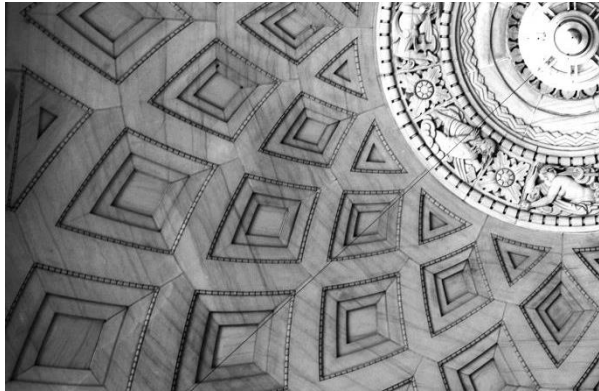




ARCHITECTS OF INVESTMENT SOLUTIONS



**City of Los Angeles**

FEBRUARY 21, 2017

# CITY OF LOS ANGELES

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## SECTION I

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# CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN

## SUMMARY – INVESTMENT PROVIDER DATA

As of 12/31/2016

<b>FIRM NAME</b>	Galliard Capital Management
------------------	-----------------------------

### FUND MANAGEMENT

<b>Fund Name</b>	City of Los Angeles Stable Value Fund
<b>Ticker Symbol</b>	N/A
<b>Investment Vehicle Type</b>	Separate Account
<b>Fund Manager</b>	Team Based Approach
<b>Manager Tenure with Firm</b>	N/A
<b>Manager Tenure with Fund</b>	Managed stable value for DCP since 1999

### RETURNS (NET OF FEES)

	1 Year	3 Year	5 Year	10 Year
<b>Fund Return</b>	2.05	1.95	2.2	3.17
<b>Benchmark Return</b>	1.51	1.48	1.27	1.86
<b>Difference</b>	0.54	0.47	0.93	1.31

Benchmark 3 Year Constant Maturity Treasury + 0.50%

### ASSETS

<b>Total Firm Assets Under Management</b>	\$91.6 Billion
<b>Total Firm Assets in Strategy</b>	\$80.3 Billion
<b>Total Assets Managed for City of LA DCP</b>	\$1.18 Billion

### FEES

<b>Expense Ratio for City Holdings</b>	0.33%
<b>Revenue Share</b>	0%

# INTRODUCTION TO STABLE VALUE

## OBJECTIVES

---

Stable value funds are designed to preserve capital while providing steady, positive returns

### OBJECTIVES OF STABLE VALUE

- **PRINCIPAL PRESERVATION** option with ability to earn a **REAL RETURN**
- Designed to provide:
  - Day-to-day principal protection (i.e. no loss)
  - Returns comparable to short/intermediate bonds with significantly less volatility
- Low correlation (especially downside) with other asset classes
- Stable value is exclusively accessed through qualified defined contribution plans i.e. 401(k), 403(b), and 457
- Stable value is considered to be one of the lowest risk investment options available in retirement plans

# INTRODUCTION TO STABLE VALUE

## COMPONENTS OF SEPARATE ACCOUNT GICS & SYNTHETIC GICS

### BENEFIT RESPONSIVE STABLE VALUE CONTRACTS

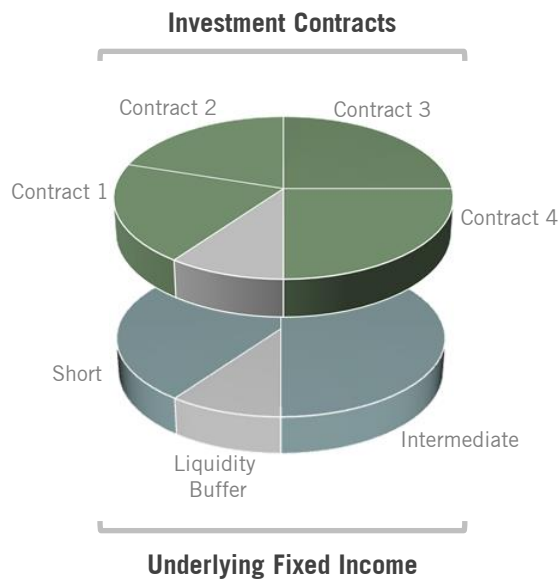
#### Provide principal preservation, low volatility of returns

- Each stable value contract accounted for at contract value – typically, principal + accrued interest
- Interest rate credited by each contract (i.e. crediting rate) resets periodically based on the characteristics of the underlying assets
- Contract issuer guarantees:
  - Participants can transact at contract value regardless of underlying bond portfolio performance (under normal operations of the plan and stable value fund)
  - Crediting rate  $\geq 0\%$

