

STABLE VALUE INSIGHTS

# Capital preservation comparison - Update

SEPTEMBER 2024

Capital preservation options took center stage over the past few years as a series of rate hikes by the Federal Reserve to help control inflation spurred an increase in volatility in both domestic equity and bond markets. Fed tightening measures moved Treasury yields higher across the curve leading to higher crediting rates for stable value funds and higher yields for money market and short-term bond funds. During this rising rate period stable value funds and money market funds continued to achieve their capital preservation objectives while most short-term bond funds posted negative returns during 2022 before rebounding in 2023 and 2024.

More recently the decelerating rate of inflation and softening labor market led the Fed to change course cutting the Fed Funds rate at both their September and November meetings. The combined 75 bps in rate cuts dropped the Fed Funds rate to a range of 4.50% to 4.75%. Money market fund yields which tend to track short term rates closely also fell during the period with most money market funds now yielding south of 5.00%.

Even with the rebound in risk assets during 2023 and 2024, capital preservation options have continued to be an important component of defined contribution participants asset allocation strategies.

We have provided the following update on the current and historical performance of stable value strategies relative to money market funds and short-term bond funds in this volatile market environment.

While stable value crediting rates have exceeded money market fund yields historically in most market environments, the sharp rise in Treasury yields coupled with the inverted nature of the yield curve caused money market fund yields to generally surpass stable value crediting rates during the fourth quarter of 2022 (see Exhibit 1) and this relationship continued throughout 2023 and 2024. Money market fund yields rose from near 0.00% to begin 2022, to approximately 5.00 – 5.25% by the third quarter of 2023, before dropping below 5.00% in recent months.

However, a longer-term comparison of the risk/return characteristics of capital preservation options, validated across a wide range of market cycles through September 2024, highlights the benefits of stable value compared to money market funds and 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 investment risk of stable value, as measured by standard deviation, has been comparable to money market funds with performance that has been higher over time. Stable value funds have also provided greater returns than short term bond funds over this time period and with a lower standard deviation of returns.

What we'll discuss

- Fed tightening impact on money market fund returns
- Historical risk/return of capital preservation options
- September pivot of Fed monetary policy

EXHIBIT 1: Fed policy impacts money market yields

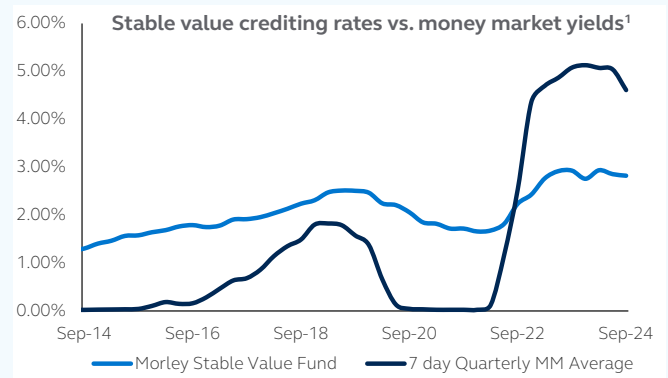
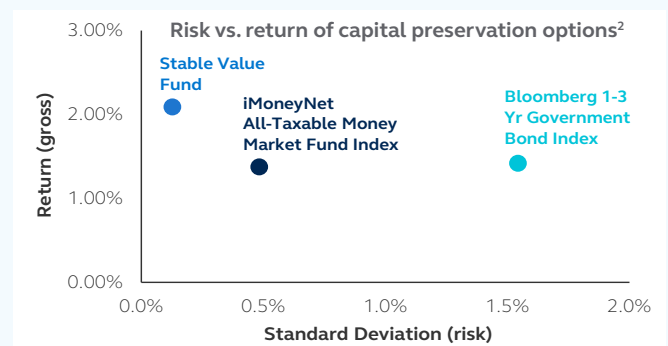


