MEMORANDUM

TO: File
FROM: Leah Drennan
RE: Meeting with representatives of the Stable Value Industry Association
DATE: October 12, 2010

On October 12, 2010, Leah Drennan* of the Securities and Exchange Commission Kane, Jeffrey Steiner, David Aron, Jim Moser, and Rose Troia of the Commodity Futures Exchange Commission met with Tony Camp (ING), Winfield Keller (Stable Value Industry Association ("SVIA")), Gina Mitchell (SVIA), John Flynn (McDermott, Will, & Emery), Anthony Mansfield (McDermott, Will, & Emery), Steve Kolocotronis (Fidelity), and Marc Magnoli (JP Morgan), (collectively, the "SVIA representatives").

The SVIA representatives discussed stable value contracts in general and asked questions regarding the forthcoming Congressional study on stable value contracts.

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* Ms. Drennan was attended via phone.

Stable Value Funds Overview

October 12, 2010
CFTC

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Stable Value Investment Association

- Dedicated to educating plan sponsors and the public on the importance of saving and investing for retirement and the contribution that stable value funds can make to a financially secure retirement

- Voice for the stable value investment community on issues affecting stable value and retirement security

- Represents all segments of the stable value investment community: plan sponsors, investment managers, bank issuers and insurance issuers

- Members collectively manage almost $561.2 billion in stable value assets

Why Stable Value Is a Key Part of Asset Allocation

- Stable value is a fundamental component of defined contribution plans because it offers:
  - Principal protection
  - Steady, predictable returns consistent with a conservative principal protection vehicle
  - Benefit-responsive liquidity

- Stable value is a low-risk, cost-effective investment option used by millions of participants to achieve their desired risk tolerance in asset allocation

- Participants who invest in stable value funds are:
  - Retirees or individuals nearing retirement who will begin to access retirement funds now or in the near future
  - Conservative investors who seek a core portfolio that provides an attractive return coupled with the opportunity for low volatility and preservation of capital
  - Moderate or aggressive investors seeking diversification to enhance their overall portfolio risk-adjusted returns
  - Individuals seeking an alternative to money market funds and short-term bond funds
  - Individuals who have been placed in a stable value fund by default because they have not made an asset allocation decision.

Funds to the left have potentially more inflation risk and less investment risk

Funds to the right have potentially less inflation risk and more investment risk

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Stable value funds are defined by the Financial Accounting Standards Board in "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined Contribution Health and Welfare and Pension Plans, FSP AAG INV-1 and SOP 94-4-1"

401(k) Plans that Offer Stable Value Funds

Source: 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2008, Research Perspective, October 2009, Volume 15, Number 2, Investment Company Institute and 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2006, Research Perspective, August 2007, Volume 13, Number 1, Investment Company Institute.

