STABLE VALUE UPDATE

First Quarter 2017

Market Highlights
March 31, 2017

· Average 5yr GIC yield at 2.49%

· Average 5yr GIC spread to Treasuries at 57 bps

· High 5yr GIC spread to Treasuries at 89 bps

· Most recent FCM 5yr GIC purchase spread: 85 bps/Treas.

· Most recent FCM 5yr GIC purchase issuer rating: AA-

· Current yield on Barclay's Int. Aggregate Index at 2.38%, before wrap fees of 20-25 bps

Economic News

· Treasury yields little changed with 5yr down 1 bp to 1.92%

· FOMC raises rates; expects two more rate hikes next year

· U.S. GDP growth estimates at 1.5% for Q1, and 2.2% for full year 2017

· Labor market expansion: 553,000 jobs added, unemployment rate at 4.5%

· Inflation remains well controlled with little change in Core CPI growth

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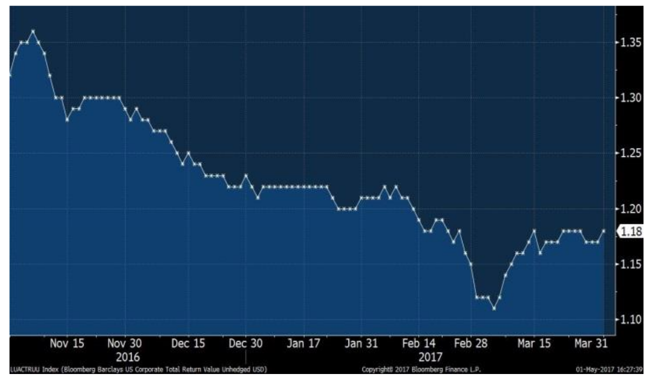
"Trump Trade" Rolls On, But Loses Some Steam

After a volatile last couple months of 2016, the financial markets were relatively quiet during the first quarter. For the most part, the "Trump trade" continued as investors remained optimistic regarding the prospects for a US economy with less regulation and fiscal stimulus in the form of tax cuts and infrastructure spending. However, investor euphoria appeared to wane late in the quarter in response to growing concerns over the ability of President Trump to deliver on his economic agenda. Treasury yields were generally "range bound" for most of the quarter as markets digested a well-telegraphed Fed rate hike along with somewhat more subdued optimism for US growth and inflation expectations. Overall, "risk assets" performed well as fixed income credit spreads continued to grind tighter. (See Figure 1)

FIGURE 1 Bloomberg Barclays U.S. Corporate Bond Index: Option Adjusted Spreads



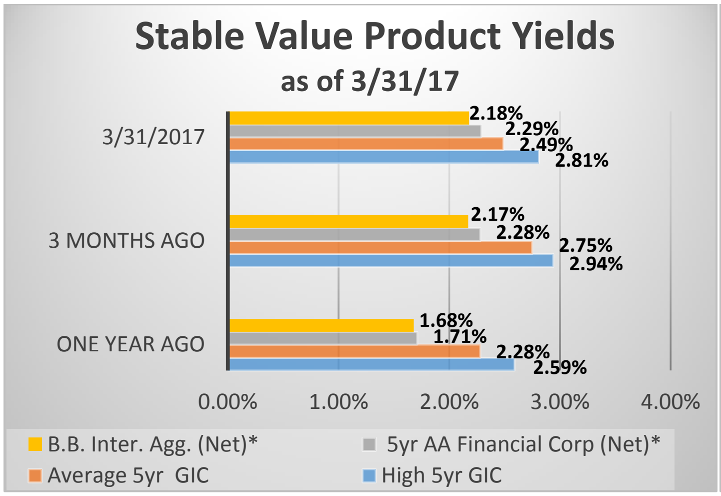
Traditional GICs Remain Strong Option vs. Comparable Corporate Bonds

