

Capital preservation strategies performance update

The recovery in global growth following the impact of the COVID-19 pandemic over nearly two years has been uneven and the outlook is tempered by plateauing vaccination rates, the rapid spread first of the Delta variant quickly followed by Omicron, prolonged supply chain disruptions, and growing inflation risks that may lead the Fed to remove policy accommodation sooner than expected. In times of market uncertainty, 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-term bond funds in this market environment, we have provided the following quarterly update on current and historical performance.

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%, and short term bond indices generally provided negative returns in Q4 2021.

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 2021, **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 like 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

February 2022

Fed policy impacts money market yields

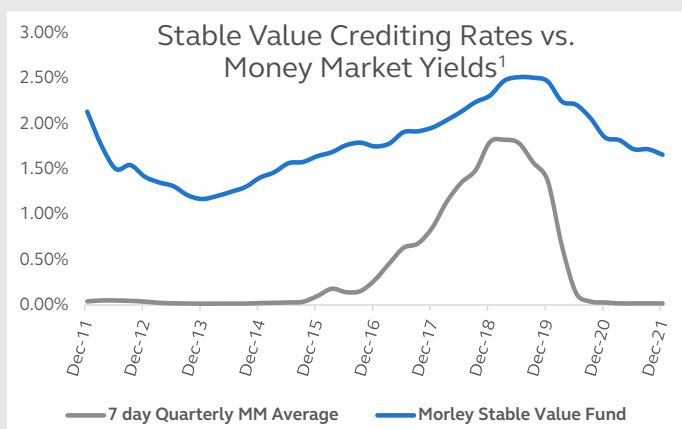


Exhibit 1

Stable value risk/return

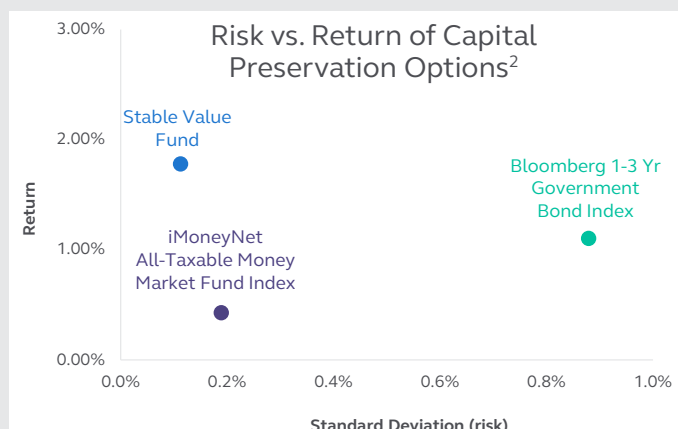
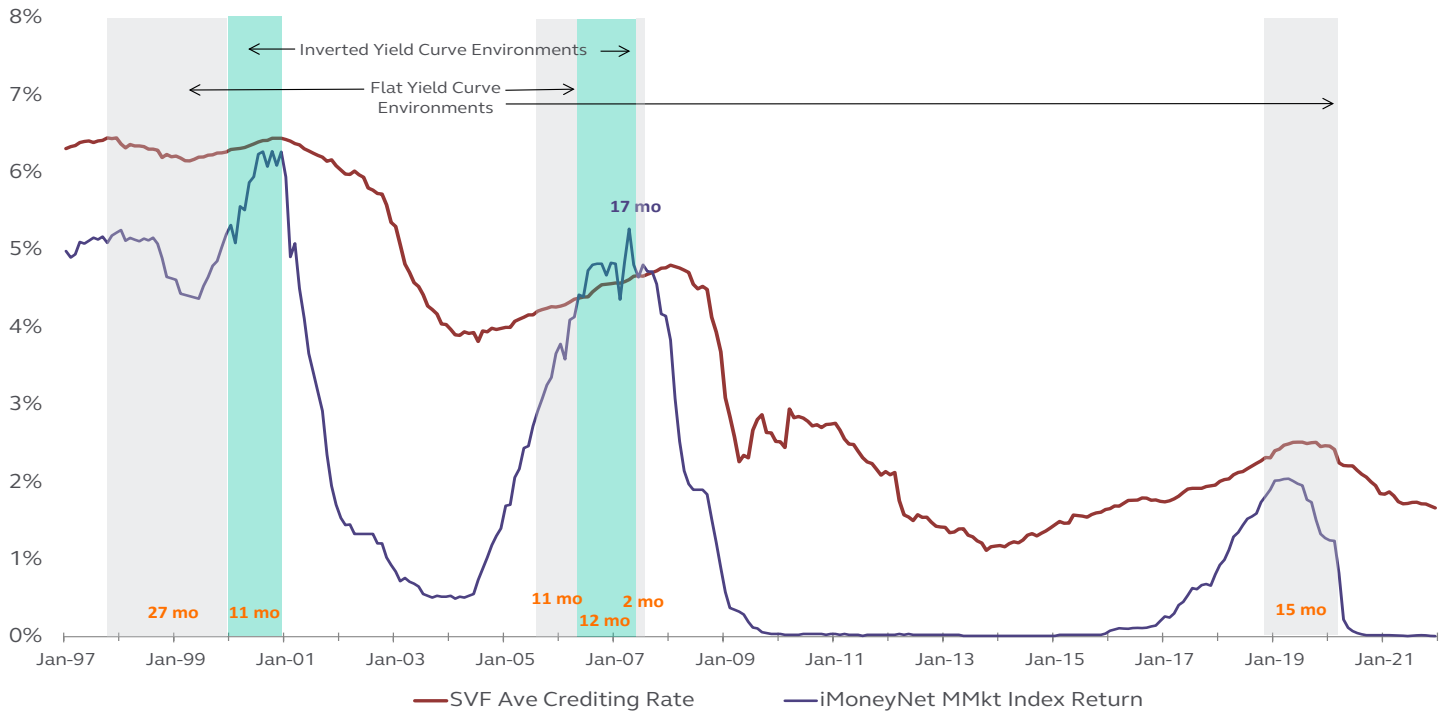


