



June 17, 2014

To: SVIA Board of Directors

From: Gina Mitchell, President

Re: June 10<sup>th</sup> Board of Directors Meeting

The SVIA Board of Directors met on June 10<sup>th</sup> at the Morrison House in Alexandria, VA. The following individuals participated in the meeting.

Board Members Attending:

Nick Gage, Galliard  
Brett Gorman, PIMCO  
Sue Graef, The Vanguard Group  
Aruna Hobbs, New York Life  
James King, Prudential Financial  
Steve Kolocotronis, Fidelity Investments  
Tom Schuster, MetLife  
Russell Smith, Aetna

Non-Board Members Attending:

Bradie Barr, Transamerica Stable Value Solutions  
LeAnn Bickel, Invesco  
Terry Finan, Jackson National  
Michael Richman, Morgan Lewis

Board Members Unable to Attend:

Joe Fazzino, UTC  
Steve LeLauren, Invesco  
Marijn Smit, Transamerica Stable Value Solutions  
Joe Veeneman, IBM

Jim King opened the meeting by welcoming everyone to the Board meeting and asking for SVIA members to introduce themselves and discuss the key issues they are working on.

Board of Directors Election in October and Nominations in September. Gina Mitchell reminded the Board that five seats will be open for election this fall. They are:

- Finishing out their first term and eligible to run for a second term:
  - Joe Fazzino, UTC (plan sponsor).
  - Bret Gorman, PIMCO (service firm).
  - Sue Graef, The Vanguard Group (service firm).
- Open seats:
  - Steve LeLaurin, Invesco (service firm) who is completing his second term on the Board and who has served as Chairman of the Committee on Data and Research.
  - Timothy Stumpff, Morley (service firm) who resigned from the Board and the Board chose to have the membership fill the position in the fall election.

Mitchell explained that all Board members including incumbents must be nominated as candidates to run for the Board. The nomination process takes place after Labor Day and lasts two weeks. Voting members are asked to nominate individuals to run for the open five Board seats. To become a service firm candidate, a member needs at least three nominations or 10% of the total voting members who make nominations. For the 2014 election, the 10% would be seven. Plan sponsors need only one nomination to become a candidate.

Individuals who meet the nomination threshold and who wish to serve on the Board, are contacted and encouraged to run for a seat on the Board. Those choosing to run for the Board are announced as candidates prior to the Fall Forum. The Fall Forum is used as an opportunity for candidates to campaign for election.

The election of candidates for the Board takes place immediately following the Fall Forum and lasts for a week. Those individuals who receive the most votes for the four service firm seats and one plan sponsor seat are elected to the Board.

Board members serve three year terms. They are required to be a member in good standing and to be the voting member for their company. They must attend at least three out of four Board meetings per year and take an active, leadership position on Association issues. Mitchell encouraged incumbents to run for a second term and for Board members to reach out to their fellow members to recruit potential candidates for the Board.

Committee on Data and Research. The Committee's Co-Chair, Sue Graef reported on the Committee on Data and Research's activities. She noted that the Committee oversaw three surveys:

- *LIMRA-SVIA Stable Value Sales and Assets Survey*, which covers issuers. The most recent results from this biannual survey covered 20 companies with new stable value sales of \$24.4 billion and a total of \$349.5 billion in stable value assets as of the end of 2013.

- *Stable Value Funds' Quarterly Characteristics Survey* that covers 23 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 March 31, 2014 found:
  - Assets covered totaled \$451 billion.
  - Crediting rate was 1.91 percent.
  - Duration was 2.95.
  - Credit Quality was 8.32 (AA or higher).
  - M/B was 102.14 percent.
  
- *Annual Stable Value Funds' Investment and Policy Survey*, which Graef reported covered 42 managers representing pooled funds, single individually managed accounts and life insurance company accounts management segments. The survey found \$719 billion invested in stable value assets at the end of 2013.

Graef explained that the Committee had convened by conference call to review and discuss the surveys. The Committee on Data and Research had agreed to reach out to survey respondents to gain their insights on the data and how the Association can make the survey process easier and more efficient. The Committee is planning to reach out to all voting members and survey respondents for the Quarterly and Annual Survey during June.