Participants of All Ages Use Stable Value

Asset Allocation by Age for 2008

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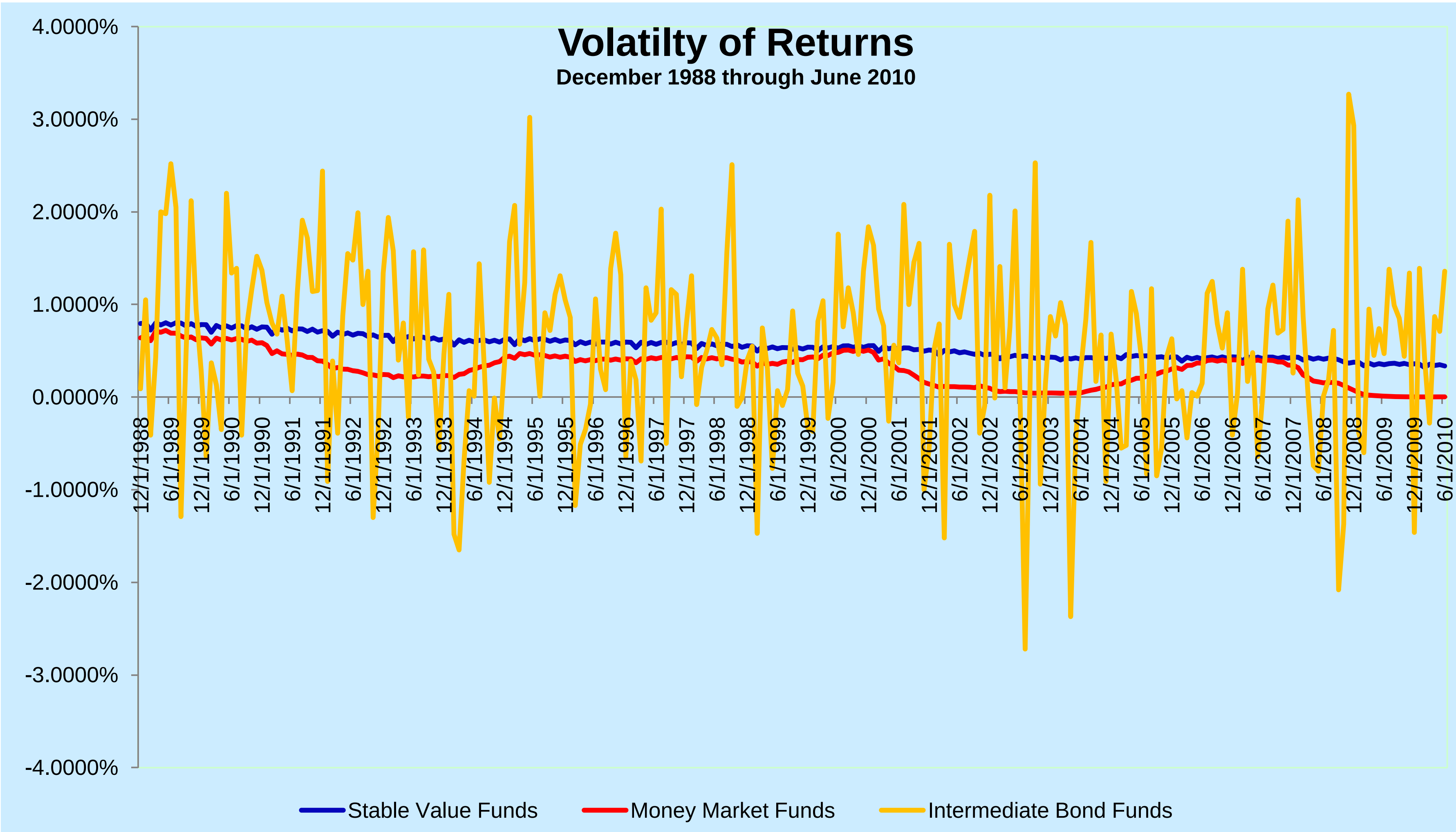
Source: 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2008, Research Perspective, October 2009, Volume 15, Number 2, Investment Company Institute.

Participants Consistently Use Stable Value

Source: Hewitt 401(k) Index™ Observations 1997 to March 2010. Hewitt 401(k) Index allocation to stable value ranges from 17% to 37% over time.

