Morley **Insights**

Morley
Capital Management

Capital preservation strategies
performance update

Financial markets were remarkably volatile during 2020 due to the financial and economic impact of the COVID-19 pandemic and resulting central bank interventions trying to stabilize markets. In times of market stress, capital preservation options typically receive increased attention from plan sponsors and participants.

Anticipating questions on how stable value strategies have performed relative to money market funds and short bond funds in this market environment, we have provided the following quarterly update on current and historical performance for your information.

Money market fund yields have fallen significantly given the interest rate cuts implemented by the Fed. Money market fund yields have remained near 0.00%, with Treasury rates also remaining low (1 month to 1 year T-bills) at 10 bps or lower.[1]

The Morley Stable Value Fund has continued to provide a positive crediting rate and has increased the crediting rate premium (see chart below) it provides compared to money market funds due to the steepness of the yield curve and the positive spread offered in corporate and structured sectors, like ABS, CMBS and MBS.

A longer term comparison of the risk/return characteristics of capital preservation options, validated across a wide range of market cycles through December 2020, **highlights the benefits of stable value compared to money market funds** or short term bond funds. In Exhibit 2, we've presented 10 years of data comparing the risk/return profiles of these three capital preservation options. It is evident that risk of stable value, as measured by standard deviation, has been similar to that of MMFs with performance that over time has been higher. Returns for stable value and short bond funds may be similar after 10 years, however, stable value can offer lower risk.

Participants who use stable value in place of a similar duration bond fund **may reduce the risk profile** of their retirement portfolio and participants who use stable value in place of MMFs **may increase the return** on their portfolio.

What we'll discuss

- **Fed actions impact on money market fund returns**
- **Historical risk/return of capital preservation options**
- **Performance comparison of stable value and other capital preservation options**

