



March 19, 2020

First, our thoughts are with those people and communities directly dealing with the COVID-19 virus. This global event has created unprecedented disruption in all phases of daily life. From the health of our communities to the economic impact and potential job losses, all of us are in this together.

Even though much is still uncertain regarding the spread of the virus domestically and globally, as well as the pandemic's impact on the financial markets, we would like to share our thoughts on the implications for stable value funds.

Morley has been managing assets for 37 years on behalf of over 12,000 retirement plans invested in our stable value collective trusts (Morley Stable Value Fund or Principal Stable Value Fund) and separately managed portfolios. Our focus on building well diversified, high quality, short to intermediate duration portfolios remains unchanged. The stable value strategies we offer are well diversified by manager, mandate, sector allocation and individual security, focused on providing the same capital preservation benefits you expect in all market environments.

Specific to current market conditions:

- Our stable value portfolios have continued to provide positive, book value returns throughout this tumultuous period. As noted above, stable value portfolios are basically high quality, short to intermediate duration fixed income portfolios held within synthetic investment and insurance company separate account contracts (“wrap contracts”). Participants investment experience is insulated from the daily price fluctuations of the underlying bonds by the book value structure of the wrap contracts.
- Issuers of wrap contracts continue to accept new deposits.
- We have experienced substantial positive cash flows as participants have sought an investment safe haven within their defined contribution plan options.
- Positive cash flows have enabled us to be selective buyers in this market, as widening spreads in the corporate and securitized (ABS/MBS/CMBS) sectors have provided investment opportunities for investors.
- Treasury yields have sharply fallen on the short end of the yield curve through March, driven by Fed rate cuts and a global economic slowdown, while corporate and securitized sector spreads have widened substantially.
- Market value performance was benefitted by falling Treasury yields in January and February as well, but since then widening credit spreads have detracted from underlying fixed income performance.

Summarily, we know volatility will continue as markets respond to the evolving COVID-19 pandemic. During these times, our top priorities will be the health and safety of our employees and ensuring our client's stable value funds meet their capital preservation objectives. Stable value strategies are continuing to provide the intended price stability for the benefit of participants. We are taking the necessary precautions to protect our employees and clients, including proactively communicating with our employees about taking preventative measures, including travel and providing flexible work arrangements.

We understand that these market conditions will raise questions regarding all your investments, including stable value, and we encourage you to reach out to us as these questions arise. Thank you for trusting us with your business and let us all help those in our communities who need our support.



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