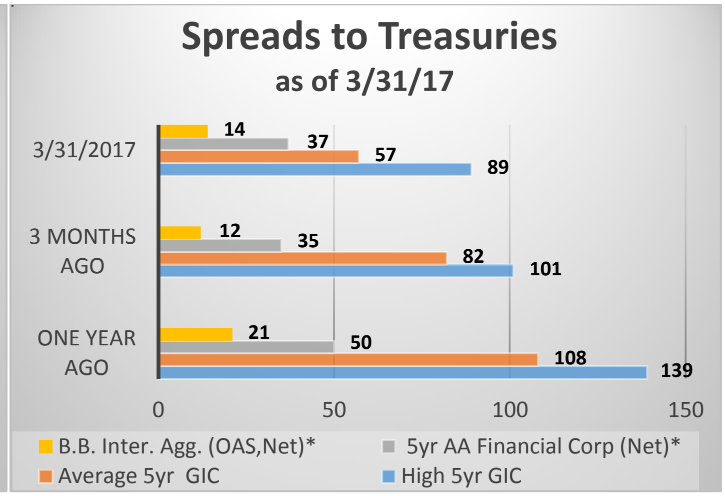
Guaranteed Investment Contracts (GICs) continued to demonstrate strong value relative to high investment grade public fixed income yields. The average 5-year GIC contract currently offers a spread of around 60 bps to the 5-year Treasury note, with the high contract offering a spread of 90 bps, compared to spreads in the mid 50 bps range for comparable public corporate bonds. Moreover, the GIC spread advantage becomes even larger when adding book value wrap fees, typically in the 20 to 25 bps range.

As a result, FCM's most recent 5 year GIC placement earned an average spread of 85 bps to treasuries, well above the average GIC spread, providing our clients an even larger competitive advantage in this fixed income market.

David J. Molin, CFA, SVP Director of Research

STABLE VALUE PRODUCT ALLOCATION



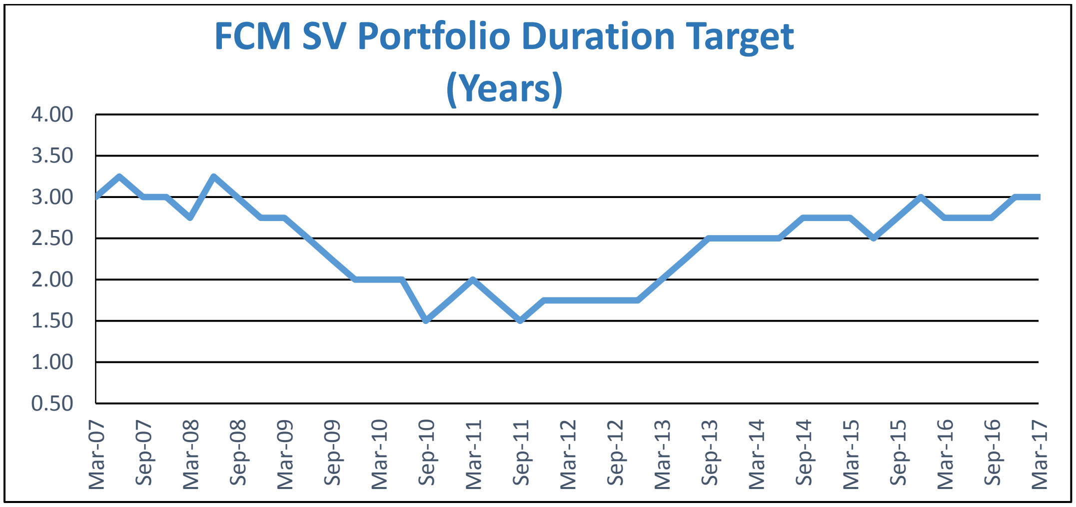


Source: FCM GIC Rate Survey/Bloomberg. *Net of book value wrap fees

During the investment decision making process, FCM evaluates the relative value of all available stable value products including Traditional GICs, synthetic GICs, and separate account GICs. Throughout our thirty year history, FCM's stable value portfolios have been constructed around a core portfolio of traditional GICs, which have typically represented between 40 to 100% of portfolio assets. We have found several advantages to using a diversified, laddered portfolio of traditional GICs over other stable value products, including sizable yield premiums. That said, our traditional GIC ladders are complemented by synthetic and separate account GIC positions backed by conservatively managed, high quality bond portfolios to enhance portfolio diversification and in some cases liquidity. Several factors go into our stable value product allocation decisions, one of which is relative absolute and risk adjusted yields.