Graef said the Committee would be asking survey respondents what data they feel is most important to:

- Plan sponsors?
- Stable value managers?
- Washington/policymakers?
- Overall communications with the press and participants?
- Are there any questions to which you don't provide a response? Why?
- How might the survey questions be improved?
- How might the general instructions and definitions be improved?
- Do you use this data?
  - If so, how?
  - If not, why not?
- Is there additional data that you feel would be useful to stable value managers?
- Are there additional ad hoc surveys that SVIA should consider undertaking?

Primer for Reporters and Participants. During the Board discussion, the Board suggested that the Data & Research Committee partner with the Communications and Education Committee to develop a very basic primer on stable value that could be used for reporters and participants.

Presentation Decks. Additionally, the Board agreed that the Association should promote the use of general Association data by the membership. They asked that the Association develop an Excel/PowerPoint deck (files) with the latest industry statistics that could be used by the membership. This information would be used to promote the asset class.

Five Top Questions. The Board also agreed to develop questions and answers that addressed the top five questions that sponsors and consultants and participants are asking. Tom Schuster, Aruna Hobbs and Jim King agreed to draft the FAQ.

Committee on Communications and Education. Transamerica's Bradie Barr reported on the Committee on Communications and Education activities. She noted that the Committee had expanded its outreach to the entire membership for web content on saving and investing for retirement as well as stable value. Members were asked to provide either firm content or pieces they found informative to SVIA to help drive traffic to SVIA's website.

Zach Gieske reported that SVIA was implementing two major changes to the website. He noted that SVIA would be changing servers, which would accelerate discovery on the website. Additionally, Gieske noted that a landing page was under development for the Members' Only section of the site that would showcase major initiatives by the SVIA such as the CFTC-SEC study, *Stable Times* and surveys for the membership. The Board asked Committee to hold a webinar for the membership to showcase the website content and major Association initiatives once these initiatives were completed.

Barr shared Transamerica's recent report on *Participant Attitudes toward Stable Value Offerings*. She noted that the report found that American workers want and need access to stable value and that 90% of participants with access to stable value option invest in the option. The majority of stable value investors do so on their own initiative.

Barr updated the Board on *Stable Times*. She noted that *Stable Times* will highlight many of the issues discussed at the Spring Seminar and that the *Stable Times* Editorial Board will be reviewing the publication next week. She estimated that the publication would be released before the end of June.

Investigate Public Relation Firms. Barr noted that stable value continued to receive positive press. Jim King suggested that the Board take advantage of this opportunity to build a campaign around stable value using a public relations firm. The Board asked that the Association research public relations firms for this campaign to see what groups we wished to influence, what would be the messages, and what methods would be most effective. The Board set a budget between \$25,000 to \$75,000 for this endeavor.

Committee on Government Relations. Steve Kolocotronis updated the Board on the CFTC-SEC study. He anticipated that the Commissions would address the study after

regulations for money market funds had been finalized. He suggested that the SEC would issue final regulations in late summer or early fall.

Money Market Reform. Morgan & Lewis' Michael Richman updated the Board on money market reform and stable value litigation. He noted that money market reform raised some investment challenges for stable value funds since stable value funds may hold these funds as cash. The primary challenges he highlighted were if stable value funds could hold floating NAV money market funds, as well as the question of could these investments be wrapped. He emphasized that these concerns must be evaluated in terms of the risk of investing in money market funds now that they would be potentially subject to liquidity fees and gates. Finally, he noted that stable value funds could also explore non-mutual fund money market alternatives such as collective funds, private funds and bank deposits.

Update on Stable Value Litigation. Richman's update on stable value litigation focused on Austin versus Union Bond & Trust Co., Morley Capital Mgt. & Principal Life Ins. Co., which was filed on April 29, 2014 in the District of Oregon. The Principal Life class action complaint is the first in a series of excessive fee cases that focuses on spread or general account stable value products. Other cases had focused on wrapped stable value funds.

While the plaintiff makes several charges, he reminded the group that the accuracy of these claims has not been verified and typically plaintiffs narrows their complaint after they learn more about the facts of the case. He highlighted that the main allegation in the Principal case is that excessive costs were incurred through undisclosed spreads, which were retained by the wrap issuer. The plaintiff charges that wrap providers were permitted to set crediting rates and retain unlimited spreads allowing them to set their own compensation and collect unreasonable and/or excessive fees.

