



# SIF Fixed Interest Account

## About Stable Value

- Stable value funds are a popular investment choice for retirement participants who want a conservative fixed income option that seeks to provide principal protection and a competitive yield
- According to the Stable Value Investment Association, more than \$701.3 billion is invested in stable value assets<sup>1</sup>
- Estimates show that stable value products are offered in one-half to two-thirds of all defined contribution plans<sup>2</sup>

## Benefits of Stable Value

- A conservative investment option that is only available in defined contribution plans
- A low risk fixed income option that seeks to provide safety of principal while also generating positive returns with limited volatility

## What is the SIF Fixed Interest Account?

The Supplemental Investment Fund (SIF) Fixed Interest Account is a stable value fund. This fund is available to participants in the Minnesota Deferred Compensation Plan, the Health Care Savings Plan, and the Unclassified Employees Retirement Plan.

The SIF Fixed Interest Account, like all stable value funds, seeks to preserve principal while providing positive returns with limited volatility. Stable value funds are typically considered to be among the lower risk investment options offered in retirement plans.

### RELATIVE RISK LEVEL OF A STABLE VALUE FUND



## What is the investor profile for a stable value fund?

A stable value fund may be appropriate for someone seeking to safeguard principal or balance a portfolio having more aggressive investments.

## How does stable value compare with a money market fund?

Stable value funds and money market funds both seek to preserve principal and earn interest. While these types of funds have similar investment objectives, stable value funds and money market funds are built differently with each utilizing a distinct approach to achieve their respective investment objectives. Stable value funds typically use a two-tiered investment approach which uses a combination of investment contracts and a diversified portfolio of short and intermediate term fixed income securities (bonds maturing in 1-7 years). Money market funds invest solely in short term assets (typically maturing in less than 1 year) of the money market subsection of the fixed income markets. This difference in the maturity and types of investments used in each fund results in differing historical return patterns.

## Does a stable value fund maintain a constant net asset value (NAV) of \$1 per share like a money market mutual fund?

No. The SIF Money Market Account seeks to maintain a flat or constant net asset value (NAV) of \$1 per share and interest is typically posted once a month to a participant's account. The SIF Fixed Interest Account doesn't seek a flat \$1 NAV like a money market fund. Instead, the SIF Fixed Interest Account uses a fluctuating NAV so a participant can see any interest earned on a daily basis by the fluctuating NAV. For example, the SIF Money Market Account's \$1 NAV does not capture any interest earnings and remains at \$1. The SIF Fixed Interest Account will show any interest earned on a daily basis through a rising NAV (e.g., Instead of staying flat, the NAV will rise from \$10 to \$10.01, etc.).

<sup>1</sup> Stable Value Investment Association, June 2013

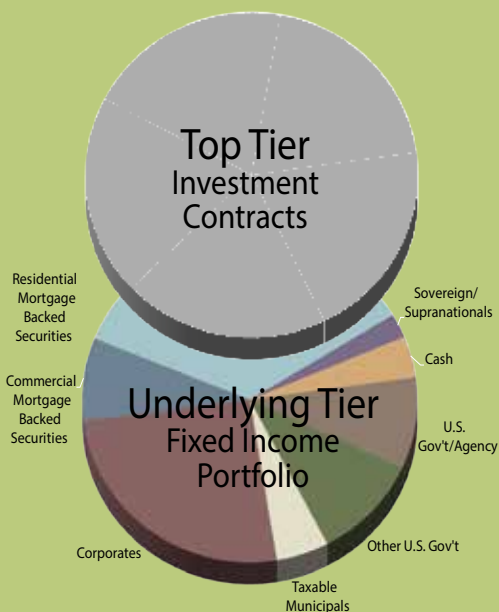
<sup>2</sup> US Department of Labor, EBSA, Report on Stable Value 2009

*The SIF Interest Account is not insured by the FDIC, Federal Reserve Bank, nor guaranteed by Wells Fargo/ Galliard Capital Management or any affiliate thereof. Past performance is not an indication of how an investment will perform in future.*

## Is a stable value fund a mutual fund?

No. Stable value funds are not mutual funds. The SIF Fixed Interest Account is a customized stable value separate account specifically designed and managed for the Minnesota Deferred Compensation Plan, the Health Care Savings Plan, and the Unclassified Employees Retirement Plan.

### TWO-TIERED INVESTMENT STRUCTURE OF A STABLE VALUE FUND<sup>3</sup>



<sup>3</sup> Illustrative of a stable value strategy. Not representing that this is the actual SIF Fixed Interest Account.

#### Top Tier - Investment Contracts

Investment contracts in stable value strategies enable participants to transact at contract value (principal plus accrued interest) regardless of the price fluctuations of the fixed income securities in the underlying tier.

#### Underlying Tier - Fixed Income Portfolio

Stable value strategies have an underlying fixed income portfolio that is typically invested in short-intermediate term fixed income securities (bonds maturing in 1-7 years). The market prices in the underlying tier fluctuate.

## How is the SIF Fixed Interest Account structured?

The SIF Fixed Interest Account uses a two-tiered investment structure: the top tier is comprised of investment contracts which seek to provide participant transactions at contract value (principal plus accrued interest) regardless of any price fluctuations in the underlying tier of fixed income securities.

## What types of investment contracts are used in the top tier?

The types of investment contracts typically used can include any combination of Guaranteed Investment Contracts (GICs), Separate Account GICs and Security Backed Investment Contracts. The investment contracts help to assure that participants can transact at contract value (principal plus accrued interest) as well as maintain a relatively stable return profile. All investment contract issuers are rated investment grade at time of purchase by rating agencies such as Moody's and Standard and Poors.

## What types of Fixed Income Securities are used in the underlying tier?

The types of securities typically utilized in the underlying tier are rated "investment grade" at the time of purchase and include, but are not limited to, U.S. Treasury Securities, U.S. Agency Securities, asset backed securities, certificates of deposits, corporate bonds, mortgage backed securities and cash equivalents such as money market instruments. All securities are U.S. dollar denominated.

## Are there any account restrictions?

Yes, a transfer restriction applies. You may not transfer balances directly from the SIF Fixed Interest Account to the SIF Money Market Account. Balances must be transferred to another investment option and then after 90 days may be transferred to the SIF Money Market Account.

## Is my investment in the SIF Fixed Interest Account guaranteed?

No. An investment in the SIF Fixed Interest Account is neither insured nor guaranteed. While unlikely, it is possible to lose money by investing in a stable value fund.

## What are the primary investment risks?

A principal risk of the SIF Fixed Interest Account is investment contract risk. This includes the risk that an investment contract issuer could default on its obligation; that something could occur that makes the contract invalid; that the contract could lapse; or that certain other events specified in the investment contract could cause the investment contract to lose its contract withdrawal features. Other risks include: the possibility that other securities in the fund do not meet scheduled obligations, interest rate risk and liquidity risk. Any of these occurrences could cause the SIF Fixed Interest Account to lose value.



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