Exhibit 2

¹Source: Morningstar as of December 31, 2021. ²Gross annualized returns statistics provided for the 10-year period ending December 31, 2021. 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

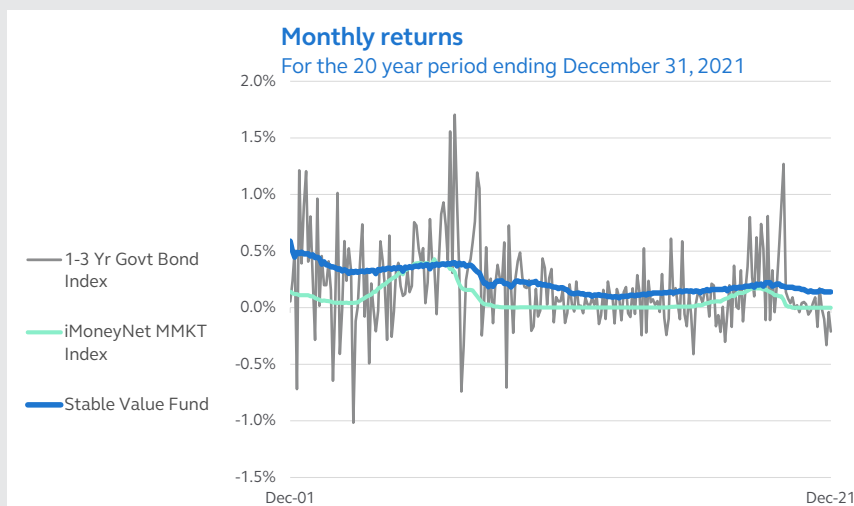
Stable value performance across historical yield curve environments



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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 and the persistent spread of the Delta and then Omicron variants, the Fed maintained an accommodative monetary stance. Treasury yields declined through much of last year and only recently have begun to increase given persistent inflation pressures and likely Fed Funds rate increases now forecasted for 2022 and 2023. Spread sectors have tightened as economic conditions and outlooks have improved, but remain attractive compared to Treasury rates. Stable value funds continue to provide spread and duration benefits 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



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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.

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 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.

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