SVAnalyzer. Invesco's LeAnn Bickel explained Invesco's SVAnalyzer, which is an excel program that permits consultants and advisers to compare stable value products and managers across multiple characteristics and data points for up to four managers. She noted that Invesco does not solicit, maintain or have access to this data. Consultants not only collect the data but also weight the 10 criteria on what they believe is most important. The data points include:

- Experience and expertise of manager and team.
- Duration and credit quality of underlying investments.
- Diversification of investment managers.
- Diversification and quality of wrap providers.
- Risk-adjusted performance.
- Credit rate competitiveness and consistency.
- Strength and consistency of market to book ratio.
- Reasonableness and transparency of underlying fees.

- Plan sponsor/participant access to product information.
- Portability and product termination provisions.

Morningstar. The Board discussed plan sponsors' use of Morningstar's fund evaluations in their 401(k) plans. They noted while plan sponsors widely use Morningstar's evaluations, these evaluations are ineffective for stable value funds since stable value is not a mutual fund and does not fit into this reporting template. Consequently, many managers are called upon by sponsors to create fund fact sheets for stable value rather than rely upon Morningstar's evaluation of stable value. The Board agreed that a template for stable value was needed on both a contract level and overall fund level to permit Morningstar to accurately assess stable value. The following individuals agreed to work together to develop these templates: LeAnn Bickel, Aruna Hobbs, Nick Gage, Jim King, Tom Schuster, and Bradie Barr.

Committee on Membership and Budget. Aruna Hobbs reported that the annual requirements of audited financial statements, tax filings and other reports had been completed and been thoroughly reviewed by the Committee on Membership and Budget and by the Board. She thanked the Board for their thoughtful comments and approval of these items.

Broaden Membership. Hobbs reported that as of the meeting all dues had been collected. She noted that two law firms did not renew their membership. While some drop off was anticipated in the budget, she said the continued trend of stable value management consolidation could negatively impact SVIA's revenues on a long term basis since stable value is a mature industry. She noted some big players such as VALIC were not SVIA members. She asked the Board to help identify contacts for stable value principals that are not members so that SVIA can reach out and potentially represent more of the stable value industry.

Value Program Outreach. Hobbs also discussed the importance of the Value Program membership to SVIA revenues. She speculated that service firm members joined the Value Program to provide financial resources to the Association as well as take advantage of reduced registration fees for the Spring Seminar and Fall Forum. The Board agreed to reach out to Value Program members to get their thoughts on the Value Program membership and the services provided. Aruna Hobbs, Jim King and Tom Schuster agreed to champion this effort.

Invest SVIA Reserves. Hobbs noted that most of SVIA's peer group in financial associations have greater earnings from investments. While these groups have substantial reserves compared to SVIA, the Board agreed to explore investing up to \$200,000 in liquid, short duration investment vehicles to enhance SVIA's cash fund. Bret Gorman, Russell Smith, Steve Kolocotronis agreed to be a sounding board and review recommendations to make the investments.

Committee on Events. Gina Mitchell reported that the Committee on Events Planning had begun planning the Fall Forum, which will be held on October 13-15<sup>th</sup> at the Fairmont Hotel in Washington, D.C. The room rate for the Fall Forum is \$299.

She also thanked the Committee for their hard work in creating innovative and compelling programs that continued to capture the attention of the membership. Mitchell said that attendance at both the Spring Seminar and Fall Forum had been growing since 2010.

Mitchell said while this growth was positive, it presented challenges in managing SVIA's room block. She reported that 22 people were unable to stay at Spring Seminar's Four Seasons Hotel even though the hotel room block had been increased. The Association was successful in securing a favorable and competitive rate at the Fairmont Scottsdale Princess Hotel. Further, SVIA's Spring Seminar room blocks had been increased in future years and attrition provisions had been added to balance this growth recognizing that at some point in time SVIA will reach capacity on attendance. The purpose of this exercise is to ensure that SVIA fulfills its room block commitment while avoiding all attrition fees.

Approval of Action Items. The Board unanimously approved March, April and May action items.

Next Meeting. The Board of Directors will meet next on Monday, October 13<sup>th</sup> from 2:00 to 5:00 p.m. at the Fairmont Hotel in Washington, D.C.