Stable Value Provides Capital Preservation and Consistent, Steady Returns



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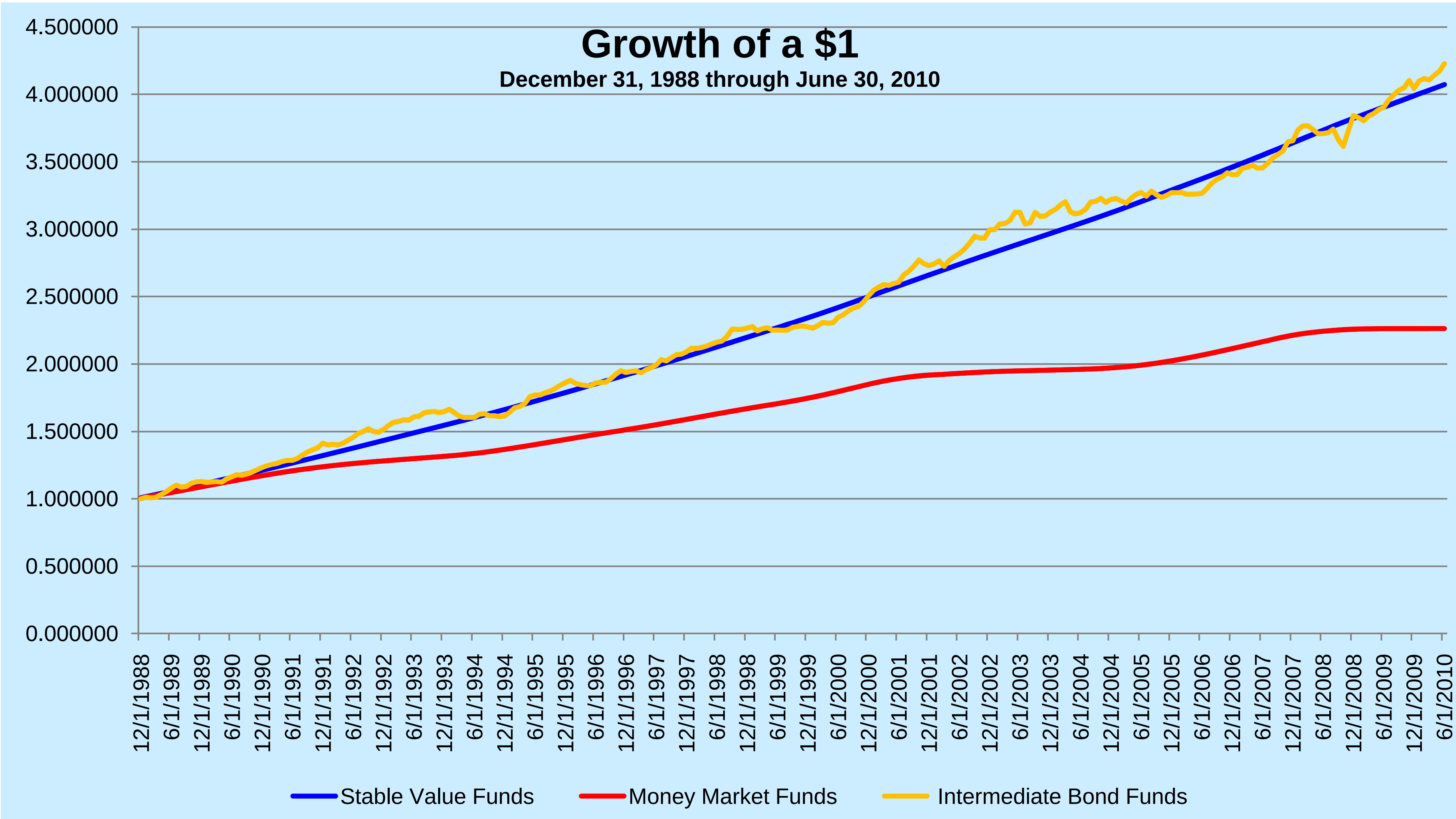
Stable Value Offers Higher Return Potential than Money Market Funds



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Benefit Responsiveness Distinguishes Stable Value From Other Asset Classes

- Benefit-responsiveness means participants transact at book value (principal plus accrued interest)

  - Benefit responsiveness helps the stable value fund achieve the following objectives:
    - Principal preservation with capital appreciation
    - Consistent, conservative returns
    - Returns similar to bond funds with the liquidity of money market funds

  - Benefit responsiveness is provided through one or more different types of investment contracts

  - Benefit responsiveness criteria is established by the Financial Accounting Standards Board (FASB) and *all five requirements must be met*

Stable value funds are defined by the Financial Accounting Standards Board in "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined Contribution Health and Welfare and Pension Plans, FSP AAG INV-1 and SOP 94-4-1"

FASB Requirements for Benefit Responsiveness

- FASB established criteria for benefit responsiveness in FSP AAG INV-a. <u>All must be satisfied:</u>

