

February 17, 2015

To: SVIA Board of Directors

From: Gina Mitchell, President

Re: January 13, 2015 Board of Directors' Meeting

SVIA's Board of Directors met on January 13th at the Park Hyatt Hotel in Washington, D.C.

Attendance. The following individuals participated in the meeting: LeAnn Bickel, Invesco; Joseph Fazzino, United Technologies Corporation; Nick Gage, Galliard Capital Management, Inc.; Brett Gorman, PIMCO; Susan Graef, The Vanguard Group; Aruna Hobbs, MassMutual Financial Group (ex-officio); James King, Prudential Financial; Steve Kolocotronis, Fidelity Investments; Robert Madore, T. Rowe Price; Gina Mitchell, SVIA; Helen Napoli, New York Life; Thomas Schuster, Metropolitan Life Insurance Company; Marijn Smit, Transamerica; Russell Smith, Aetna Inc.; and Joseph Veeneman, IBM Retirement Funds. SVIA's Zach Gieske and Jackson National Life's Terry Finan also attended the meeting. Tom Faust from Stanton Public Relations and Michael Richmond from Morgan Lewis also addressed the Board.

Jim King opened the meeting by welcoming everyone including the new Board members and those re-elected to a second term to the Board. He stressed the importance of the membership's participation in effectively representing the industry as well as achieving SVIA's goals and objectives. He encouraged the Board to be actively involved.

SVIA's officers are:

- Jim King, Chairman, SVIA Board of Directors,
- Aruna Hobbs, Membership and Budget (ex-officio),
- Sue Graef, Data and Research,
- Steve Kolocotronis, Government Relations,
- Gina Mitchell, Events,
- Marijn Smit, Communications and Education.

The Board members opened the meeting by going around the room to discuss the stable value issues they felt were most pressing. A recurring theme throughout the comments was the need to inform decision makers, consultants, plan sponsors, policymakers and participants on stable value. The Board set an educational campaign on stable value as this year's priority.

Leadership Changes/Transitions: Input Needed. SVIA limits Board members' service to two consecutive terms (six years). At the end of this year, two Executive Committee members: Marijn Smit, Chairman of the Committee on Communication and Education, and Jim King, Chairman of the Board will have completed their respective terms as members of the Board, as well as their service as Chairmen respectively of the Board and Communications and Education (Jim will serve as an ex-officio member of the Board after completing his term as Board Chairman).

SVIA typically tries to have a smooth hand off of these responsibilities during the last year of a Chairman's term. SVIA did this most recently with Sue Graef and Steve LeLaurin on the Committee on Data and Research in 2014.

To ensure a smooth transition for the two positions that will be open at the end of 2015, the Board would like your input on these two positions: Chairman of SVIA's Board of Directors and Chairman of the Committee on Communications and Education. We would like to begin the transition of these two positions at the April meeting.

Typically, Committee Chairmen come from the respective committee. This practice has evolved over the history of the Association since it demonstrates a proven level of success as well as commitment and interest. This leadership tract has also been followed for the Board Chairman position since all Board Chairs have previously served as Chairmen of a SVIA Committee and on the Executive Committee prior to their Chairmanship.

Briefly, the Committee on Communication and Education is responsible for the development and implementation of special and on-going communications and education initiatives designed to improve the understanding and use of stable value investments in defined contribution plans and other tax-deferred retirement vehicles. The Committee's work also encompasses Stable Times and social media as well as a Media Team that helps drive and respond to press.

SVIA's Chairman of the Board is responsible for supporting and sustaining the work of SVIA. The Chairman does this by providing governance, leadership and strategic issue and fundraising support. The Board Chairman ensures that the Association does what is best for the stable value industry, whose members it represents. He or she oversees governance and policy setting, with a focus on mission, direction, priorities and evaluation by encouraging open, full discussion of all Board member and the membership.

Importantly, the Board Chair has an almost daily hands on partnership with the SVIA President to make sure Board resolutions are carried out, to appoint and recommend who serves on committees, ensure that Board meeting agendas are focused on decision-making, conduct new board member orientation as well as act as a spokesperson when necessary.

Further, the Executive Committee, which is comprised of the Committee Chairs and Association's Officers (Board Chairman, Treasurer/Secretary) serve as the first response team for all Association initiatives.

As you can see, the Chairman of the Board as well as the Communication and Education Chairman play very critical roles in the Association.