As detailed above, traditional GICs currently provide strong value in terms of absolute and excess yields. As of 3/31/17, average 5yr GICs offered a spread of 57 bps to Treasuries compared to 37 bps for AA financial corporate bonds, after book value wrap fees (net). Moreover, the high 5yr GIC contract currently offers a spread of 89 bps to Treasuries, which equates to an excess spread of 52 bps over net 5yr AA financial corporate bonds. When compared to option-adjusted spreads (after book value wrap fees) for the Bloomberg/Barclays Intermediate Aggregate Bond Index, a common synthetic/separate account GIC benchmark, 5yr GICs currently offer an excess spread of 43 bps, down from 87 bps a year ago. Over the last year, GIC pricing spreads have generally followed the US credit markets which have experienced spread tightening in response to strong global demand for higher yielding assets.

SV PORTFOLIO DURATION POSITIONING



FCM's investment policy guidelines constrain stable value portfolio durations to a range of 1.75 to 3.75 years. FCM does not forecast the future course of interest rates and manages portfolio duration primarily through a ladder of traditional GIC contracts, which allows for cash flow reinvestment and general tracking of interest rates. Portfolio duration targets are set on a monthly basis based on a proprietary model that draws upon historical rate comparisons. In general, portfolio duration will shrink when current GIC rates are low relative to historical rate levels and the converse when current rates are high. After shortening our portfolios during the very low rate periods of 2010 to 2012, we have slowly increased our portfolio durations over the last few years to a more historically neutral level as relatively higher GIC rates have resulted in gradual adjustments to the duration target based on model assumptions. During the first quarter, we held our duration target at 3.0 years after raising it by 0.25 years back in December 2016 to reflect the post-election jump in GIC yields. As a result of this strategy, our portfolios have experienced a positive trend in portfolio crediting rates as maturing contracts purchased during the lower rate period of 2010 to 2012 have been reinvested in longer duration, higher yielding contracts. Going forward we expect, this trend to continue if GIC rates remain at current levels or move higher.

STABLE VALUE VIEWPOINT

2016: GIC Issuers: Another Stable Year, Headwinds Persist

Throughout our thirty year history, FCM's stable value management approach has utilized diversified portfolios of traditional guaranteed investment contracts (GICs) issued by major life insurance companies. We have found several relative value advantages in using GICs over other stable value products, including policyholder status and superior yield premiums relative to comparable high-grade obligations. Traditional GIC contracts are general account obligations and backed by the full financial strength and credit of the issuing life insurance company. In general, GIC issuers represent the most creditworthy segment of a mature, highly regulated industry that exhibits strong credit fundamentals including: solid capital levels, diversified revenue and earnings sources, consistent operating cash flows, and conservative balance sheets.

During 2016, GIC issuers exhibited stable credit profiles with the majority of issuers having their financial strength ratings affirmed with stable outlooks. Overall, issuer credit fundamentals continued to benefit from historically high equity market levels and favorable credit market conditions that have contributed to healthy operating results, low levels of problem assets, and robust capital positions. That said, ongoing challenges from the macroeconomic environment remain including the prolonged low interest rate environment and modest US economic growth, along with the potential for equity market disruptions resulting from global economic and financial developments. In response to these challenges management teams have continued their efforts to reduce risk exposures and improve results, which have included increasing hedging activities, de-risking certain equity-linked product offerings, re-pricing product features, reducing interest rate minimum guarantees, repositioning investment portfolios, retreating from interest sensitive product lines, and divesting non-core businesses. Although issuers continue to redeploy excess capital in the form of share repurchases, dividend increases, and acquisitions, financial flexibility remains healthy with conservative levels of financial leverage and excess liquidity positions at the holding company level.