1. Investment contract is effected directly between the fund and issuer and prohibits the sale or assignment of the contract or its proceeds to another party without the consent of the issuer

2. The repayment of principal and interest credited to participants in the fund is a financial obligation of the issuer of the investment contract, or prospective interest crediting rate adjustments are provided to participants in the fund on a designated pool of investments held by the fund or a contract issuer who is a financially responsible third party and provides assurances that the adjustments to the interest crediting rate do not result in a future interest crediting rate that is less than zero

3. The terms of the investment contract require all permitted participant-initiated transactions with the fund to occur at book value

4. An event (such as bankruptcy) that limits the ability of the fund to transact at book value with the issuer and that also limits the ability of the fund to transact at book value with participants in the fund must not be probable of occurring

5. The fund itself must allow participants reasonable access to their funds

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How Benefit Responsiveness Is Achieved

- Benefit responsiveness is the ability of plan participants to transact at book value (principal plus accrued interest)

- Benefit responsiveness is delivered by a stable value investment contract from a financially sound bank or insurance company that provides redemption at book value (principal plus accumulated interest), regardless of the level of market value

- Stable value investment contracts are:
  - » Guaranteed Interest Contracts and/other General Account Contracts
  - » Separate Account Contracts
  - » Synthetic GICs

- Stable value funds may hold one contract type or some combination of these investment contracts

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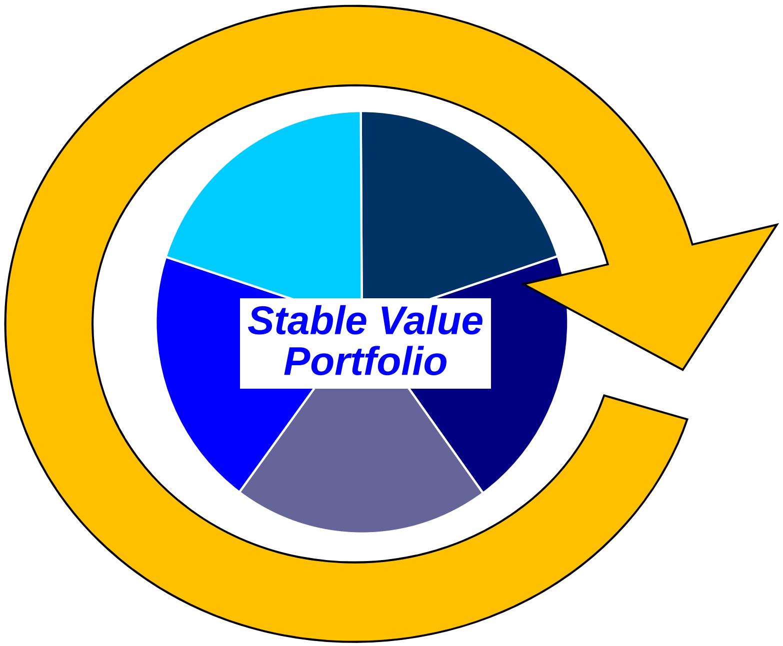
How Benefit Responsiveness Works

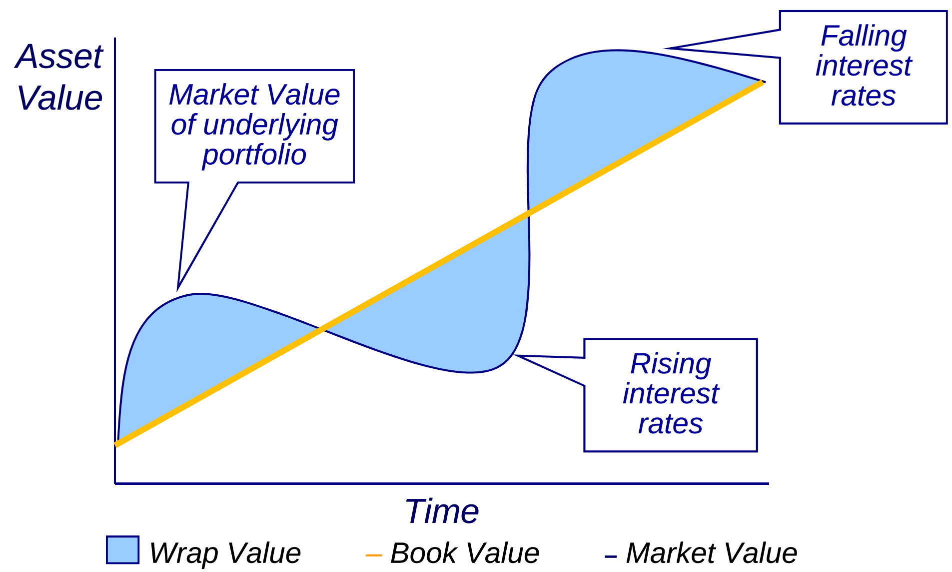
Managed portfolio
of high-quality, fixed income securities