### UNDERLYING BOND PORTFOLIO

#### Source of return

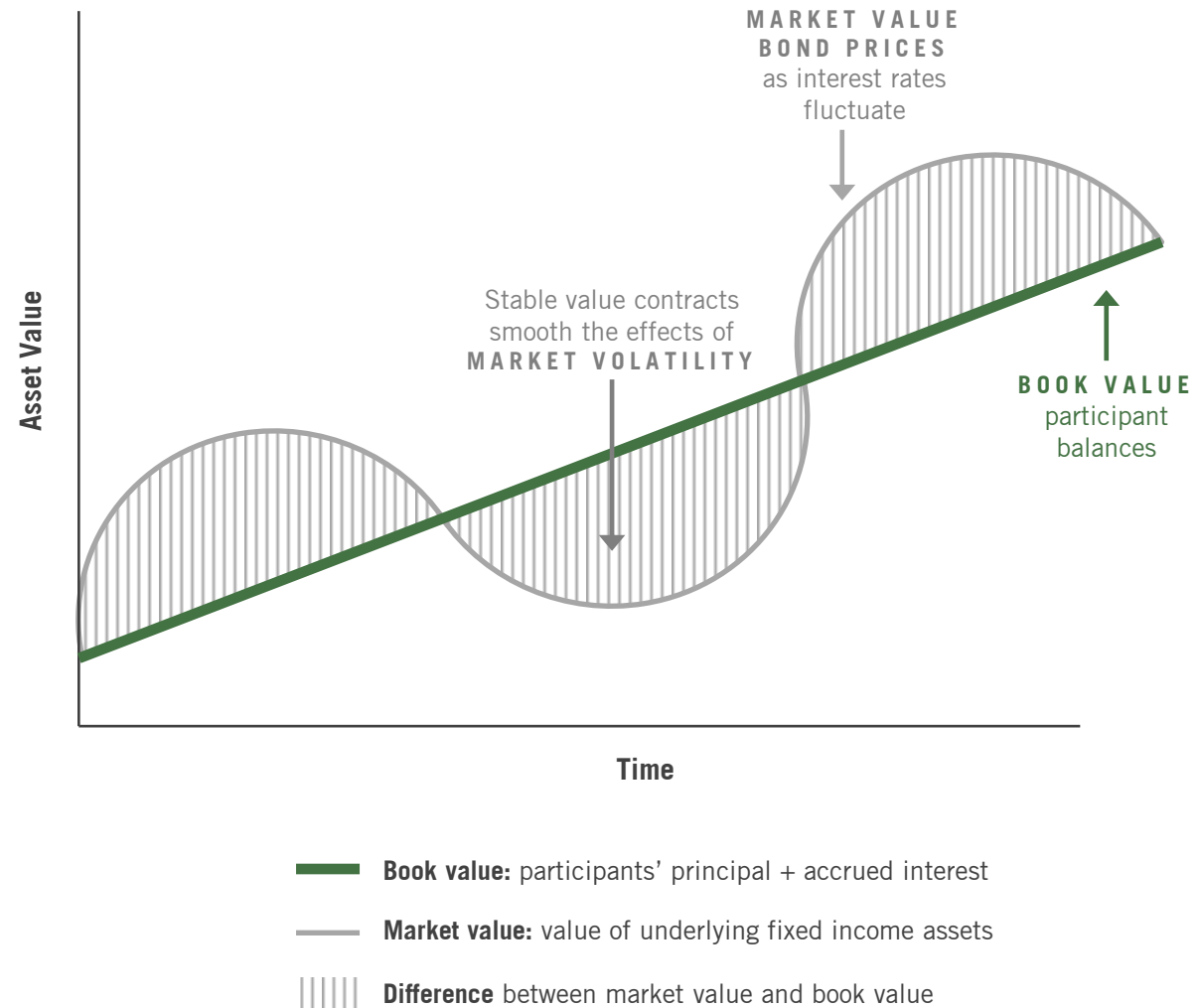
- Underlying bond portfolio provides source of long-term total return
- Stable value contract smoothes return over time (amortizes gains/losses)
- Contract crediting rate typically set based on the market value, yield, and duration of the bond portfolio
- Underlying portfolio typically consists of short to intermediate duration bonds characterized by:
  - Investment grade quality
  - Diversified across sector and issuer



## MECHANICS OF STABLE VALUE THE ROLE OF THE CREDITING RATE

Wrap contracts are designed to help preserve principal and provide a stable return pattern.

A wrap contract's crediting rate formula tends to smooth the impact of fluctuating interest rates and their effect on bond prices by amortizing the gains or losses over the duration of the portfolio.



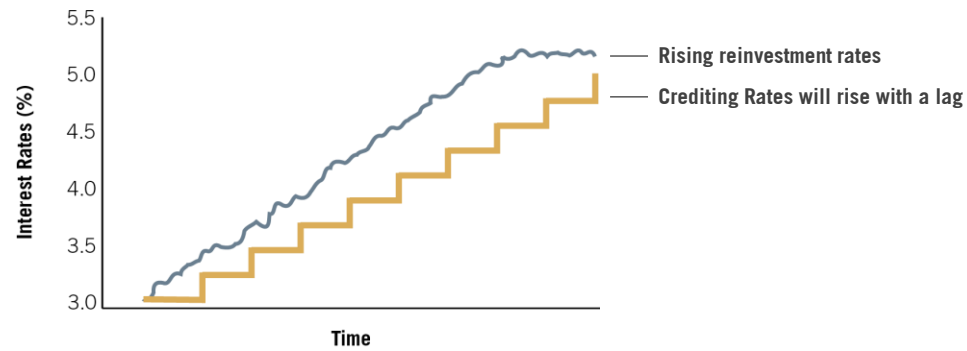
**Crediting Rate Formula:**  $\text{Crediting Rate} = (\text{MV of portfolio} / \text{BV of portfolio})^{(1/\text{Duration})} * (1 + \text{YTM}) - 1$

## MECHANICS OF STABLE VALUE

### IMPACT OF MARKET RATES ON STABLE VALUE YIELDS

#### STABLE VALUE YIELDS IN A RISING INTEREST RATE ENVIRONMENT

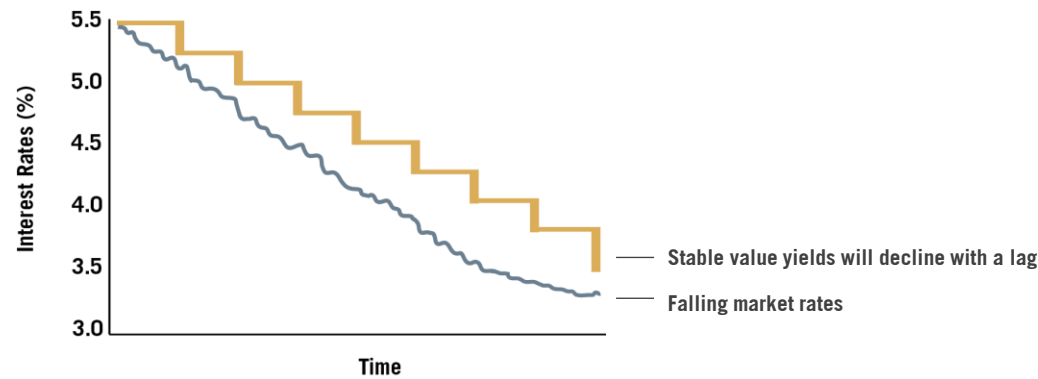
- If reinvestment rates are higher when cash flows are reinvested, the fund's yield will increase (with a lag)...



- In a rapidly rising interest rate environment, stable value yields will likely lag market-valued benchmarks and money market funds

#### STABLE VALUE YIELDS IN A FALLING INTEREST RATE ENVIRONMENT

- If reinvestment rates are lower when cash flows are reinvested, the fund's yield will decrease (with a lag)...