If you are interested and can make the commitment of time and resources to lead SVIA as the Chairman of the Board or as the Chairman of the Committee on Communications and Education (both positions include serving on SVIA's Executive Committee), please let SVIA's Board Chairman (james.king@prudential.com) or SVIA's President, Gina Mitchell (gina.stablevalue.org) know before February 28th. The Association would like to be in the position to have a Co-Chairs for both positions prior to the April meeting.

Committee on Communication and Education. Marijn Smit who is the chairman of the Committee noted the improvements to the Members' Only section of the [www.stablevalue.org](http://www.stablevalue.org) had been positively received by the membership. He thanked the Committee on Data and Research for organizing the Association's data as well as industry statics for the membership in this section.

Smit reviewed SVIA's social media initiatives, which broadened SVIA's message to the larger theme of retirement saving and investing in order to appeal to a wider audience, provide more content and provide opportunities to discuss stable value. He reviewed member opportunities to highlight the work

of their firm and assist SVIA in providing information on these larger themes as well as information on stable value. He emphasized that much of SVIA's social media presence is based on the good work and collaboration of SVIA member firms.

Smit noted that stable value has received a stream of positive press over this year, which included a video, Stable Value Masterclass, that emphasized age appropriate use of stable value, using stable value permits investors to increase equity allocations while reducing overall volatility, principal protection plus positive, conservative returns as well as it is built for changes in interest rates and it is time tested.

Smit introduced Tom Faust from Stanton Marketing and Public Relations. Stanton is the public relations firm that SVIA contracted with in October with their term running through June of 2015 to promote stable value. Faust stressed that Stanton has been positioning stable value as a low risk investment option in its media outreach and used current concerns such as the conservative nature of Millennials as well as Baby Boomers approaching retirement to generate press on stable value. To date, ThinkAdvisor, the Pittsburg Gazette and MoneyWatch have run stable value stories.

Faust also reviewed the stable value expert videos from the Fall Forum. He noted that the video campaign began this week and would be followed by an America Saves Campaign the last week in February. Faust encouraged the membership to use the videos in their social media campaigns.

Additionally, Stanton cultivated an opportunity for SVIA to submit an article on stable value to Bloomberg BNA Pension Reporter. The article was submitted on December 5 and will run the last week in February. Galliard's Jane Marie Petty, Jackson's Terry Finan, Voya's Tony Camp, Transamerica's Bradie Barr, Vanguard's Sue Graef, Prudential's Jim King and SVIA's Gina Mitchell contributed to the article. The article was approved by SVIA's Media Team and sent to Bloomberg. Bloomberg required that the final article have one author so the author was listed as Gina Mitchell, the spokesperson for the Association. Additionally, Bloomberg made some modest changes to the order of the article and some references. Bloomberg BNA Pension Reporter has a readership of over 116,000 pension sponsors and consultants.

Finally, the Board discussed getting more authors for Stable Times as well as having the publication feature other stories than the topics discussed at the Fall Forum and Spring Seminar. The majority of Stable Times articles are written by Randy Myers, who is a freelance financial writer.

Committee on Membership and Budget. Aruna Hobbs who is the chair of the Committee on Membership and Budget highlighted the accomplishments of the committee. She noted that the Board had adopted and implement an investment policy that Brett Gorman, Russell Smith, Steve Kolocotronis and Jim King had drafted. The committee was also able to absorb the hiring of Stanton within in the 2014 budget and had included it also in 2015 without substantially increasing overall expenses for the Association. Further, the committee had improved internal controls, received an unqualified opinion on the Association's financial statements for 2013, filed Form 990 for 2013, DC property as well as DC foreign entity reports and implemented a dues increase for service firm members. The Board also unanimously approved the committee's 2015 budget following the October meeting. She noted that CliftonLarsenAllen will begin the field work for the 2014 audit on February 18<sup>th</sup>.

Hobbs reviewed revenue and expenses. She noted that unlike other financial service associations, SVIA has had consistent positive revenues and gains throughout the financial crisis. She noted that this has permitted SVIA to build an operating surplus. The Board set a goal of having reserve funds equal to one year's operating expenses. She estimated that the Association should be almost half of the way there.

Hobbs noted that SVIA had 20 plan sponsor members, 47 service firm members and had collected \$225,000 in Value Program memberships in 2014. She noted that 2015 dues notices had been sent out in early September and as of end of 2014, 75% of all dues payments or \$495,925 had been collected.