EXHIBIT 2: Stable value risk/return

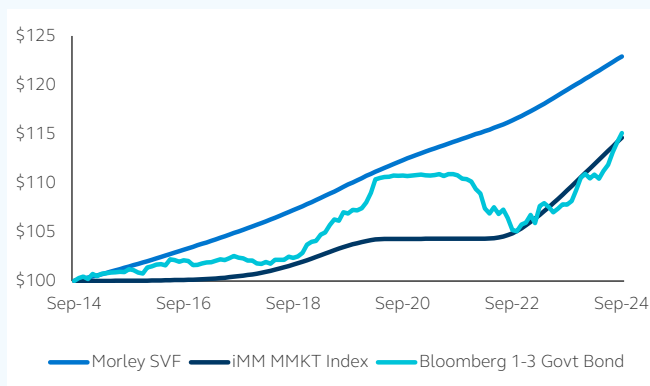


<sup>1</sup>Source: Morningstar as of September 30, 2024. <sup>2</sup>Gross annualized returns statistics provided for the 10-year period ending September 30, 2024. **Past performance does not guarantee future results.** Performance returns assume the reinvestment of dividends and other earnings.

Exhibit 3 shows the growth of \$100 dollars an investment in these three capital preservation options would generate over the same time period.

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 money market funds may increase the return on their portfolio over time.

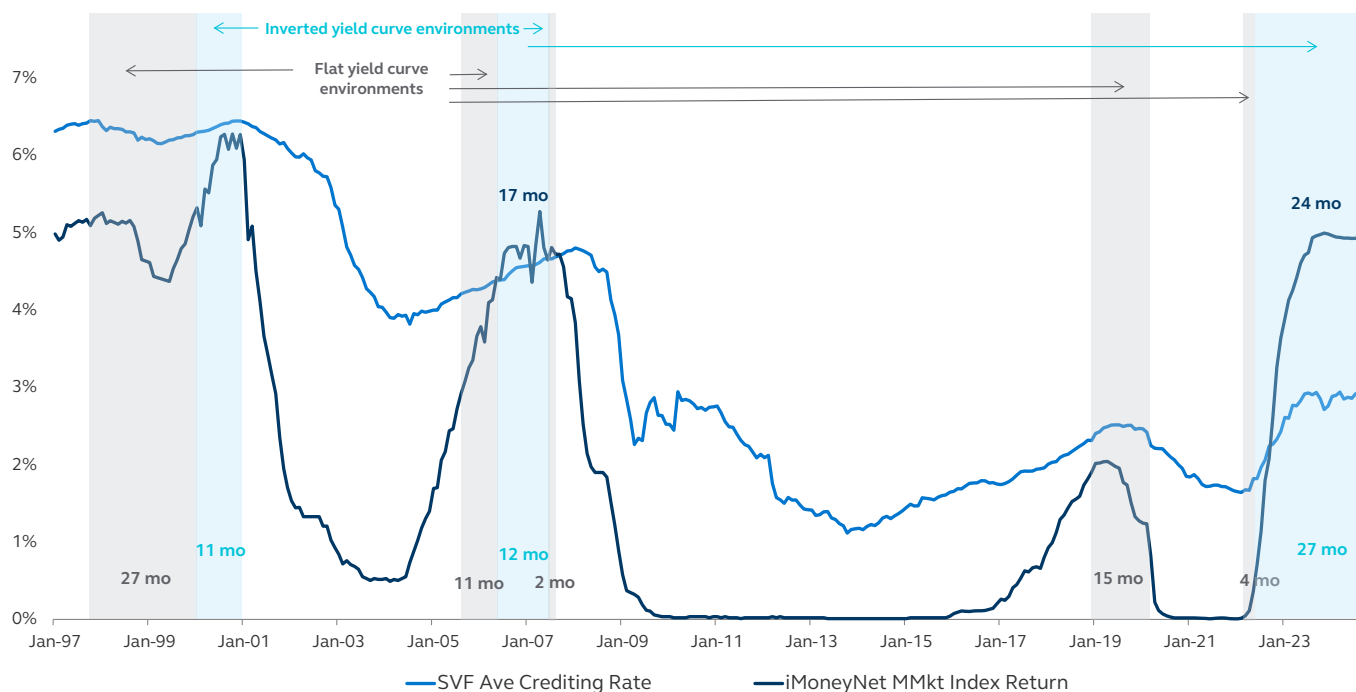
### EXHIBIT 3: Growth of \$100<sup>2</sup>



