitized credit with very high credit ratings and Treasuries.

"We can offer a large exposure to corporate credit relative to the industry," said Eric Hasenauer, managing director and head of sales at Aviva Investors North America Inc. "Oftentimes, stable value funds are required to hold a large amount of securitized investments." He added that although no high-yield credit is allowed in Aviva's portfolio, there is flexibility with regard to asset allocation.

"I'm seeing less of an appetite for wrapping high yield and non-dollar denominated securities," Mr. Heath concurred.

Karl Tourville, managing partner at Galliard Capital Management, said that more than 75% of the assets in his firm's stable value portfolios are invested in obligations of the U.S. government, in agencies or in securities rated AAA. He added that stable value managers have the primary goal of preserving principal while providing a competitive yield for plan participants. "Therefore, higher risk investments such as high-yield bonds or non-

Visit www.pionline.com/stablevalue for exclusive featured content, white papers and web seminar

dollar denominated securities would go against the conservative principles of stable value investing." Galliard has more than $67 billion in assets under management for 220 institutional clients.

Meanwhile, the duration of stable value portfolios has been shrinking, generally to maturities around three years from as long as five years prior to the financial crisis, although it can vary from firm to firm.

Targeted duration at Aviva, for example, is four years. The duration of a stable value collective fund advised by Galliard is currently nearly two and a half years, Mr. Tourville said.

"We have begun reducing our overall portfolio durations to position our portfolios for an eventual rise in interest rates," he said, adding that it would allow the manager to reinvest portfolio cash flows more quickly as rates move higher. "One way we are doing this is by increasing our portfolio allocations to cash equivalents." A Galliard-advised portfolio, which may have historically held cash equivalents of approximately 7% to 10% of a portfolio, may now hold 10% to 15%.

Stronger cash buffers

Galliard took advantage of large inflows during the last several years, prompted by investors looking for safer havens. "We want to be more liquid in the event there are more outflows, as well as to benefit from rising interest rates," Mr. Tourville said.

Galliard isn't the only manager to have followed that strategy. Cash reserves in many stable value funds have also grown and are larger than prior to the financial turmoil. "The cash buffer has been trending up a bit to allow some excess liquidity," said Mr. Hasenauer of Aviva.

"There's probably more cash than at the beginning of the financial turmoil, but less cash than at the peak of the crisis," Mr. King said.

Market-to-book ratios have recovered and increased as a result. They were hovering around 102 as of the end of 2010, after having peaked at 104 in the third quarter.

"The state of the stable value industry has improved in the past year," Mr. Heath said. "Market-to-book-value ratios have been back over 100 for some time." He added that wrap providers have generally been requesting more diversification in portfolios.

Wrap providers are also expanding the definition of competing funds, which have the purpose of avoiding arbitrage investments between stable value funds and other funds in rapidly rising interest rate environments.

"Wrap providers have always required an equity wash if a plan has a money market fund, short-term bond fund or other products that provide a guarantee of principal," Mr. Heath said. But now wrap providers are including other types of funds in the mix. "Wrap providers have also looked more closely at Treasury inflation-protected funds and at brokerage windows where you could have access to competing funds."

"What has changed is the definition of what is considered to be a competing fund option," Mr. Tourville said. "Now the definition has expanded to include investment options such as self-directed brokerage windows, lifestyle funds with a specific allocation to a competing option and TIPS funds. So we're now dealing with a much broader universe of what is considered a competing fund."

Experts agree that the trend toward more restrictions imposed on stable value managers, higher wrap fees and tighter investment guidelines may be generally good for the overall health of the stable value industry. ●

Stable value,
caught in regulatory mayhem

SEC, CFTC to determine whether wraps are swaps in the fall

As Congress worked on revamping the financial services industry on the heels of one of the largest credit crisis in history, stable value got caught in the mix. As a result, the treatment of one of its staple features, the wrap contract, may potentially be in jeopardy

Indeed, some provisions intended to regulate swaps and derivatives in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 could have adverse unintended consequences that would negatively impact stable value participants.

Like wraps, credit default swaps are essentially insurance contracts between two parties, a protection buyer betting that a company, a bond, a loan or a sovereign will default, and a protection seller. The buyer pays an upfront amount plus annual premiums to the protection seller, which has to pay in full in case of a default. Because they are private contracts between two parties, swaps weren't previously regulated by any agency. They're also subject to counterparty risk, which means that if the seller doesn't have the money to cover the insurance in the case of a default, the buyer simply doesn't get paid.

Stable value wraps are also insurance contracts used to allow fixed-income investments in stable value funds to be maintained at book value, even if market value drops.