- In a stable or rapidly decreasing interest rate environment, stable value yields will typically outperform market rates and money market funds

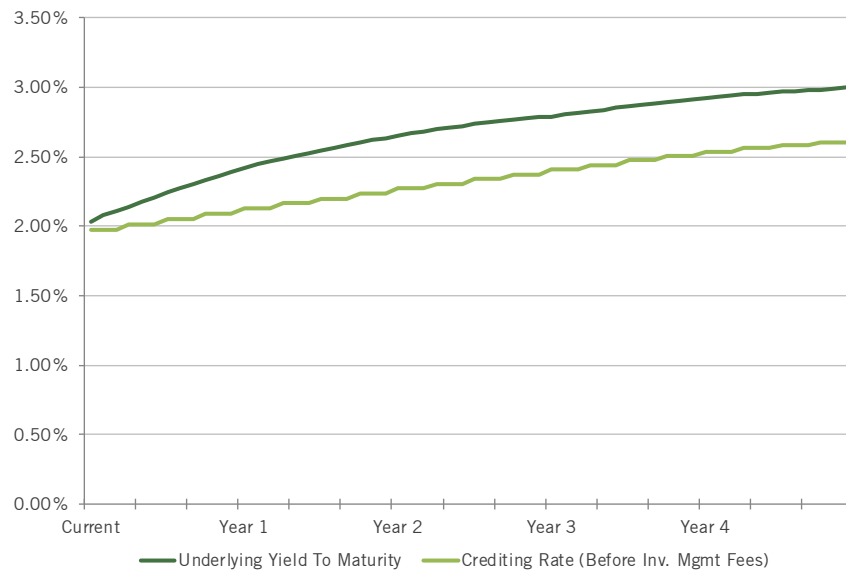


# CITY OF LOS ANGELES

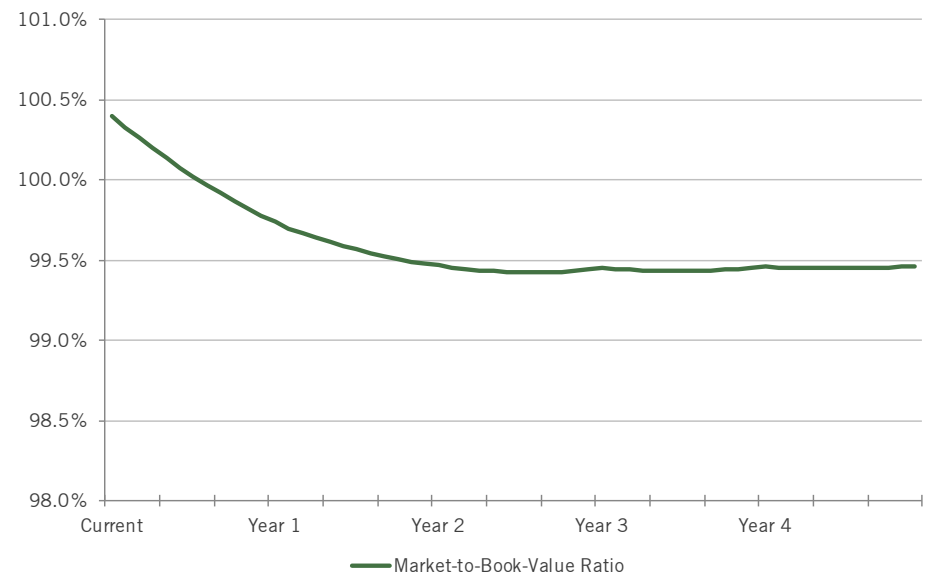
## CREDITING RATE SCENARIO

### SCENARIO: IMPLIED FORWARD RATES

Projected Crediting Rate



Market-to-Book Value Ratio



Interest rates are assumed to follow the implied forward curve calibrated on 12/31/16. Credit spreads and prepayment speeds for asset backed securities are assumed to be constant at current rates; the model assumes no cash flows into and out of the Fund. The crediting rate on Security Backed Investment Contracts is assumed to reset quarterly.

The above scenario analysis is designed to provide a demonstration of stable value dynamics under highly simplified, hypothetical market dynamics. The scenarios presented do not provide a representation of our future expectations of risk free rates, credit spreads, prepayment speeds, wrap fees, or participant cash flows. Many of the assumptions made are counter to both historical experience and expectations of future dynamics for the purpose of additional stress and simplicity. The scenarios represent passive management of the fund, making no assumptions about Galliard Capital Management's portfolio management response to various market environments.

# STABLE VALUE PORTFOLIO REVIEW - CITY OF LOS ANGELES STABLE VALUE FUND

Fourth Quarter 2016

## ANNUALIZED INVESTMENT PERFORMANCE<sup>1</sup>

Period Ending December 31, 2016

	3 Mo	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception <sup>4</sup>
<b>Portfolio (before inv. mgmt. fees)<sup>2</sup></b>	0.55	2.17	2.05	2.29	-	2.99
<b>Portfolio (net of inv. mgmt. fees)<sup>3</sup></b>	0.52	2.05	1.95	2.20	3.17	2.89
<b>Linked Benchmark<sup>6</sup></b>	0.43	1.51	1.48	1.27	2.00	1.46

## CALENDAR YEAR PERFORMANCE

	2016	2015	2014	2013	2012
<b>Portfolio (before inv. mgmt. fees)<sup>2</sup></b>	2.17	2.07	1.90	2.34	2.97
<b>Portfolio (net of inv. mgmt. fees)<sup>3</sup></b>	2.05	1.99	1.82	2.25	2.88
<b>Linked Benchmark<sup>6</sup></b>	1.51	1.53	1.40	1.05	0.88

## MARKET INDICES

<b>BofAML US 3-Mon T-Bill</b>	0.33	0.05	0.03	0.07	0.11
<b>Consumer Price Index</b>	2.12	0.73	0.76	1.51	1.74

1: Returns for periods of less than one year are not annualized.

2: Returns are net of book value contract fees only.

3: Returns are net of book value contract, Galliard investment management fees, and, if applicable, external manager fees and Wells Fargo collective fund administrative fees.

4: Performance inception: Jul 01, 2008.

5: Prior to Jul 1, 2008, the portfolio invested exclusively in the Wells Fargo Stable Return Fund, a stable value collective fund. Since then, the portfolio has been managed as a separate account. Periods prior to July 1, 1999 include separate account returns linked with the historical returns of the Wells Fargo Stable Return Fund.

6: Linked benchmark: City of LA BML; 3 Year Constant Maturity Treasury + 0.50%. Prior to 7/1/08 was 50% Citigroup 3 Month T-Bill, 50% The BofA Merrill Lynch 1-3 Year US Treasury Index.

