

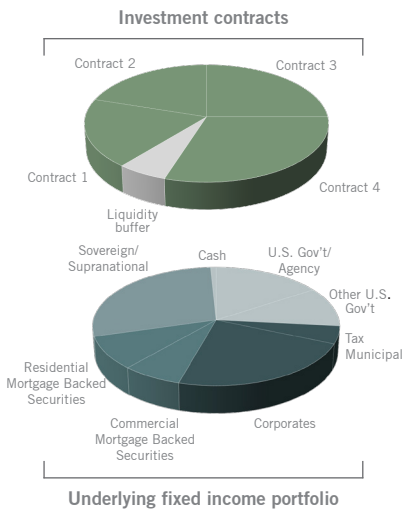
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# UNDERSTANDING STABLE VALUE IN THE SFDCP

GALLIARD CAPITAL MANAGEMENT



## STABLE VALUE STRUCTURE



Illustrative stable value strategy only. Not intended to represent the specific structure of the SFDCP stable value fund.

### Investment contracts

Investment contracts in stable value strategies enable participants to transact at contract or "book" value (principal plus accrued interest), regardless of the price fluctuations of the fixed income securities in the underlying fixed income portfolio.

### Underlying fixed income portfolio

Stable value strategies have an underlying fixed income portfolio that is typically invested in short to intermediate term fixed income securities (generally bonds maturing in 1-7 years). The market prices in the underlying fixed income portfolio fluctuate.

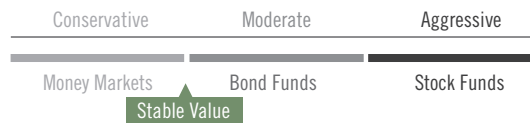
## WHAT IS A STABLE VALUE FUND?

The San Francisco Deferred Compensation Plan (SFDCP) stable value fund is a capital preservation investment option available in the SFDCP 457(b) Plan. The stable value fund is considered a conservative and low risk investment compared to other investments offered in the Plan. It is designed to protect the money you have invested while providing steady, positive returns. The stable value fund is invested in a high quality, diversified fixed income (bond) portfolio that is protected against interest rate volatility by investment contracts from banks and insurance companies.

## WHAT ARE THE BENEFITS OF INVESTING IN A STABLE VALUE FUND?

- Safety of capital
- Positive returns with limited volatility

## RELATIVE RISK LEVEL OF A STABLE VALUE FUND



## WHO SHOULD INVEST IN A STABLE VALUE FUND?

A stable value fund may be appropriate for someone seeking to safeguard capital or to balance a portfolio that contains more aggressive investments.

## HOW DOES STABLE VALUE COMPARE WITH A MONEY MARKET FUND?

Both stable value funds and money market funds seek capital preservation. Stable value funds have historically produced higher returns than money market funds with less volatility.<sup>1</sup>

## DOES A STABLE VALUE FUND MAINTAIN A CONSTANT NET ASSET VALUE (NAV) OF \$1.00 PER SHARE LIKE SOME MONEY MARKET MUTUAL FUNDS?

No. Stable value portfolios typically use a rising NAV which is updated daily. Any interest earned, including income and capital gains, will be reflected daily in the NAV (i.e. the NAV rises from \$10.00 to \$10.01, etc.). Certain money market funds may employ a flat, or constant \$1.00 NAV and interest earned is typically posted to participant accounts once per month versus daily.

Some stable value funds, including the SFDCP stable value fund, use a quarterly declared rate structure. The rate paid to participants is adjusted each quarter based on the performance and metrics of the underlying fixed income portfolio.

<sup>1</sup> Endnote on following page

# UNDERSTANDING STABLE VALUE IN THE SFDCP

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## The stable value market

- Approximately \$800 billion is invested in stable value<sup>2</sup>

## Comparison of stable value and money market funds

- Both seek capital preservation
- Stable value funds have historically produced higher returns with less volatility<sup>1</sup>

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*Stable value funds are a popular choice for retirement plan investors who are looking for a conservative fixed income investment option that seeks to provide capital preservation and a competitive yield.*

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## WHAT TYPES OF FIXED INCOME SECURITIES ARE UTILIZED WITHIN A STABLE VALUE FUND?

The types of securities typically utilized in the underlying fixed income portfolio of a stable value fund include, but are not limited to, U.S. Treasury Securities, U.S. Agency Securities, asset backed securities, certificates of deposits, corporate bonds, mortgage backed securities and cash equivalents such as money market instruments. Generally, all securities are U.S. dollar denominated and must be rated “investment grade” by one of the Nationally Recognized Statistical Rating Organizations at the time of purchase. Investment grade is a rating that indicates that a security has a relatively low risk of default.

## ARE THERE ANY WITHDRAWAL LIMITATIONS?

Participant withdrawals and transfers between funds are allowed any time without a penalty, regardless of their frequency or amount, subject to the SFDCP excessive trading policy.

## IS A STABLE VALUE FUND A MUTUAL FUND?

No. Stable value funds are not mutual funds. The SFDCP stable value fund is a separately managed account that is specifically designed and managed for the participants of the SFDCP. It does not combine multiple plans into one pool like a mutual fund.

## IS MY INVESTMENT IN A STABLE VALUE FUND GUARANTEED?

No. An investment in a stable value fund is neither insured nor guaranteed by the FDIC, the Federal Reserve Bank, or the investment manager. Stable value investment strategies are conservatively managed and seek to preserve capital and provide a stable credited rate of interest, while generating competitive returns over time. While unlikely, it is possible to lose money by investing in a stable value fund.

## WHAT ARE THE PRIMARY INVESTMENT RISKS?

The stable value fund’s investment contracts are designed to allow for participant transactions at contract or “book” value (principal and accrued interest). A principal risk of a stable value fund is investment contract risk. This includes the risk of issuer default on its obligation or that another event of default may occur under the contract rendering it invalid, that the contract will lapse before a replacement contract with favorable terms can be secured, or that the occurrence of certain events including employer-initiated events could cause the contract to lose its book value withdrawal features. Other primary risks include the possibility that instruments held by the stable value fund will not meet scheduled interest and/or principal payments, interest rate risk (including the risk of reinvesting cash flows at lower interest rates), and liquidity risk. The occurrence of any of these events could cause the stable value fund to lose value.

<sup>1</sup> As of December 31, 2016 the Hueler Analytics Stable Value Pooled Fund Universe average reported a 10 year annualized return of 2.77% and a 10 year annualized standard deviation of 0.32. (As of September 30, 2016 the Universe represented \$112.01 billion in stable value assets across 16 pooled funds. Data from Hueler Analytics, Inc. © 2017. All Rights Reserved.) As of December 31, 2016, The Lipper US Index – Institutional Money Market Fund average reported a 10 year annualized return of 0.95% and a standard deviation of 0.43. (The index is the average of the 30 largest funds in the Lipper Money Market Funds Category. These funds invest in high quality financial instruments rated in top two grades with dollar-weighted average maturities of less than 90 days. You cannot invest directly in a Lipper average.)

<sup>2</sup> Stable Value Investment Association, Stable Value Assets Continue to Grow, article as of September 30, 2016.

## FOR MORE INFORMATION

Contact your plan administrator

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