December 2020

Fed policy impacts money market yields

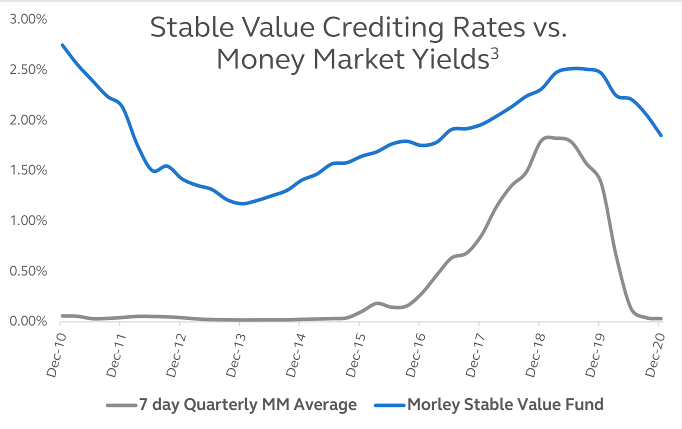


Exhibit 1

Stable value risk/return

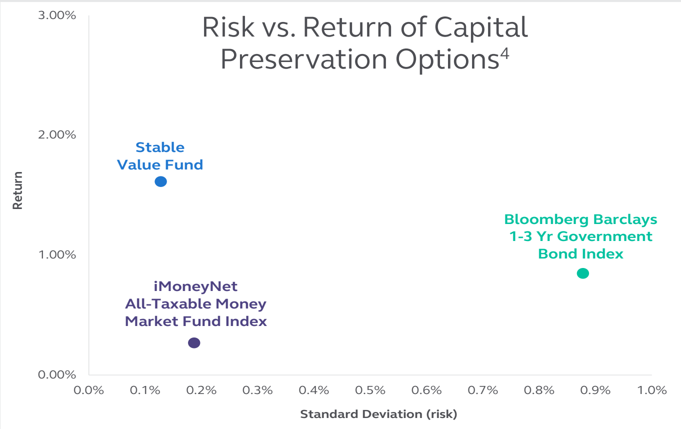
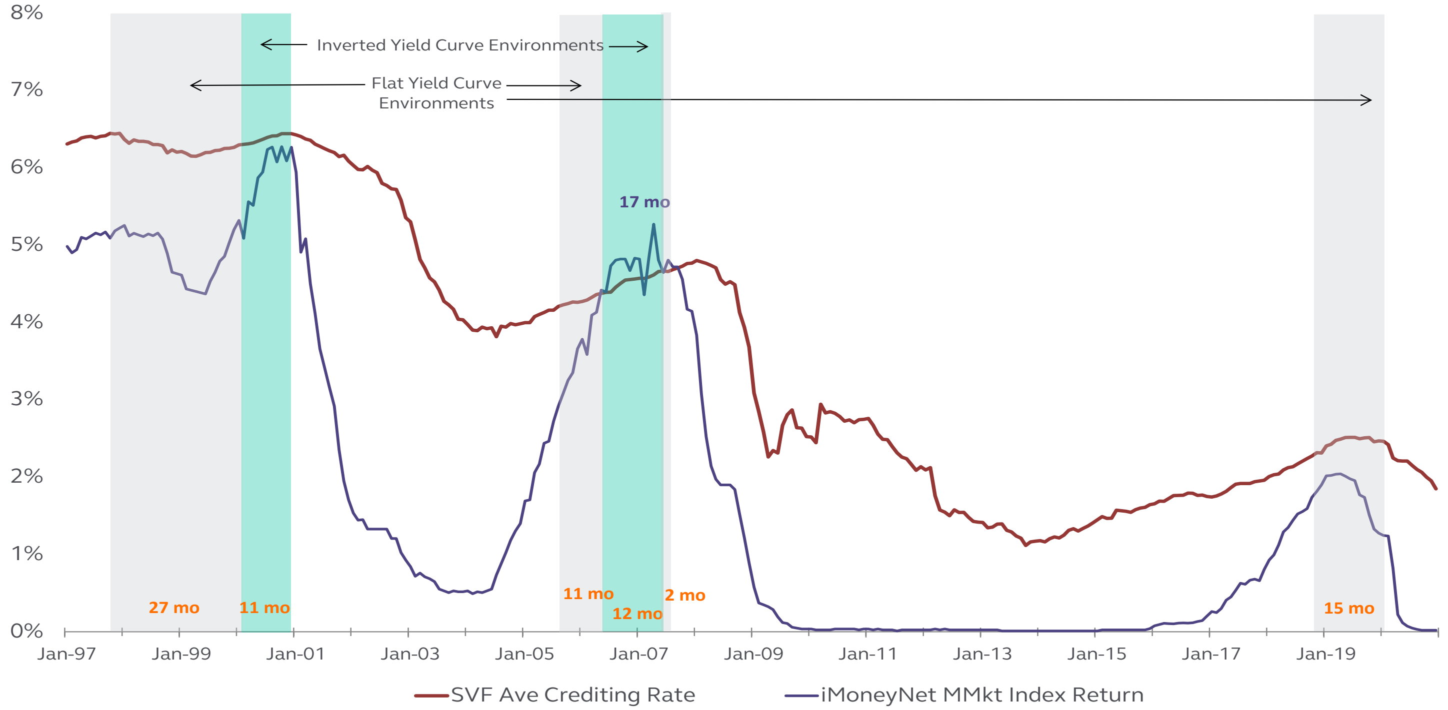


Exhibit 2

[1]Sources: www.treasurey.gov and iMoneyNet All-Taxable Money Market Fund Index. [2]https://riabiz.com/a/2020/6/23/fidelity-investments-intends-to-hard-close-two-institutional-money-market-funds-to-curb-exposure-to-covid-19s-high-volatility-market. [3]Source: Morningstar as of December 31, 2020. [4]Gross annualized returns statistics provided for the 10 year period ending December 31, 2020. Past performance does not guarantee future results. Performance returns assume the reinvestment of dividends and other earnings.

Stable value crediting rate vs. money market returns

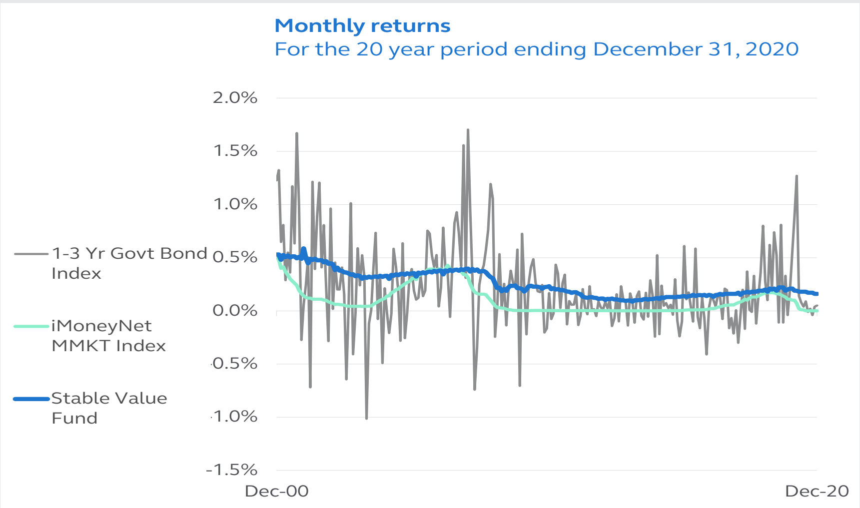
Stable value performance across historical yield curve environments



As of December 31, 2020. **Past performance does not guarantee future results.**

Stable value funds crediting rates track the overall direction in the general level of interest rates, but with a lag given the method for calculating individual crediting rates for stable value contracts. The nature of the crediting rate formula embedded in the contracts dampens the immediate impact of price movements, smoothing out the impact over, typically, the duration of the assets wrapped. That creates a smoother performance path than an unwrapped short term bond fund or a money market fund.

Specific to the ongoing financial and economic impact of COVID-19, even though Treasury yields have fallen since the start of the year, particularly on the short end of the yield curve, spread sectors are still attractive. In fact, the yield curve steepened in 2020, providing stable value funds both a spread and duration benefit over MMFs.