"The Dodd-Frank bill in committee had a very broad definition of swaps," said James King, vice president of stable value markets at Prudential Retirement. "Stable value was treated very specifically in the legislation."

There's much at stake if wraps fall under the definition of a swap. As the Defined Contribution Institutional Investment Association (DCIIA), a nonprofit trade association dedicated to enhancing the retirement security of American workers, noted last year, the definition of a swap contained in the bill could have the unintended consequence of

Visit www.pionline.com/stablevalue for exclusive featured content, white papers and web seminar

materially and adversely impacting stable value funds. Existing language in the bill could be interpreted to define swaps to include guaranteed investment contracts, wraps and other types of stable value investment contracts.

“DCIIA believes the impact of including stable value investment contracts in the provisions of the bill regulating swaps may reduce millions of 401(k) plan participants' access to or, at minimum increase the cost of, stable value funds," it said. “We also believe it is possible that this legislation may lead to the complete elimination of stable value funds in defined contribution plans, impacting the millions of Americans at or near retirement who rely on the return and stability of stable value.”

In other words, without wraps, stable value may no longer be a viable investment in 401(k) plans. Because of the troubling potential consequences, the act is temporarily considered to exclude stable value wraps from the definition of a swap. Dodd-Frank requires the Securities and Exchange Commission, along with the Commodity Futures Trading Commission to conduct a 15-month study to determine whether stable value would fall under the definition of a swap. It is doing so in concert with state insurance regulators, bank regulators and market participants. The inquiry is slated to end in October.

If wraps are indeed eventually considered swaps, the SEC and the CFTC then would have to determine whether they should create an exemption from the definition if the public would benefit. In this worst-case scenario, though, old stable value wrap contracts entered into prior to the SEC and CFTC decision will be grandfathered and exempted from any new rule.

Some experts in the stable value industry believe stable value wraps will be safe and won't be included in the definition of a swap.

“In general, wraps won't be treated as swaps under Dodd-Frank unless the SEC and the CFTC jointly decide it would be in the public interest to treat them as swaps," said Ron Heath, a managing director of sales and services at Morley Financial Services. "Even if it were to occur, we believe all existing wraps will be grandfathered and excluded from the definition. We are optimistic that wraps won't be considered to be nor treated as swaps.”

“Based on what we've heard, we are not too concerned," said Karl Tourville, a managing partner at Galliard Capital Management. “Indications we have received are that the study will come out favorably for stable value.”

Eric Hasenauer, a managing director and head of sales for Aviva Investors North America Inc., concurred. “There were initially concerns that the stable value industry may be caught up in unintended consequences,” he said. "There seems to be more comfort at this point that a carve-out or exception will be made for the stable value industry.”

The Stable Value Investment Association (SVIA), which met with the CFTC in October 2010, expressed markedly more concern and thinks a finding that stable value contracts don't fall within the definition of swap would be preferable to having to carve out an exemption.

“SVIA believes that a determination that stable value investment contracts are not swaps provides needed certainty to the millions of defined contribution plan investors and plans that have invested over $561 billion towards their retirement security,” wrote Gina Mitchell, president of SVIA, shortly after the meeting. “A determination that stable value investment contracts are not swaps also provides certainty as to how and by whom stable value contracts are, and will be, regulated going forward. While this may appear to be a minor point, it does eliminate any collateral damage to the stable value industry due to uncertainty and complexity of new regulations.” ●

Regulatory bodies asking for **more disclosure, education** surrounding stable value

Next step could involve new rules for stable value players

In December, Sen. Herb Kohl (D-Wis.), the chairman of the Senate Special Committee on Aging, launched an investigation into the stable value world.

Aiming to protect the interests of the nation's seniors and elderly, especially those in 401(k) plans, who have to personally manage their retirement plans, he launched a broad investigation into stable value, with the goal of assuring plan participants fully understand the functioning of stable value funds.

"Unlike those covered by traditional defined benefit pension plans, participants in 401(k) plans personally contribute to their individual accounts and are responsible for selecting from an array of investment options, such as various mutual funds, offered by plan sponsors," Mr. Kohl wrote in a letter addressed to the industry, adding that plan sponsors are the ones ultimately responsible for selecting and monitoring 401(k) plan investments options.

"I was troubled to learn that in recent months some plans' sponsors were limited in withdrawing money from their stable value funds," he added. "Therefore, I am very interested in learning more about stable value funds within qualified retirement plans."