# STABLE VALUE PORTFOLIO REVIEW - CITY OF LOS ANGELES STABLE VALUE FUND

Fourth Quarter 2016

## PORTFOLIO CHARACTERISTICS

<b>Total Assets</b>	\$1,183,517,436	<b>Blended Yield (before fees)<sup>1</sup></b>	2.15%
<b>Average Holdings Quality<sup>2</sup></b>	A1/AA-	<b>Effective Duration</b>	2.99 years
<b>Number of Contract Issuers</b>	5	<b>Market/Book Value Ratio</b>	100.39%

1: Blended yield is before investment management fees and after wrap fees.

2: The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the contracts and cash held by the portfolio as rated by S&P and Moody's.

## SECTOR DISTRIBUTION

PORTFOLIO DISTRIBUTION	CONTRACT VALUE (\$)	% OF PORTFOLIO 12/31/2016	% OF PORTFOLIO 09/30/2016
<b>Cash &amp; Equivalents<sup>1</sup></b>	<b>6,581,026</b>	<b>0.6</b>	<b>0.8</b>
<b>Stable Value Funds</b>	<b>83,927,083</b>	<b>7.1</b>	<b>9.2</b>
<b>Separate Account GICs</b>	<b>242,340,703</b>	<b>20.5</b>	<b>20.0</b>
Short Portfolio	122,913,186	10.4	9.9
Intermediate Portfolio	119,427,518	10.1	10.1
<b>Security Backed Investment Contracts</b>	<b>850,668,624</b>	<b>71.9</b>	<b>69.9</b>
Short Portfolio	289,627,433	24.5	23.2
Short / Intermediate Portfolio	119,898,502	10.1	10.1
Intermediate Portfolio	441,142,690	37.3	36.6
<b>Total</b>	<b>\$1,183,517,436</b>	<b>100.0%<sup>2</sup></b>	<b>100.0%<sup>2</sup></b>

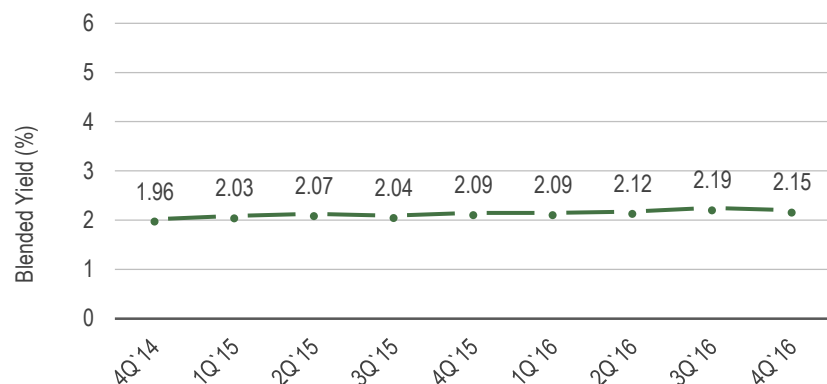
1: Includes Receivables and Payables.

2: Total % of portfolio may not add to 100% due to rounding.

# STABLE VALUE PORTFOLIO REVIEW - CITY OF LOS ANGELES STABLE VALUE FUND

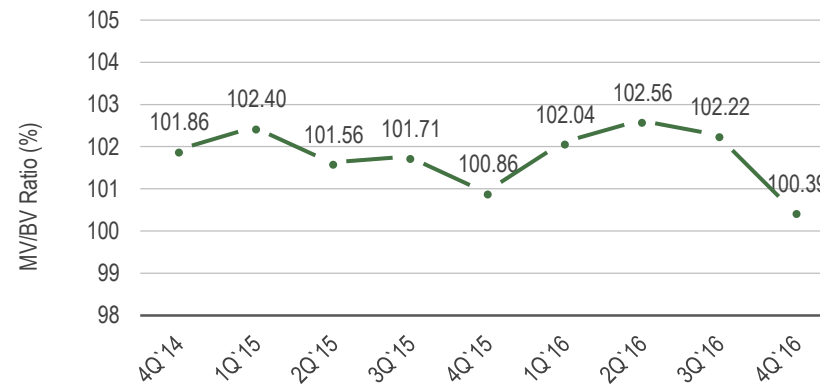
Fourth Quarter 2016

## HISTORICAL BLENDED YIELD<sup>1</sup>

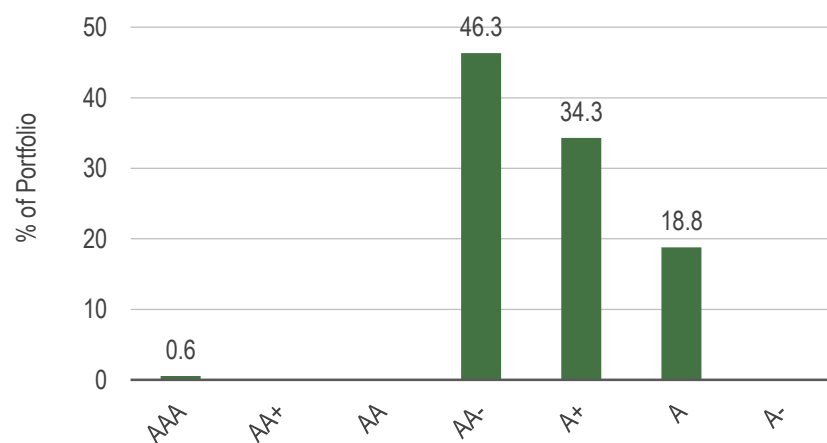


1: As of quarter end. Blended yield is before investment management fees and after wrap fees.