The Morley Stable Value Fund has typically outperformed the money market fund index over a 20-year period without the volatility of the short term high quality bond index.

Contact us

Visit us online at www.morley.com for our most recent quarterly market update and other insights

Bill Gardner

Director
gardner.bill.f@morley.com
503-484-9313

Jim Pondel

Sr. Relationship Manager
pondel.jim@morley.com
312-541-4077

Brett Okamoto

Relationship Manager
okamoto.brett@morley.com
503-484-9360

Yolanda Reyes White

Relationship Manager
reyeswhite.yolanda@morley.com
503-484-9341

Definitions and disclosures

Capital preservation-focused – Fixed income investment options that seek to preserve capital; this strategy is often met through either a guaranteed product or a stable value product.

Return-focused – Fixed income investment options that seek to generate income; market value risk generally applies.

7 Day Yield – The 7-Day Yield percentage more closely reflects the current earnings of this money market investment option than the total return displayed.

Characteristics of a stable value fund

- The underlying portfolio's market performance or fluctuation is intended to be smoothed over time through wrap contracts that provide book value crediting rates.
- The investment option's goal is to produce higher returns than money market investment options while seeking safety and stability of principal.
- This investment option offers less volatility than the return-focused investment options, and thus less risk and return on a day-to-day basis at the participant level related to the portfolio of securities held in the investment option.
- Participant redemptions from the stable value fund are generally permitted without restriction.
- Depending on market conditions, Stable Value investment options may impose liquidity restrictions on employer transactions.

Characteristics of short-term, return focused fund

- This type of investment generally has a low correlation to equity markets, resulting in increased diversification and potentially lower volatility for participants.[1]
- May provide a clearer, more straightforward cost structure.
- Features direct crediting of portfolio performance.
- Each portfolio has a specific investment strategy and objective.
- Participant transactions occur at market value without surrender charge.[2]
- The more volatile of the two types of fixed income investment options, with potential for greater investment risk and possible returns for the retirement plan and participants.[3]
- Open-ended investment options which allow for purchasing and redeeming at the next calculated public offering price.

[1] Correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel; a negative correlation indicates the extent to which one variable increases as the other decreases.
[2] See the fund prospectus or group annuity contract for any restrictions which might apply for frequent purchases or redemptions.
[3] Return-focused options may be mutual funds or insurance company separate accounts.

Carefully consider the applicable money market and bond fund's objectives, risks, charges, and expenses. Contact your financial professional or visit principal.com for money market and bond fund prospectus, or summary prospectus if available, containing this and other information. Please read it carefully before investing.

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The Morley Stable Value Fund (the Fund), is a collective investment trust maintained by Principal Global Investors Trust Company, (the Trust Company). Morley Capital Management (Morley), a specialized investment boutique of Principal Global Investors, LLC (the Adviser), serves as investment manager with respect to the Fund, subject to the Trust Company's supervision and review. The Adviser is an indirect wholly owned subsidiary of Principal Financial Group® and is under common control with the Trust Company. The Fund is not a mutual fund and is not registered with the Securities and Exchange Commission, the State of Oregon, or any other regulatory body. Units of the Fund are not deposits or obligations of, guaranteed by, or insured by the Trust Company or any affiliate, and are not insured by the FDIC or any other federal or state government agency. The value of the Fund may fluctuate so that when redeemed, units may be worth more or less than the original cost.

The declaration of trust, participation agreement, and disclosure documents contain important information about investment objectives, risks, fees and expenses associated with investment in the Fund and should be read carefully before investing.

Past performance is not a guarantee of future results. Performance returns assume the reinvestment of dividends and other earnings. Returns for periods less than one year are not annualized. Gross returns are presented net of Fund Level Expenses which include Stable Value Investment Contract Fees, Sub-Adviser Fees, and Acquired Fund Fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming a) quarterly fee assessment, b) $1 million investment, c) portfolio return of 5% a year, and d) 0.25% investment management fee would be approximately $632.81 for the quarter, $2,576.67 for the first year, $8,109.53 for a three year period, $14,190.01 for a five year period and $32,156.08 over a ten year period. Actual investment advisory incurred by clients may vary. Investment carries the risk of loss. Fees are described in the Adviser's ADV Part 2A.

Market indices have been provided for comparison purposes only. Indices are unmanaged and do not reflect the deduction of fees and other expenses. Individuals cannot invest directly in an index. The iMoneyNet All-Taxable Money Market Fund Index measures the equally weighted returns of the largest taxable money market funds. The Bloomberg Barclays Stable Income Market Index represents a low-risk blend of asset classes from within the Bloomberg Barclays U.S. Aggregate Bond Index, focusing on shorter maturities, and providing diversified exposure to debt from the government, credit and securitized sectors. ***An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. You could lose money by investing in it. Although the money market fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The money market fund's sponsor has no legal obligation to provide financial support to it, and you should not expect that the sponsor will provide financial support to the money market fund at any time.***

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