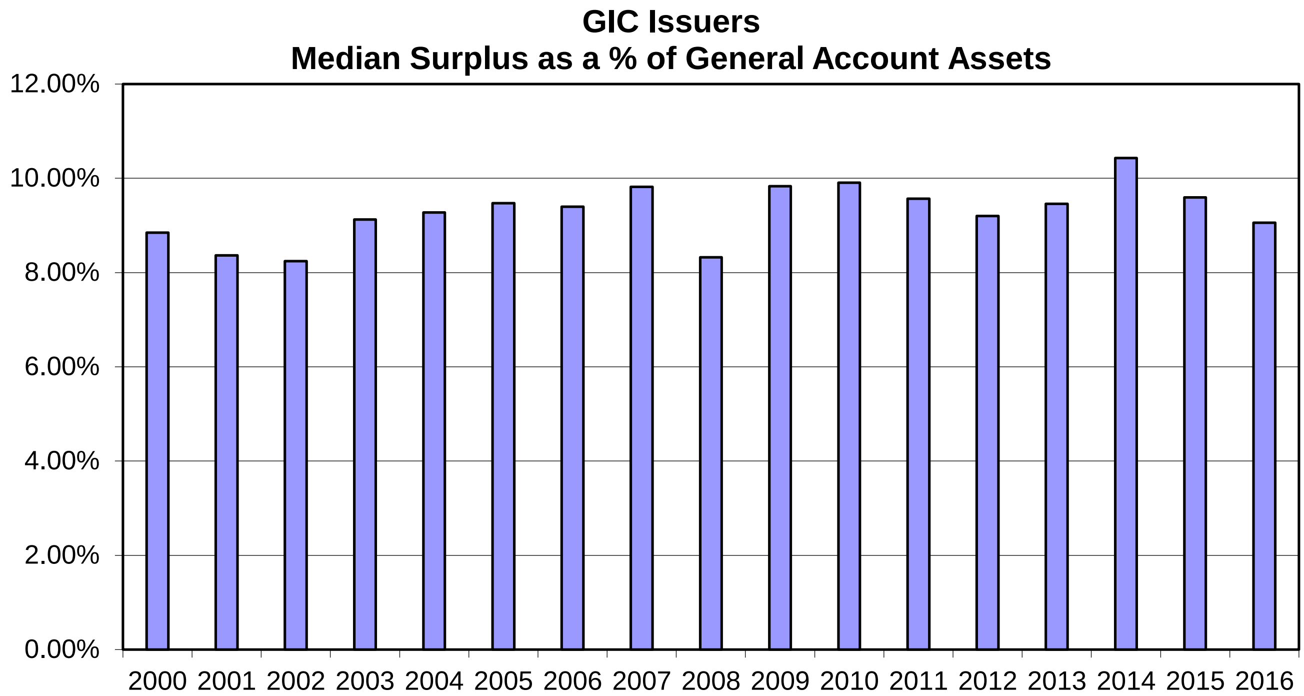
As of year-end 2016, GIC issuer capitalization remained sound with FCM's GIC issuer universe reporting total statutory surplus of $106 billion, down 2% from 2015. The decline can largely be attributed to lower statutory surplus at one large issuer driven mostly by extraordinary dividends to its parent company as part of a corporate restructuring. Excluding this issuer, total statutory surplus would have increased by 2%. Overall, issuer capital positions continued to benefit from solid operating earnings, which were partially offset by higher dividends to holding companies. The median ratio of surplus to general account assets for FCM's GIC issuer universe declined to 9.1% from 9.6% in 2015, which is somewhat below the average of 9.5% for the last ten years. On a risk-adjusted basis, capital ratios remain very solid with our issuer universe reporting a median NAIC Risk-Based Capital ratio of 483%, which is significantly above regulatory minimums and above the pre-crisis high of 446% in 2005. Statutory earnings results remained solid with our GIC issuer universe reporting an aggregate statutory net operating gain of $14.6 billion, up 21% from $12.1 billion in 2015. However, this gain was largely driven by a $3B increase in earnings at one issuer, which was primarily due to a large dividend distribution from one of its subsidiaries. For the most part, the low interest rate environment continued to result in a drag on operating performance in the form of lower investment portfolio yields, pressure on spread product margins, and higher reserves for certain products lines. Although the election result has resulted in more economic optimism and higher long term interest rates, new investment yields are still historically low and it will take a sustained period of rising yields to reverse the downward trend in general account portfolio yields. Despite this headwind, earnings results have remained healthy due to positive earnings contributors including favorable equity market conditions resulting in higher fee income from augmented asset balances, along with overall business growth and expense management.