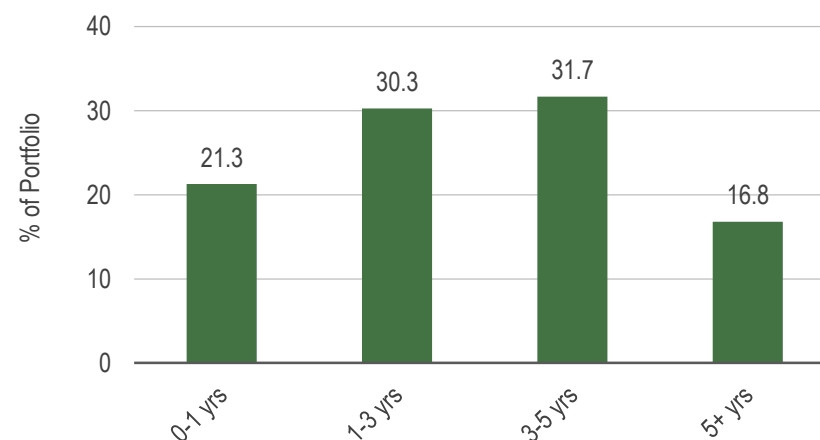
## HISTORICAL MARKET VALUE TO BOOK VALUE RATIO



## CONTRACT QUALITY DISTRIBUTION<sup>1</sup>



## UNDERLYING DURATION DISTRIBUTION<sup>2</sup>



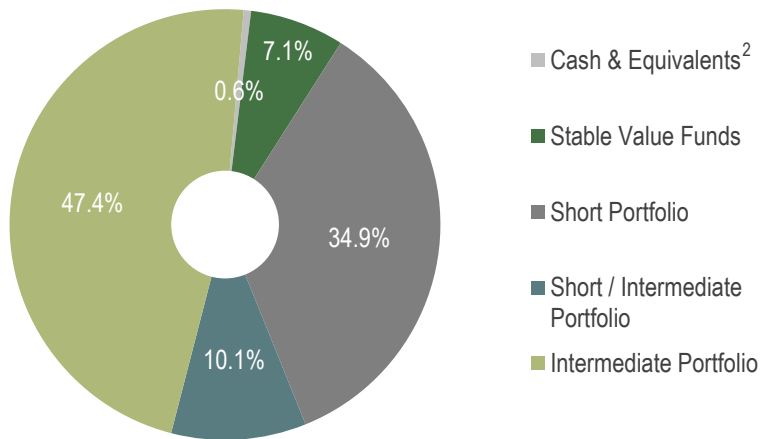
1: Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch.

2: Total % of portfolio may not add to 100% due to rounding. Duration distribution of the externally managed portfolios is provided by the external manager.

# STABLE VALUE PORTFOLIO REVIEW - CITY OF LOS ANGELES STABLE VALUE FUND

Fourth Quarter 2016

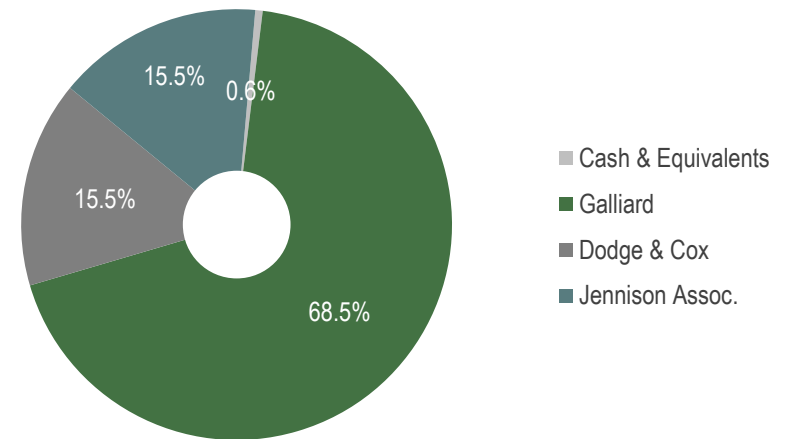
## PORTFOLIO DISTRIBUTION<sup>1</sup>



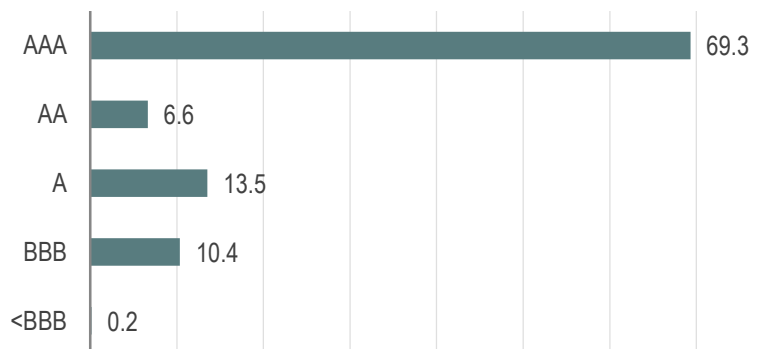
1: Book value.

2: Includes Receivables and Payables.

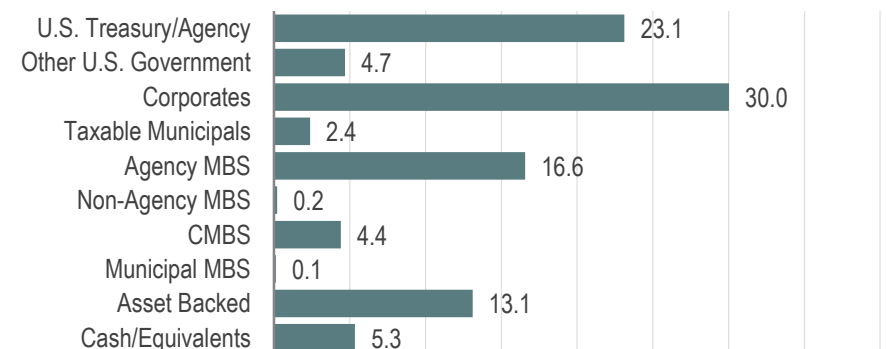
## MANAGER DISTRIBUTION<sup>1</sup>



## UNDERLYING FIXED INCOME CREDIT QUALITY<sup>1</sup>



## UNDERLYING FIXED INCOME ASSET ALLOCATION<sup>2</sup>



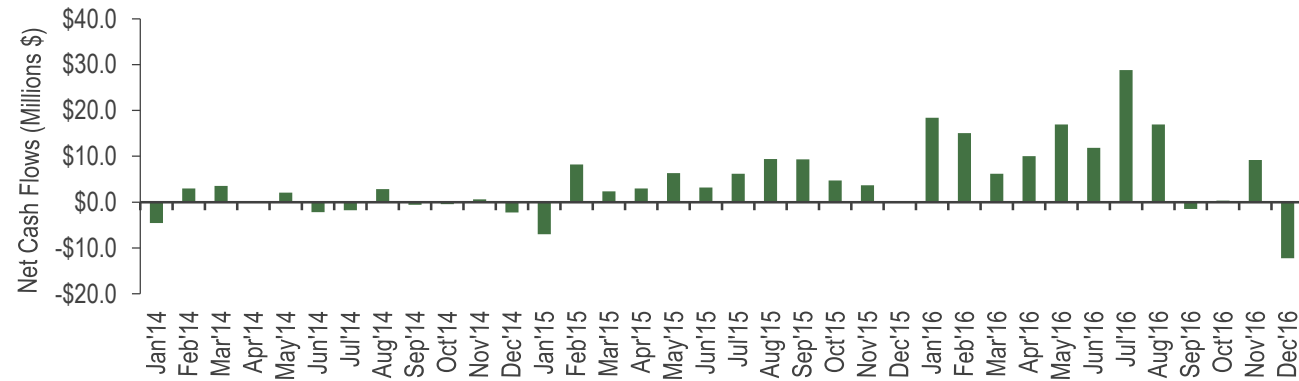
1: Market value. Total % of portfolio may not add to 100% due to rounding. The quality distribution shown represents the distribution of the individual holdings' Composite Ratings, as rated by S&P, Moody's and Fitch. Ratings shown as NR/NA are not rated or not available security ratings. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology

2: Market value. Total % of portfolio may not add to 100% due to rounding. The external managers provide portfolio holdings, and the securities are classified using Galliard's analytics and methodology for maximum comparability across managers.

# STABLE VALUE PORTFOLIO REVIEW - CITY OF LOS ANGELES STABLE VALUE FUND

Fourth Quarter 2016

## HISTORICAL CASHFLOWS



	2016	2015	2014	2013
<b>Beginning Assets</b>	\$1,040.6	\$971.3	\$953.6	\$893.8
<b>Net Cash Flow (\$)<sup>1</sup></b>	\$119.9	\$49.5	\$0.3	\$39.3
<b>Net Cash Flow (%)</b>	11.52%	5.10%	0.03%	4.39%
<b>Estimated Investment Earnings</b>	\$23.0	\$19.8	\$17.4	\$20.6
<b>Ending Assets<sup>2</sup></b>	\$1,183.5	\$1,040.6	\$971.3	\$953.6

1: Contributions, Withdrawals and Investment Transfers

2: Cashflows may not net to final assets due to rounding.

# STABLE VALUE PORTFOLIO REVIEW - CITY OF LOS ANGELES STABLE VALUE FUND

Fourth Quarter 2016

## ISSUER RATING SUMMARY

	<u>S &amp; P RATING</u>		<u>MOODY'S RATING</u>	
	<u>12/31/2016</u>	<u>9/30/2016</u>	<u>12/31/2016</u>	<u>9/30/2016</u>
Metropolitan Life Ins. Co.	AA-	AA-	Aa3	Aa3
Pacific Life Ins. Co.	AA-	AA-	A1	A1
Prudential Ins. Co. of America	AA-	AA-	A1	A1
Transamerica Premier Life Ins. Co.	AA-	AA-	A1	A1
Voya Ret. Ins. and Annuity Co.	A	A	A2	A2

The information contained herein reflects the views of Galliard Capital Management, Inc. & sources believed to be reliable by Galliard as of the date of publication. The views expressed here may change at any time subsequent to the date of publication. This publication is for informational purposes only.  
For institutional investors only.

# STABLE VALUE PORTFOLIO REVIEW - CITY OF LOS ANGELES STABLE VALUE FUND

Fourth Quarter 2016

## ISSUER RATING SUMMARY

### METROPOLITAN LIFE INS. CO.

- Largest U.S. life insurer by invested assets
- MetLife, Inc. is in the process of spinning off its retail life insurance businesses. Metropolitan Life Insurance Company will remain with MetLife, Inc., which will retain about 75% of the group's assets and about 80% of its operating income.
- A federal judge recently ruled Metropolitan Life not to be a Systematically Important Financial Institution (SIFI). The Financial Stability Oversight Council's (FSOC) is appealing that decision. Oral arguments are scheduled for Oct. 24 before a panel of the US Court of Appeals-DC Circuit.
- Capital ratios remain below average but have improved slightly despite dividends to the holding company

### PACIFIC LIFE INS. CO.

- Very strong capital levels
- Company continues to consider a partial IPO of its fully owned aircraft leasing business. We view this as a credit positive.
- Upgraded in July 2016 to AA- from A by S&P, citing a sound balance sheet, strong market position and solid enterprise risk management

### PRUDENTIAL INS. CO. OF AMERICA

- A leading diversified U.S. life insurer
- Capital ratios are now above average following a large captive reinsurance transaction in 2015 that lowered the quality of the ratios
- Effective 11/15/16, Fitch upgraded Insurance Financial Strength ratings to AA- from A+, but with Negative outlook due to Japan exposure. Parent, Prudential Financial's, Issuer Default Rating was raised to A- from BBB+ with stable outlook, as Japan exposure would have a less direct impact on the holding co.

### TRANSAMERICA PREMIER LIFE INS. CO.

- Part of a large diverse insurance group which uses significant intercompany reinsurance, which results in the appearance of a higher operating leverage than is the case
- In August 2016, Fitch lowered Transamerica's Insurer Financial Strength ratings to A+ from AA-, citing margin compression due to the shift from capital intensive spread products to low capital intense fee-based businesses

### VOYA RET. INS. AND ANNUITY CO.

- Recently upgraded one notch by Moody's and S&P, reflecting the stabilization of operations
- Large-scale retirement, employee benefits and universal life presence
- Operating performance solid in core businesses but closed-block of variable annuity business and low rate environment are continued challenges