Committee on Data and Research. Sue Graef Chair of the Committee on Data and Research provided highlights of the committee's work.

LIMRA-SVIA Stable Value Sales and Assets Survey. Graef highlighted that the Sales and Assets Survey is different from other SVIA surveys since it covers issuers. Additionally, SVIA partners with LIMRA on the survey, which is biannual. The first half of 2014 was recently released. Highlights are below:

- Participating companies reported new stable value sales of \$13.3 billion, a decrease of more than 44% from the first half of 2013 and a decrease of 45% from the second half of 2013.
- Total qualified and funding agreement product sales of \$35 billion during the first half of 2014 show a decrease of 24.5% from the same period in 2013 and a 15.5% decrease from the second half of 2013.
- Companies reported nearly \$18 million in renewal sales, a significant decline from the first half of 2013 sales of \$91.4 million.
- \$6.8 billion in ongoing contributions to existing contracts decreased by 8% from the same period in 2013 and decreased by more than 37 percent from the second half of 2013.
- Stable value assets totaled \$345.1 billion. Combined with General Account with Portfolio
- Guaranteed Rates, total qualified assets amounted to more than \$576 billion, a decrease of 3.2% from the second half of 2013 and a decrease of 0.5% from the second half of 2012.

Stable Value Funds' Quarterly Survey. Graef noted that the quarterly survey covers 22 stable value managers on five data points: duration, overall portfolio credit quality, AUM, crediting rate and M/B ratio. The most recent survey as of September 30, 2014 found:

- Assets covered totaled \$423 billion, a 6% drop from the previous quarter, which reflected a change in a manager's recordkeeping.
- Crediting rate was 1.98%.
- Duration was 3.01 years.
- Credit quality was 8.08 (AA or higher).
- Market/Book ratio was 102.09%.

Annual Stable Value Investment and Policy Survey. They observed that SVIA's longest running survey is the Annual Investment and Policy Survey. This survey covers different management segments of stable value: individually managed funds, pooled and commingled funds, and insurance. It is the most comprehensive survey. As of December 31, 2013, the survey:

- Reported \$721 billion in assets covering 189,000 plans.
- 401(k) plans represent 56% of plans covered with 403(b) plans representing 30%.

Special Projects. Graef briefly highlighted several special projects that the committee did.

- Historic stable value data survey that provided common company comparisons from 2007 to 2013 for 29 companies.
- Capacity survey for 2014 and will conduct a capacity survey for 2015.
- Stable value industry statistics, which made available excel spreadsheets of survey data as well as important overall defined contribution plan statistics.

- Monthly statistics on a quarterly basis of a model stable value portfolio compared to money market funds and intermediate bond funds, which are provided by Invesco.
- Reviewed all of the SVIA surveys to ensure the most comprehensive, consistent, comparable and necessary data was collected. This effort resulted in some additional questions to the quarterly and annual survey as well as some definitional and instructional clarifications.
- Survey on money market reform and managers/clients reaction to the SEC regulations.
- Stable value data survey. Galliard's Nick Gage reported on the Working Group on Stable Value Fund Information. The group had reviewed stable value fund fact sheets submitted by managers and created a survey on the data points that were featured in the fact sheets. The Working Group is asking all stable value managers to identify the key data points they feel are necessary to evaluate a stable value fund. Once the managers' input has been received and analyzed, the Working Group will work with managers to develop a standard template that can be used by data aggregators to better and more uniformly evaluate stable value funds.

Committee on Government Relations. Steve Kolocotronis, the chairman of the Committee on Government Relations gave an overview of three issues before the Committee: money market reform, CFTC-SEC stable value study and GAO's study of QDIAs.

Money market reform. Kolocotronis reviewed the SEC's money market reform about the floating NAV as well as the potential liquidity and gate fees. He noted that the implementation date is two years off in October of 2016, which may delay review by stable value managers and plan sponsors until closer to the implementation date. He noted that the SVIA had conducted a survey of the membership to see if they were looking to replace money market funds if used as a manager or by their plan sponsor clients. Although 57% of the managers who participate in the annual survey provided a response, less than a third indicated they or their clients had begun to evaluate the ramifications of the new SEC regulations. He concluded that since the regulations were just finalized in the end of July, it was just too soon to tell what the new regulations mean to stable value.