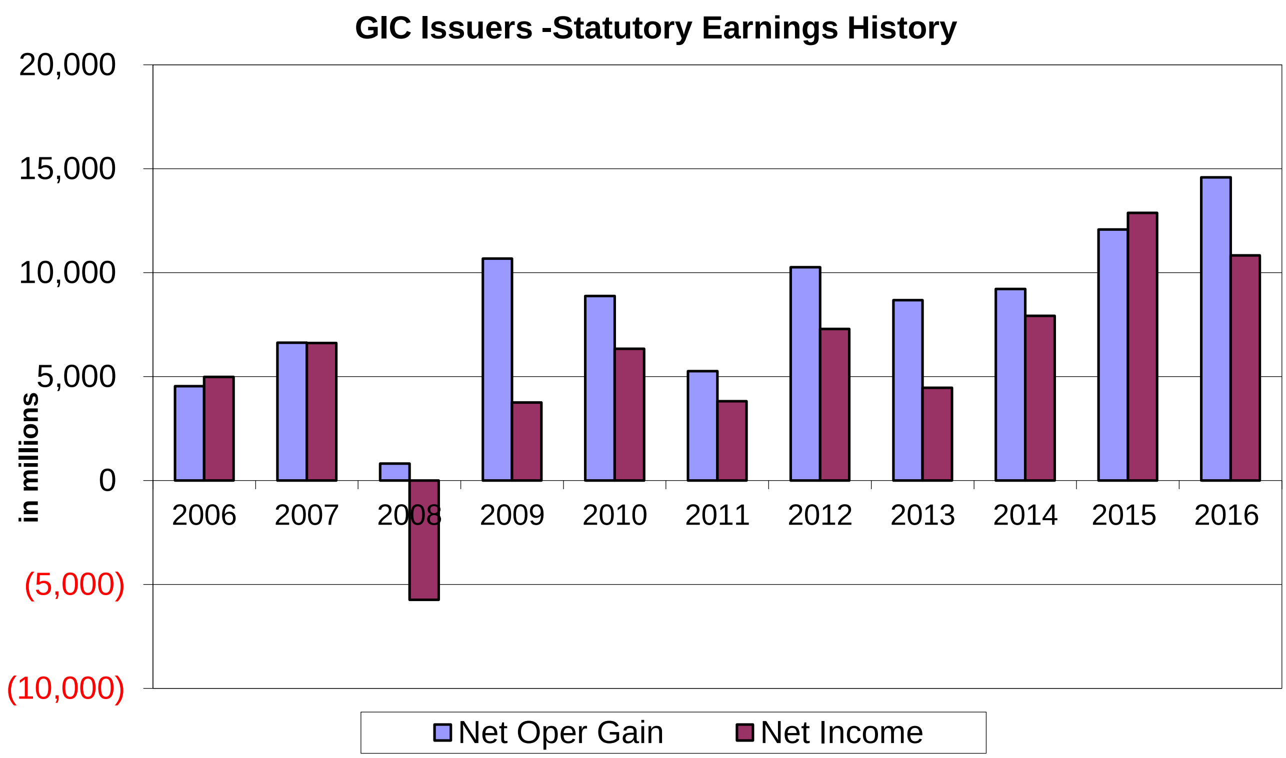
GIC issuers have traditionally maintained high quality investment portfolios. Investing activities are primarily focused in diversified bond portfolios representing approximately 70% to 80% of invested assets. Bond portfolios are typically invested 60 to 70% in corporate bonds, with the remainder mostly comprised of structured securities (10-30%) including mortgage-backed and asset-backed securities and US Government/Agency securities (5- 10%). In general, GIC issuer bond portfolios are conservatively managed with over 90% invested in investment grade securities and significant diversification by individual issuer and sector. In 2016, below investment grade (BIG) bond holdings rose modestly to 6.0% of total bonds on average from 5.8% at year-end 2015, which was driven largely by energy related downgrades during the first half of 2016. As detailed in the chart below, BIG holdings have remained at very manageable levels over the last few years as a result of portfolio de-risking after the financial crisis and the overall improvement in credit market conditions. After bond holdings, commercial mortgages comprise the second largest investment allocation representing 13% of the average issuer's invested assets. In general, GIC issuers have demonstrated expertise in managing this asset class and typically invest in conservatively underwritten and well diversified mortgage portfolios. This asset class continues to perform very well with the average level of non-performing mortgages to total mortgages remaining at less than 0.1% as of year-end 2016. Given this historically low level of problem loans, FCM considers issuer commercial real estate exposure to be very manageable; however, the size and nature of exposure varies amongst issuers and certain issuers may be impacted more than others in the event of a market downturn.