<sup>2</sup>Gross annualized returns statistics provided for the 10-year period ending September 30, 2024. **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

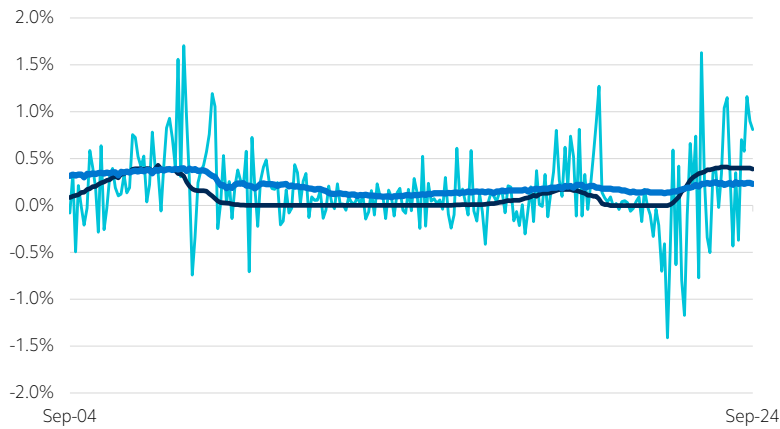


As of September 30, 2024. **Past performance does not guarantee future results.**

Stable value funds crediting rates track the general direction of interest rates over time, 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. As shown in the graphic above there have been periods of time, when the US Treasury yield curve is inverted, that money market fund yields have exceeded stable value crediting rates, but these periods are generally short lived. Because of the longer duration of stable value funds relative to money market funds and the generally higher yielding securities that stable value funds own, in most market environments stable value fund crediting rates exceed money market fund yields as shown above. As a result, the long-term performance of stable value funds has exceeded money market funds.

## Monthly returns (gross)

For the 20 year period ending September 30, 2024



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.

- Stable value fund
- iMoneyNet MMKT index
- 1-3 yr govt bond index

## Contact us

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## 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.

**Standard Deviation** – Measures how much an investment's returns are likely to fluctuate. A higher standard deviation suggests higher volatility.

### 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.<sup>1</sup>
- 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.<sup>2</sup>
- 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.<sup>3</sup>
- Open-ended investment options which allow for purchasing and redeeming at the next calculated public offering price.

<sup>1</sup>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.

<sup>2</sup>See the fund prospectus or group annuity contract for any restrictions which might apply for frequent purchases or redemptions.

<sup>3</sup>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](https://www.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.**

Investing in stable value is subject to many similar risks of investing in fixed income, including, but not limited to, credit risk, default risk, interest rate risk, issuer risk, liquidity risk, manager risk, market risk, regulatory risk, and tax and accounting risk.

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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). Principal Morley is an investment team within Principal Global Investors (the Adviser), serves as investment manager with respect to the Fund, subject to the Trust Company's supervision and review. Principal Asset Management<sup>SM</sup> is a trade name of Principal Global Investors, LLC. The Adviser is an indirect wholly owned subsidiary of Principal Financial Group®, Des Moines IA, and is under common control with the Trust Company.

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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 Stable Income Market Index represents a low-risk blend of asset classes from within the Bloomberg U.S. Aggregate Bond Index, focusing on shorter maturities, and providing diversified exposure to debt from the government, credit and securitized sectors. **You could lose money by investing in the money market fund (Fund). Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon sale of your shares. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.**

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