CFTC-SEC stable value study. Kolocotronis noted that the committee continued to concentrate on the CFTC-SEC stable value study even though the study is not a priority with the SEC and CFTC. The Commissioners, which have undergone major changes over the last year continue to have other priorities before the study. Kolocotronis noted while the delay is disappointing, it does not impact stable value since nothing changes for stable value contracts until the Commissions make a definitive decision and that the decision must be prospective.

GAO study of QDIAs. Kolocotronis told the membership that the Governmental Accountability Office (GAO) was conducting a study of qualified default investment alternatives (QDIAs). The study is broad ranging and reviews all QDIAs, asks fiduciary questions about selection, monitoring, as well as participant information including benchmarks, performance, as well as fees.

During the first phase of the study, GAO interviewed several plan sponsor and investment groups including SVIA. SVIA essentially made four points with the GAO. They were:

- Including stable value as a QDIA gives plan sponsors a principal-preservation investment choice if sponsors determine a conservative safe harbor default is needed.
- Stable value offers competitive risk-adjusted returns compared to the three current QDIAs.
- Stable value is most appropriate for risk adverse participants such as those who need positive savings and investment experience to continue in DC plans, short-tenured plan participants, high turnover plan participants, and those closest to retirement age, as well as those in retirement.

- Adding stable value fulfills the mandate of the Pension Protection Act of 2006 (PPA). The PPA's Section 405 (c) (5) (A) directs the Department to provide guidance on the appropriateness of designating default investments "that include a mix of asset classes consistent with capital preservation or long term capital appreciation, or a blend of both."

GAO indicated that the second phase of the study would be to survey plan sponsors on their views on QDIAs. As part of the second phase, GAO has asked for SVIA's help in encouraging plan sponsors to participate in the survey. The questionnaire will take under 10 minutes to fill out and has a maximum of 12 questions. Respondents will need to fill out the survey in one sitting and click the "submit" button on the final page for their responses to be registered. Responses to the GAO survey are confidential.

Participation in the GAO survey is anonymous, unless the survey participant volunteers their contact information to GAO for follow-up. The GAO extended the survey deadline to January 19th.

Kolocotronis said the results of GAO's survey and recommendations on QDIAs will be released to Congress and the Administration at the end of 2015.

Update on Litigation and Fiduciary Rule. Michael Richmond from Morgan Lewis gave an update on litigation involving stable value funds as well as the Administration's desire to expand ERISA's fiduciary rules to broker/dealers. Richmond noted that while the number of cases involving stable value was growing, none had yet progressed to trial. While the Department of Labor had indicated that they would like to issue new fiduciary rules during the first quarter of 2015, that was highly unlikely since the rules had not been submitted to the Office of Management and Budget for review, nor had the Department's conflict with the Securities and Exchange Commission been resolved.

Committee on Event Planning. Gina Mitchell, who chairs the Event Planning Committee reported that attendance at SVIA events appeared to hit its peak this year for the Spring Seminar this year (157) and the Fall Forum last year even though this year's Fall Forum is only slightly less (214) than last year's (225).

Mitchell thanked the Events Planning Committee for their continued good work on the Fall Forum and Spring Seminar. She noted that each year, the committee out does itself by creating an exceptional program that is informative, substantive and fun for the membership. This year's committee consists of:

- Nick Gage, Galliard.
- Mike Gleason, GSAM.
- Aruna Hobbs, MassMutual.
- Jim King, Prudential.
- Steve LeLaurin, Invesco.
- Helen Napoli, NYLIM.
- Tom Schuster, MetLife.
- Marijn Smit, Transamerica.

Mitchell concluded that the Fall Forum will be held at the Fairmont Hotel in Washington, DC on October 12-14, 2015 (\$304 rate), October 10-12, 2016 (\$309), and October 9-11, 2017 (\$314). The Spring Seminars will be held at Ritz Carlton properties:

- April 12-14, 2015 at Key Biscayne Miami in Key Biscayne, FL (\$349).
- April 3-5, 2016 at Rancho Mirage in Palm Springs, CA (\$335).
- April 23-25, 2017 at Half Moon Bay in Half Moon Bay, CA (\$300).

To date, 69 people had registered for the Spring Seminar. The event was launched on December 17, 2014.

Board's next meeting. The SVIA Board of Directors will meet next on April 12<sup>th</sup> at the Ritz Carlton in Key Biscayne Miami with a room rate of \$349.