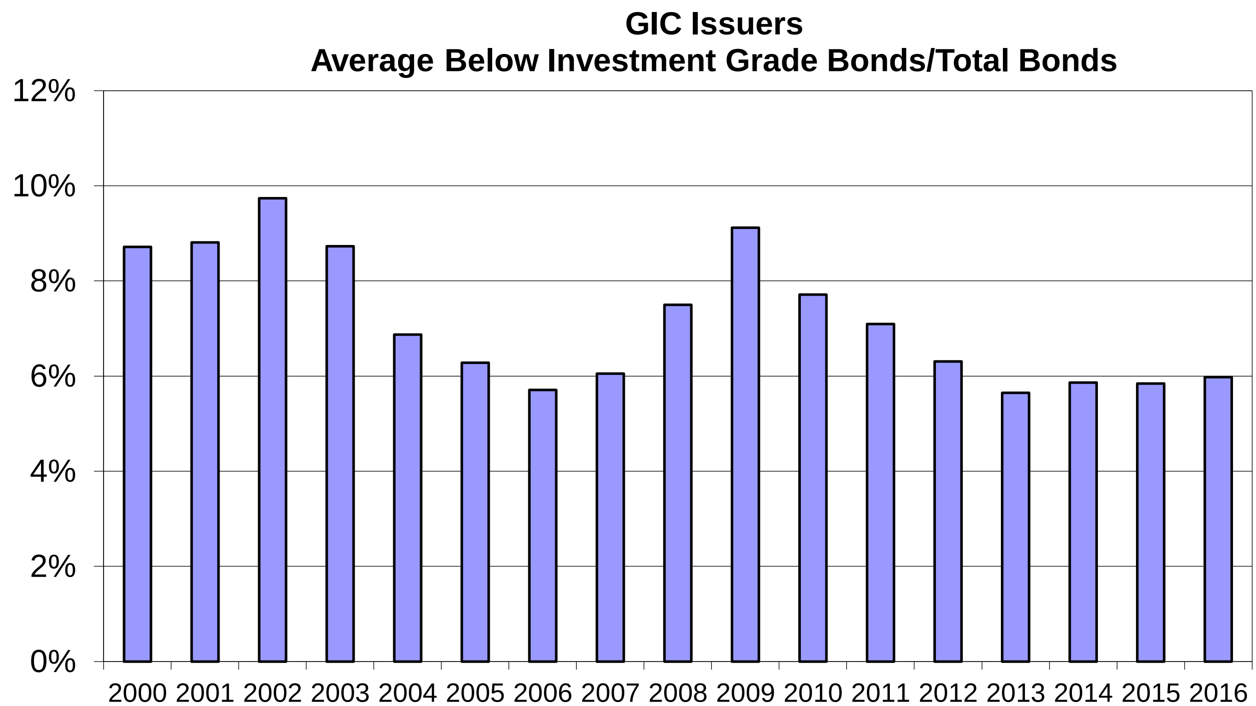
The historically low interest rate environment has led several issuers to add risk to their investment portfolios in order to improve investment performance. To date, most issuers have not increased their holdings of below-investment grade securities, but instead have made adjustments to their investment grade bond holdings to add higher yielding, lower rated issues. This reallocation has largely resulted in higher allocations to BBB rated securities which represent approximately 35% of the average issuer's bond portfolio, compared to 27% in 2007. In addition, several issuers continue to increase allocations to less liquid, higher risk asset classes including private placements, commercial mortgage loans, and alternative investments (i.e. private equity and hedge funds). Although these re-allocations have only marginally increased overall portfolio risk, FCM will continue to closely monitor how management teams balance the benefits of increased yield with the added credit risk and/or less liquidity in their investment portfolios.