Investment Contracts

Stable Value Fund

- *The book value investment contract provides preservation of principal and a stable crediting rate*
- *The investment contract smoothes market volatility by amortizing gains and losses over the duration of the portfolio*
- *This smoothing is triggered through the rate reset mechanism and insulates against day-to-day volatility*



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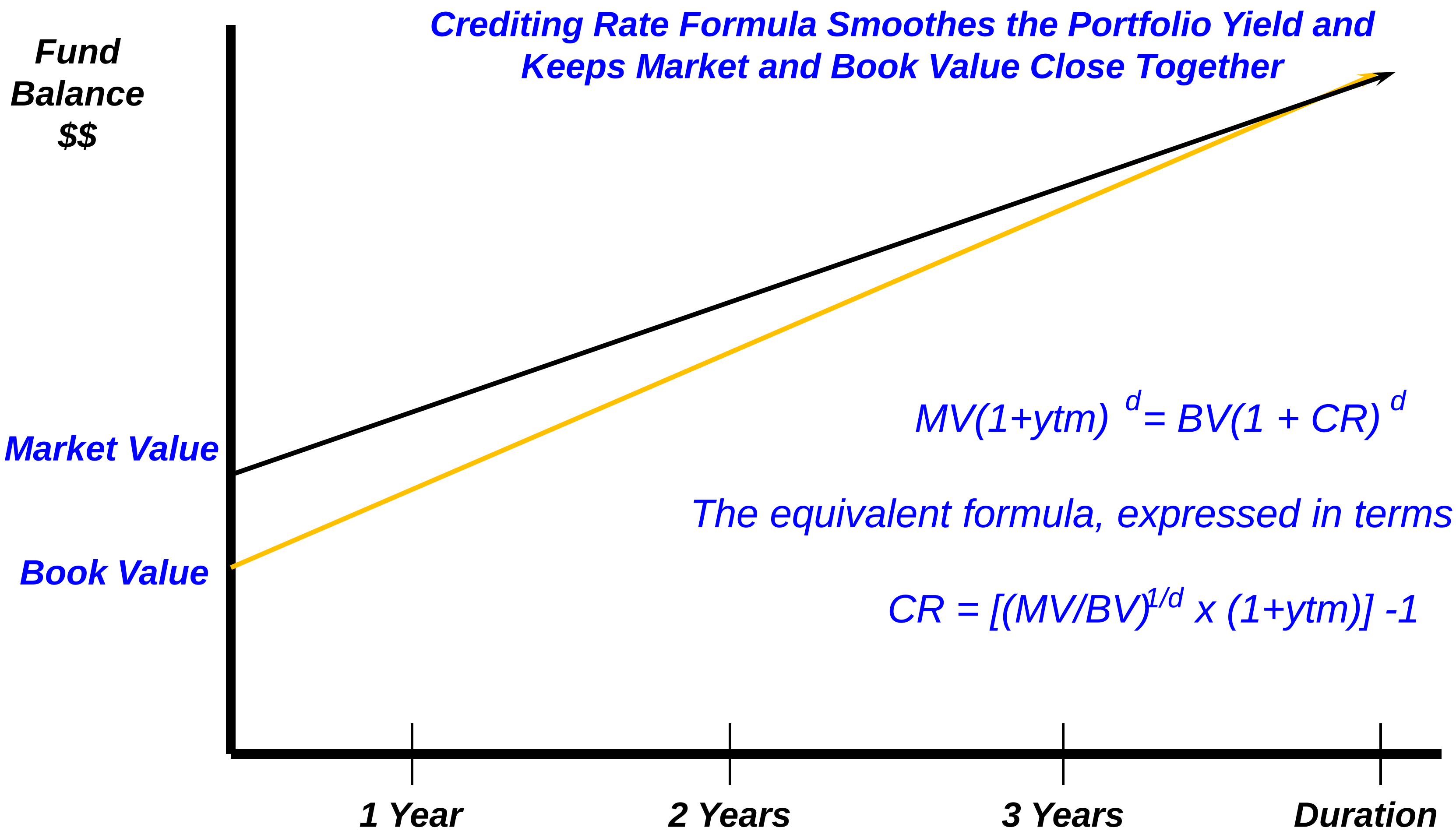
Benefit Responsiveness: How Market Value and Book Value Converge