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# CITY OF LOS ANGELES STABLE VALUE FUND PORTFOLIO HOLDINGS

December 31, 2016

Asset ID	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Yield (%)	Maturity <sup>1</sup>	Effective Duration (yrs)	S&P Rating	Moody's Rating	Wrap Fees (bps)
<b>CASH &amp; EQUIVALENTS</b>												
FUNDAVAIL	Cash Receivable / (Payable)		-501,406	-501,406	100.0	0.0	0.84		0.10	AAA	Aaa	
9983008\$P	WF/BlackRock Short Term Investment Fund S		7,082,432	7,082,432	100.0	0.6	0.84		0.10	AAA	Aaa	
<b>TOTAL CASH &amp; EQUIVALENTS</b>			<b>6,581,026</b>	<b>6,581,026</b>	<b>100.0</b>	<b>0.6</b>	<b>0.84</b>		<b>0.10</b>	<b>AAA</b>	<b>Aaa</b>	
<b>STABLE VALUE FUNDS</b>												
94988K104	Wells Fargo Stable Value Fund W	Galliard	83,927,083	83,927,083	100.0	7.1	1.91		2.54	AA-	Aa3	
<b>TOTAL STABLE VALUE FUNDS</b>			<b>83,927,083</b>	<b>83,927,083</b>	<b>100.0</b>	<b>7.1</b>	<b>1.91</b>		<b>2.54</b>	<b>AA-</b>	<b>Aa3</b>	
<b>SEPARATE ACCOUNT GICS</b>												
<b>Short Portfolio</b>												
590994MZ9	Metropolitan Life Ins. Co.	Galliard	122,913,186	123,155,716	100.2	10.4	2.02	N.S.M.	1.86	AA-	Aa3	21.0
<b>Total Short Portfolio</b>			<b>122,913,186</b>	<b>123,155,716</b>	<b>100.2</b>	<b>10.4</b>	<b>2.02</b>		<b>1.86</b>	<b>AA-</b>	<b>Aa3</b>	
<b>Intermediate Portfolio</b>												
590994MZ9	Metropolitan Life Ins. Co.	Dodge & Cox	119,427,518	119,663,170	100.2	10.1	2.02	N.S.M.	3.76	AA-	Aa3	21.0
<b>Total Intermediate Portfolio</b>			<b>119,427,518</b>	<b>119,663,170</b>	<b>100.2</b>	<b>10.1</b>	<b>2.02</b>		<b>3.76</b>	<b>AA-</b>	<b>Aa3</b>	
<b>TOTAL SEPARATE ACCOUNT GICS</b>			<b>242,340,703</b>	<b>242,818,886</b>	<b>100.2</b>	<b>20.5</b>	<b>2.02</b>		<b>2.80</b>	<b>AA-</b>	<b>Aa3</b>	
<b>SECURITY BACKED INVESTMENT CONTRACTS</b>												
<b>Short Portfolio</b>												
694992KB3	Pacific Life Ins. Co.	Galliard	109,960,187	109,995,458	100.0	9.3	2.09	N.S.M.	1.90	AA-	A1	20.0
744999AR4	Prudential Ins. Co. of America	Galliard	39,338,307	39,629,790	100.7	3.3	2.15	N.S.M.	1.90	AA-	A1	20.0
600996KT8	Transamerica Premier Life Ins. Co.	Galliard	21,562,264	21,719,181	100.7	1.8	2.37	N.S.M.	1.90	AA-	A1	20.0
75952ULK7	Voya Ret. Ins. and Annuity Co.	Galliard	118,766,674	119,290,740	100.4	10.0	2.27	N.S.M.	1.90	A	A2	15.0
<b>Total Short Portfolio</b>			<b>289,627,433</b>	<b>290,635,169</b>	<b>100.3</b>	<b>24.5</b>	<b>2.19</b>		<b>1.90</b>	<b>A+</b>	<b>A1</b>	
<b>Short / Intermediate Portfolio</b>												
600996KT8	Transamerica Premier Life Ins. Co.	Galliard	119,898,502	120,771,047	100.7	10.1	2.37	N.S.M.	2.65	AA-	A1	20.0
<b>Total Short / Intermediate Portfolio</b>			<b>119,898,502</b>	<b>120,771,047</b>	<b>100.7</b>	<b>10.1</b>	<b>2.37</b>		<b>2.65</b>	<b>AA-</b>	<b>A1</b>	

1: N.S.M. = No Stated Maturity

# CITY OF LOS ANGELES STABLE VALUE FUND PORTFOLIO HOLDINGS

December 31, 2016

Asset ID	Security Description	Manager	Contract Value (\$)	Market Value (\$)	Market/Book Value Ratio (%)	% of Portfolio	Yield (%)	Maturity <sup>1</sup>	Effective Duration (yrs)	S&P Rating	Moody's Rating	Wrap Fees (bps)
<b>Intermediate Portfolio</b>												
694992KB3	Pacific Life Ins. Co.	Galliard	90,686,153	90,715,241	100.0	7.7	2.09	N.S.M.	4.19	AA-	A1	20.0
744999AR4	Prudential Ins. Co. of America	Jennison Assoc.	182,888,065	184,243,198	100.7	15.5	2.15	N.S.M.	4.11	AA-	A1	20.0
600996KT8	Transamerica Premier Life Ins. Co.	Dodge & Cox	63,928,843	64,394,076	100.7	5.4	2.37	N.S.M.	3.70	AA-	A1	20.0
75952ULK7	Voya Ret. Ins. and Annuity Co.	Galliard	103,639,629	104,096,946	100.4	8.8	2.27	N.S.M.	3.97	A	A2	15.0
<b>Total Intermediate Portfolio</b>			<b>441,142,690</b>	<b>443,449,462</b>	<b>100.5</b>	<b>37.3</b>	<b>2.20</b>		<b>4.03</b>	<b>AA-</b>	<b>A1</b>	
<b>TOTAL SECURITY BACKED INVESTMENT CONTRACTS</b>			<b>850,668,624</b>	<b>854,855,678</b>	<b>100.5</b>	<b>71.9</b>	<b>2.22</b>		<b>3.11</b>	<b>A+</b>	<b>A1</b>	
<b>TOTAL PORTFOLIO</b>			<b>1,183,517,436</b>	<b>1,188,182,672</b>	<b>100.4</b>	<b>100.0</b>	<b>2.15</b>		<b>2.99</b>	<b>AA-</b>	<b>A1</b>	

1: N.S.M. = No Stated Maturity

## APPENDIX - CITY OF LOS ANGELES STABLE VALUE FUND

Fourth Quarter 2016

### TOTAL ANNUAL FUND OPERATING EXPENSES

Total Annual Operating Expenses are deducted directly from the Fund's net asset value and reduce the investment option's rate of return.

Expense	Expense Ratio 12/31/16	Per \$1000
Investment Management Fees paid to Galliard	0.075%	\$0.75
Investment Management fees paid to Non-Affiliated Investment Advisors	0.010%	\$0.10
Investment Contract Fees* <sup>1</sup>	0.177%	\$1.77
Acquired Fund Fees <sup>2</sup>	0.063%	\$0.63
-Investment Contract Fees	0.014%	\$0.14
-Other Acquired Fund Fees and Non-Affiliated Investment Management Fees paid to Non-Affiliated Investment Advisors <sup>3</sup>	0.049%	\$0.49
12b-1 Distribution Fee	None	None
Other Expenses	None	None
Total Annual Fund Operating Expenses <sup>4</sup>	<b>0.326%</b>	<b>\$3.26</b>

\*Changes have occurred to the fee schedule structure since the prior period. Please contact your Galliard representative if you have additional questions.