The inquiry is focusing on securities-lending practices of defined benefit and defined contribution pension funds as well as restrictions on the ability of 401(k) plan sponsors to withdraw money from their stable value funds.

Mr. Kohl wrote four letters with requests for information as part of the inquiry: one to plan sponsors, one to wrap providers, one to stable value managers and one to securities lenders.

Some of the questions concerned how many wrap contracts a provider holds, as well as the amount of defined contribution plan assets these wrap contracts cover. They also included questions related to the duration of wrap contracts, restrictions on withdrawals before a payout is made on a contract, and fees charged to provide wrap contracts.

The initial deadline to receive answers back was set for Dec. 23 and subsequently extended to Jan. 7. The Senate Special Committee on Aging is currently reviewing responses and held hearings in March.

Reports by the committee and the Government Accountability Office revealed in mid March that securities lending in stable value funds in 401(k) plans have kept plan sponsors and participants locked in the funds and subjected them to losses amid rocky markets in 2007 and 2010, according to sister publication InvestmentNews. As plan sponsors and participants may be unaware that such plans are engaged in securities lending, the committee is asking the Department of Labor to increase information sharing and to issue guidance to employers.

"The committee is concerned with participants and plan sponsors not having a full understanding of stable value, not understanding when it works and when it doesn't," said James King, senior vice president and head of stable value markets at Prudential Retirement.

This isn't the first time that the government has expressed concerns over whether plan sponsors and plan participants have enough disclosed information regarding the functioning of stable value funds. In mid 2009, the Employee Retirement Income Security Act Advisory Council studied stable value funds to determine whether the Department of Labor should provide requirements or guidelines. This included efforts to help plan sponsors select and monitor stable value funds and to provide information to plan participants that best allow them to make informed decision on their investments.

Although the council decided at the end of 2009 against recommending the Department of Labor allow stable value funds as a qualified default investment alternative, it pushed for more information and education on stable value funds such as frequently asked questions and best practices.

But that push may have been too soft, as the topic is back on the table less than two years later, this time with the Senate Special Committee on Aging taking the reins of the investigation. Perhaps this time, a more concrete outcome will result from the inquiry. "There could be specific regulation enacted through the Department of Labor to have some very specific disclosure rules," Mr. King said. ●

LOOKING FOR A TRUSTED STABLE-VALUE MANAGER WITH WRAP CAPACITY?

LOOK NO FURTHER.

MORLEY FINANCIAL
SERVICES, INC.

Wrapping stable-value assets can be a challenge in today's environment. **Fortunately, Morley Financial Services can help. We have unique access to wrap capacity through Principal Life Insurance Company.**[1] Our partnership combines the asset management expertise of Morley Financial Services with the financial strength and stability of Principal Life —qualities that are in high-demand now more than ever. This innovative approach is just one reason why clients have entrusted us with more than $14 billion in stable value and fixed income assets[2]. Because when you're focused on delivering stability, the last thing you should be concerned with is capacity.

FOR MORE INFORMATION ABOUT OUR CAPABILITIES, CONTACT RON HEATH AT 503-484-9309 OR HEATH.RON@MORLEY.COM

[1] Principal Life Insurance Company and Morley Financial Services are members of the Principal Financial Group.
[2] As of December 31, 2010

There's safety in our solutions.

Prudential: A Stable Value Leader

Committed to the industry. With decades of experience and a proven track record, we are a leader in stable value.

Wrap capacity. While supply has tightened as other providers have reduced their business or left the market, Prudential continues to deliver wrap coverage.

The choice of stable value managers, consultants and plan sponsors. Industry leaders are turning to Prudential as a trusted partner that delivers. To find out how we can help you, contact John Barrasso, Vice President, at **732-482-8748.**

Prudential Retirement

Over 30 years of stable value experience

$59.6 billion in stable value account values*

Wraps, GICs and other stable value solutions

RETIREMENT SERVICES • INSTITUTIONAL ASSET MANAGEMENT • GROUP INSURANCE

For Financial Professional Use Only.
© 2011. Prudential Financial. *As of 12/31/2010. Guarantees are based on the claims-paying ability of the insurance company and are subject to certain limitations, terms and conditions. Insurance products are issued by either Prudential Retirement Insurance and Annuity Company (PRIAC), Hartford, CT, or The Prudential Insurance Company of America (PICA), Newark, NJ. Both are Prudential Financial companies. Each company is solely responsible for its financial condition and contractual obligations. Prudential, the Prudential logo and the Rock symbol are service marks of Prudential Financial, Inc. and its related entities, registered in many jurisdictions worldwide. 0189198-00001-00
0189198 RSFL1079