$$MV(1+ytm)^{d} = BV(1 + CR)^{d}$$

The equivalent formula, expressed in terms of CR is:

$$CR = [(MV/BV)^{1/d} \times (1+ytm)] - 1$$

Stable Value Investment Contracts

Types of Stable Value Contracts	Description	Rate of Return	Assets
Guaranteed Interest Contracts (GICs) and other General Account Contracts	Contracts and agreements with an insurance company that provide principal preservation, benefit responsiveness, and a guaranteed fixed or indexed rate of return backed by the assets of the insurer's general account.	Guaranteed regardless of the performance of the underlying assets.	Owned by the insurance company and held within an insurer's general account.
Separate Account Contracts	Contracts and agreements with an insurance company that provides principal preservation, benefit responsiveness, and a guaranteed rate of return backed by assets held in a segregated account separate from the insurer's general account.	May be fixed, indexed, or reset periodically based on the actual performance of the segregated assets.	Owned by the insurance company but set aside in a separate account for the exclusive benefit of the plan(s) participating in the separate account.
Synthetic GICs	Contracts or agreements with a bank or insurance company that provides principal preservation, benefit responsiveness, and a contracted rate of return relative to a portfolio of assets held in an external trust.	Provides a periodic rate of return based on the actual performance of the underlying assets.	Directly owned by the participating plan(s).

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Stable Value Fund Are Managed in Three Ways

- Separately Managed Accounts
  - » Specifically customized to meet the objectives of a single plan and do not include the assets of other, unrelated plans
- Commingled Funds
  - » Designed to combine the assets of unrelated plans, enabling them to gain the economies of scale within a single stable value strategy
- GICs and Other General Accounts
  - » Generally hold or invest in a single group annuity contract issued directly to the plan, through which the plan sponsor receives a direct assurance of principal and accrued interest from the issuer

- *All have a contractual element that protects against interest rate volatility*

- <u>*All stable value funds are managed to meet FASB's requirements for benefit responsiveness*</u>

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Looking at Stable Value Funds: Overview

	Universe	External	In-House	Pooled Funds	Life Co.
Stable Value Asset Managed (billions)	$561.2	$202.5	$10.0	$128.3	$220.4
Number of Plans	173,050.00	867.00	5.00	37,311.00	134,867.00
Average Size of SVF (millions)	$3,062.03	$499.83	$3,799.06	$7,941.89	$7.34
Net 12-month Return	3.60%	3.26%	4.28%	2.96%	3.89%
Duration	3.21	2.84	3.11	2.06	4.84
Credit Quality S&P Rating	AA	AA+	AA	AA+	AA-

Source: 14th Annual SVIA Stable Value Investment and Policy Survey, which covers stable value fund assets as of December 31, 2009

Characteristics of a Stable Value Portfolio

- High credit quality, fixed income securities
  - » Portfolios will have an investment grade strategy
  - » *Duration is 3.21 years for $561.2 billion as of December 31, 2009*
  - » *Duration is 2.61 years for $435 billion as of June 30, 2010*