1: These are fees paid to create and maintain the investments used by a stable value fund.

2: These are fees borne indirectly by the Fund when it acquires an interest in another fund which pays its own separate fees.

3: Includes audit fees for the cost of producing a report by a qualified auditor.

4: Total Annual Fund Operating Expenses are reflected daily in the Fund's net asset value (NAV).

## SECTION II

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# STABLE VALUE MARKET UPDATE

## STABLE VALUE MARKET VIEW

### MARKET VIEW

#### CONTRACT ISSUERS

- 18 providers in the market currently issuing contracts (4 banks, 14 insurance companies)
- Supply of contract capacity remains greater than market demand
- Issuers showing some flexibility with respect to the strategies they are willing to wrap
- Issuers more willing to accommodate changes to investment guidelines at the margins
- More favorable/balanced approach to contract provisions
- Contract fees have peaked and are showing signs of consolidation

#### PORTFOLIO

- U.S. election results represent a potential “game-changer”, potentially introducing some of the most sweeping policy changes since the end of WWII and increasing the likelihood of “fat tail” outcomes – both positive and negative
- Deficit spending and faster growth from fiscal policy shifts could put significant upward pressure on inflation and interest rates
- After a post-election flight to safety, participant cash flows have since trended more negatively due to positive investor sentiment and strong quality performance

#### REGULATORY/DC MARKET ENVIRONMENT

- Trump administration appears likely to roll back or delay significant financial industry regulations (e.g. Dodd-Frank, DOL fiduciary rule)
- SEC changes to money market mutual fund regulations have been implemented
- DC plan design evolving to improve participant outcomes

### GALLIARD POSITIONING

- Maintaining strong relationships with all major market participants
- Utilizing market leverage to negotiate more favorable terms
- Continue to be a preferred manager
- Have obtained broader investment latitude across issuers
- Negotiating to standardize more advantageous contract provisions
- Have obtained fee concessions from higher cost issuers
- Maintaining liquidity and emphasizing diversification to protect against significant uncertainty
- Managing portfolio durations between 2.5 – 3.0 years to balance earnings potential and rate responsiveness
- Opportunistically seeking yield in high quality spread assets
- Existing contracts exempt; working with industry leaders to address issues with new Administration
- Seeing renewed interest in stable value as an alternative to money market funds
- Leading industry efforts to ensure stable value meets plan sponsor needs

## STABLE VALUE MARKET UPDATE

### CONTRACT ISSUER SUMMARY

AS OF DECEMBER 31, 2016

NAME	MOODY'S CREDIT RATING	S&P CREDIT RATING	ASSET MANAGEMENT*	CONTRACT TYPE**
AMERICAN GENERAL LIFE	A2	A+	Galliard, Dodge & Cox, TCW, Payden & Rygel	SBIC
MASSMUTUAL LIFE INS. CO.	Aa2	AA+	Galliard, Barings	SAGIC
METROPOLITAN LIFE INS. CO.	Aa3	AA-	Galliard, Dodge & Cox, Loomis Sayles, Earnest Partners	SAGIC
NATIONWIDE LIFE INS. CO.	A1	A+	Galliard, Dodge & Cox	SBIC
NEW YORK LIFE INS. CO.	Aaa	AA+	NYL Investors	SBIC & SAGIC
PACIFIC LIFE INS. CO.	A1	AA-	Galliard, Loomis Sayles, TCW, Jennison	SBIC
PRUDENTIAL LIFE INS. CO.	A1	AA-	Galliard, Jennison, Prudential, TCW	SBIC
RGa REINSURANCE CO.	A1	AA-	Galliard, Dodge & Cox	SBIC
ROYAL BANK OF CANADA	Aa3	AA-	Galliard	SBIC
STATE STREET BANK AND TRUST CO.	Aa3	AA-	Galliard, Loomis Sayles	SBIC
TIAA-CREF LIFE	Aa1	AA+	TIAA-CREF	SAGIC
TRANSAMERICA PREMIER LIFE INS. CO.	A1	AA-	Galliard, Dodge & Cox, TCW, Loomis Sayles	SBIC
VOYA RETIREMENT AND ANNUITY COMPANY	A2	A	Galliard, Dodge & Cox, Voya, TCW, IR+M, Loomis Sayles	SBIC

\*Managers typically utilized within Galliard Stable Value Solutions, (Galliard also utilizes other Asset Managers for select customized solutions).

\*\*Security Backed Investment Contract (SBIC) or Separate Account GIC (SAGIC)

## SECTION III

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# GALLIARD CAPITAL MANAGEMENT

## WHO WE ARE

### CLIENT ALIGNED STABLE VALUE & FIXED INCOME INVESTMENT SOLUTIONS FOR OVER 20 YEARS

**\$91.6 B**  
TOTAL AUM

**\$80.3 B**  
TOTAL STABLE VALUE AUM  
**115+** stable value separate accounts

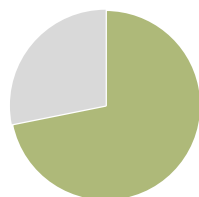
**113**  
EMPLOYEES  
ON STAFF

SENIOR PROFESSIONALS AVERAGE YEARS OF EXPERIENCE:  
Stable value portfolio management team – **23**  
Fixed income team – **19**  
Contract management & negotiation team – **22**

STABLE VALUE & FIXED INCOME PRODUCTS • SEPARATE ACCOUNTS • COLLECTIVE FUNDS

**240+**  
INSTITUTIONAL  
CLIENTS

#### CLIENT RELATIONSHIP TENURE



**~70%** of our clients have worked with Galliard for greater than **5 years**

**26** of those relationships exceed **15 years** with Galliard

#### NEW BUSINESS

**16** new clients YTD

**\$3.1 B** new assets YTD

**25** Fortune 100 clients

**57** Fortune 500 clients

CLIENT TYPES CORPORATE • FOUNDATIONS/ ENDOWMENTS • HEALTHCARE • INSURANCE RESERVES • OPERATING FUNDS • PUBLIC ENTITIES • TAFT-HARTLEY

## HIGHLIGHTS

Galliard ranked in the **top 10** in Pensions & Investments report of largest managers of assets held by **100 largest corporate DC** plans  
(*The Corporate DC 100: The Largest Money Managers*, published March 7, 2016)

Galliard **ranked #2** by total AUM in the Pensions & Investments rankings of stable value managers  
(*Largest Money Managers Report*, published May 30, 2016, data as of December 31, 2015)

Data as of 12/31/16