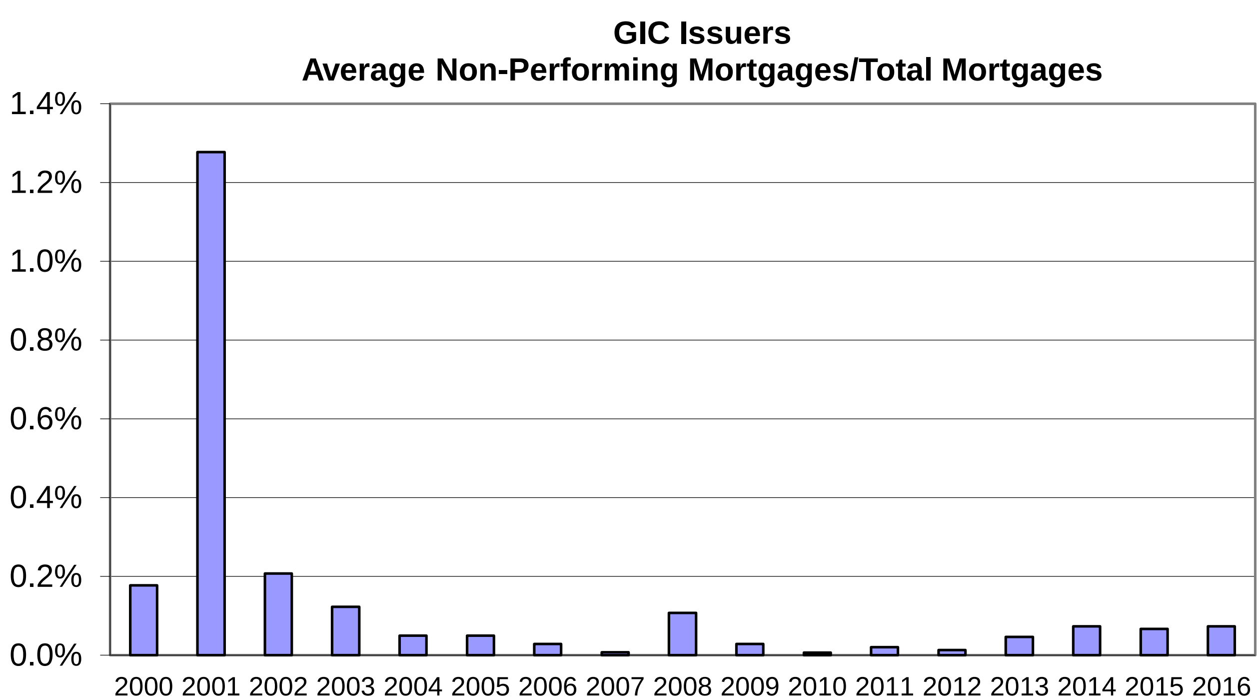
In summary, we expect GIC issuers, some of which are also separate account/synthetic wrap issuers, to continue to be one of the most creditworthy segments of the high-grade fixed income market. Overall, FCM views recent operating trends as further supporting credit fundamentals.

David Molin, CFA, Director of Research


GIC Issuers
Median Surplus as a % of General Account Assets
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


GIC Issuers -Statutory Earnings History
20,000
15,000
10,000
5,000
0
(5,000)
(10,000)
in millions
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016
Net Oper Gain
Net Income


GIC Issuers
Average Below Investment Grade Bonds/Total Bonds
12%
10%
8%
6%
4%
2%
0%
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


GIC Issuers
Average Non-Performing Mortgages/Total Mortgages
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016