- Broadly diversified
  - » In general, the exposure to any single issuer of investment securities typically does not exceed five percent of fund assets

- Balances duration with crediting-rate responsiveness
  - » *Crediting rates are 4.68% for $561.2 billion as of December 31, 2009*
  - » *Crediting rates are 3.25% for $435 billion as of June 30, 2010*

- Maintains a source of ready liquidity
  - » Portfolios should be structured to provide sufficient liquidity when needed for plan benefits

- Each characteristic should be viewed and evaluated as a component of the total, overall strategy employed

Source: SVIA's Key Investment Management Principles for Stable Value Funds ,The 13th Annual SVIA Stable Value Investment and Policy Survey and SVIA Stable Value Quarterly Characteristics Survey.

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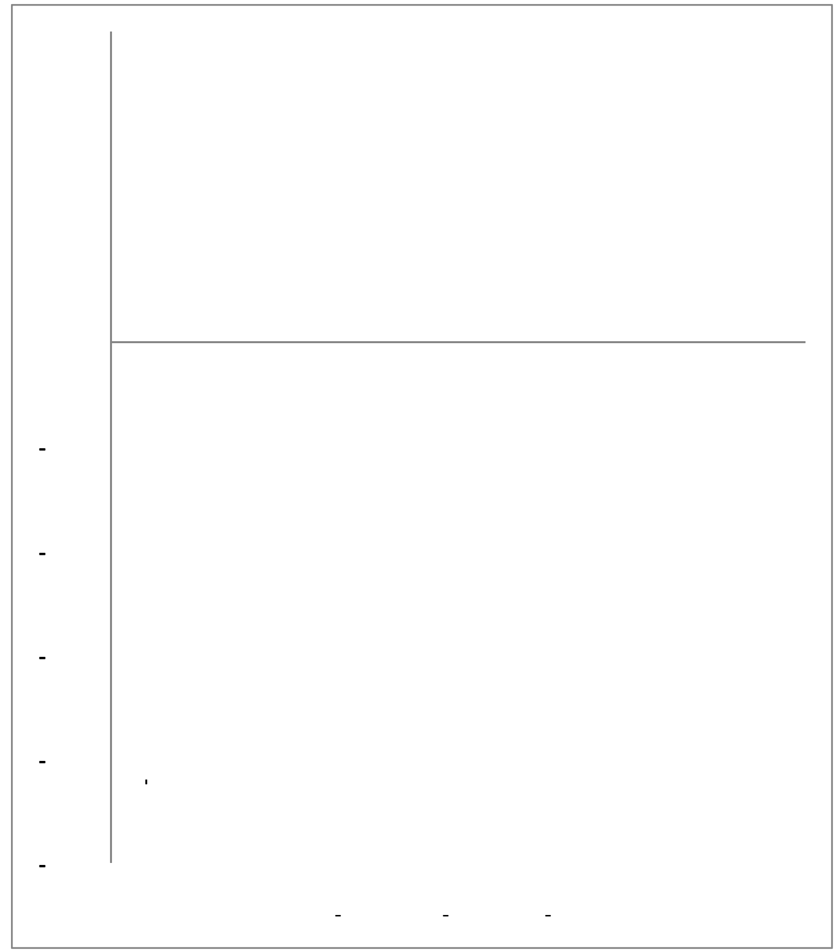
Stable value has proven performance and regulatory oversight

- Over 35 years of successful regulation of stable value funds and investment contracts
  - » Office of Comptroller of the Currency for bank contracts
  - » State Insurance Commissions for insurance contracts
  - » U.S. Department of Labor's Employee Benefits Security Administration and state pension plans, which often subject themselves to ERISA-like standards



Source: Stable value returns/crediting rates are from SVIA's Stable Value Quarterly Characteristics Survey .

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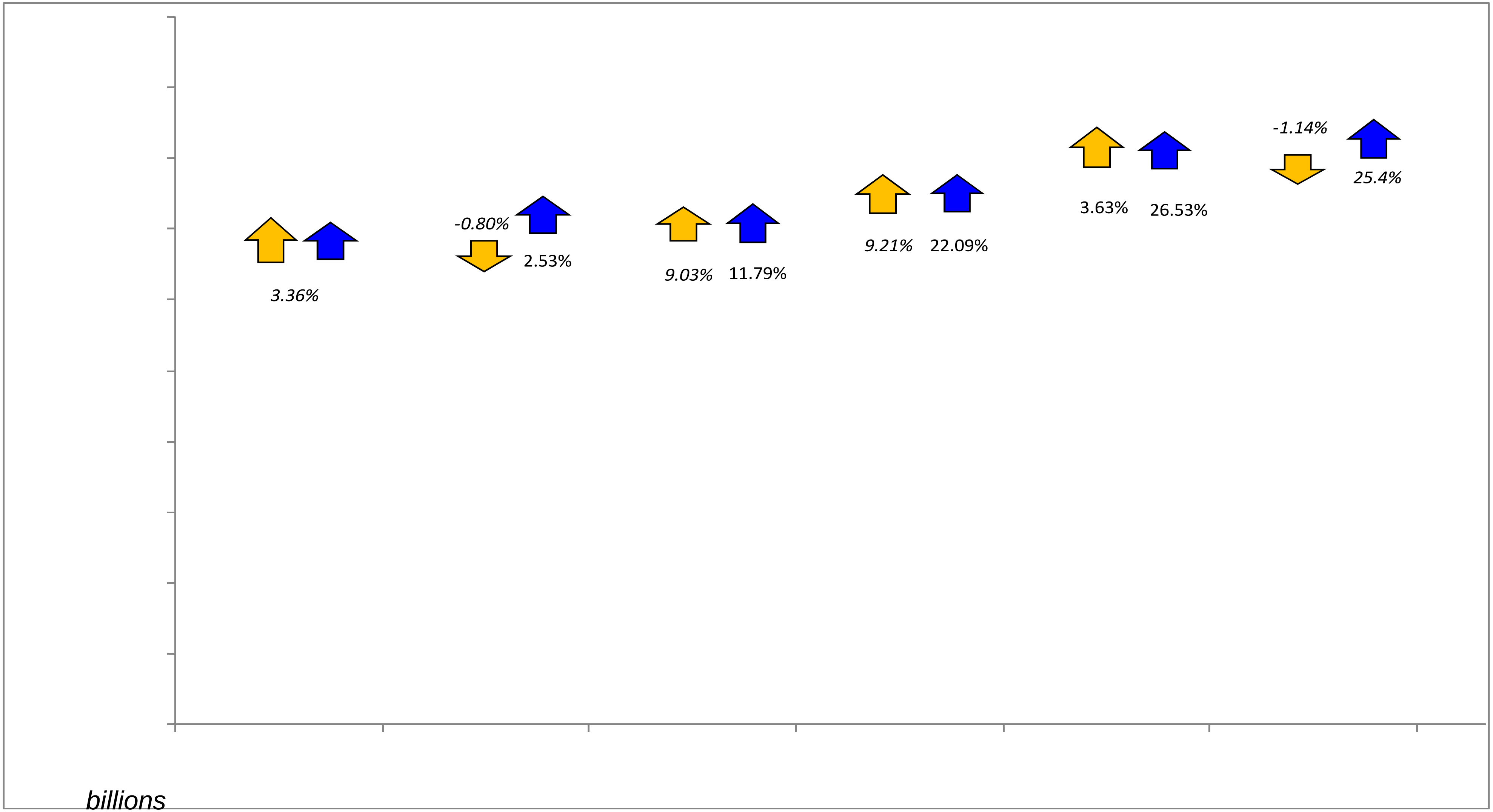
Stable Value Funds Continue to be a Valued Investment



Growth from quarter to quarter Growth from Dec-2008

Source: SVIA Stable Value Quarterly Characteristics Survey through June 2010. 27 stable value managers participate in this survey.

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