STABLE VALUE UPDATE

Second Quarter 2017

Market Highlights
June 30, 2017

· Average 5yr GIC yield at 2.47%

· Average 5yr GIC spread to Treasuries at 58 bps

· High 5yr GIC spread to Treasuries at 86 bps

· Average FCM GIC purchase spread: 76 bps/Treas.

· Average FCM GIC purchase issuer rating: AA-

· Current yield on Barclay's Int. Aggregate Index at 2.35%, before wrap fees of 20-25 bps

Economic News

· Treasury yields little changed with 5yr down 3 bps to 1.89%

· FOMC raises rates; expects one more rate hike this year

· U.S. GDP growth estimates at 2.8% for Q2, and 2.2% for full year 2017

· Labor market expansion: 581,000 jobs added, unemployment rate at 4.4%

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

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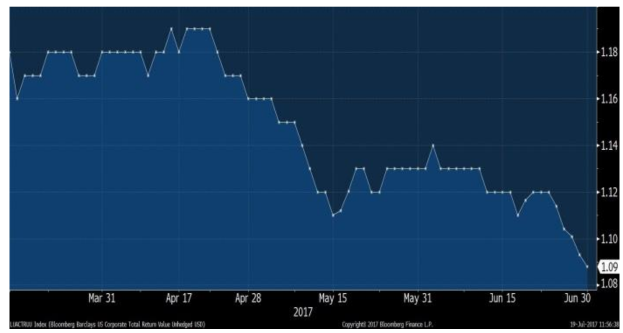
Global Markets Remain Resilient, Despite Geopolitical Noise

Despite spurts of volatility, global financial markets remained resilient in the wake of several geopolitical events during the quarter including the US cruise missile attack on Syria, North Korea missile tests, and the Trump/Russia investigation. In addition, uncertainty regarding the Trump administration's ability to deliver on its pro-growth agenda continued to grow after the Senate was unable to pass its healthcare bill. Despite all this noise, investor optimism regarding the global economic outlook and corporate profits continued to drive "risk asset" valuations higher with US equity markets ending the quarter near record highs and fixed income credit spreads grinding tighter. (See Figure 1)

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



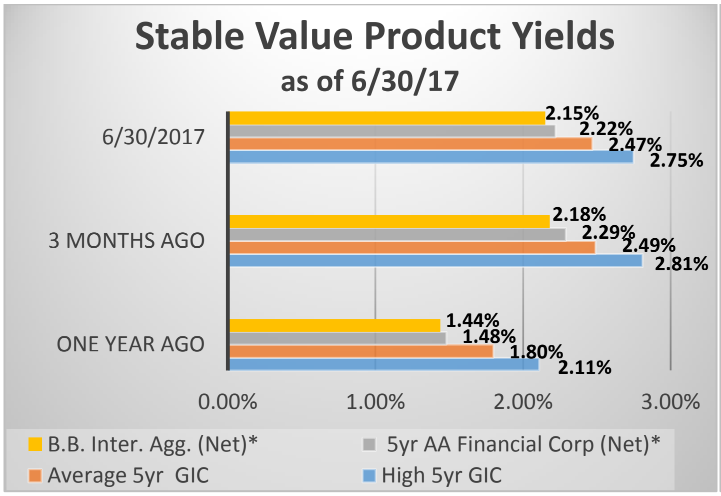
Traditional GICs Remain Strong Option vs. Comparable Corporate Bonds

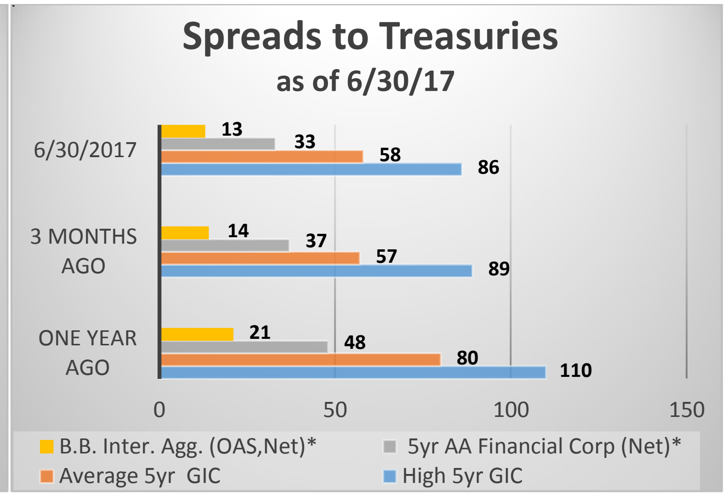
Guaranteed Investment Contracts (GICs) continued to demonstrate strong value relative to high investment grade public fixed income yields. The average 5-year GIC contract currently offers a spread of around 60 bps to the 5-year Treasury note, with the high contract offering a spread of 86 bps, compared to spreads in the low 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 84 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



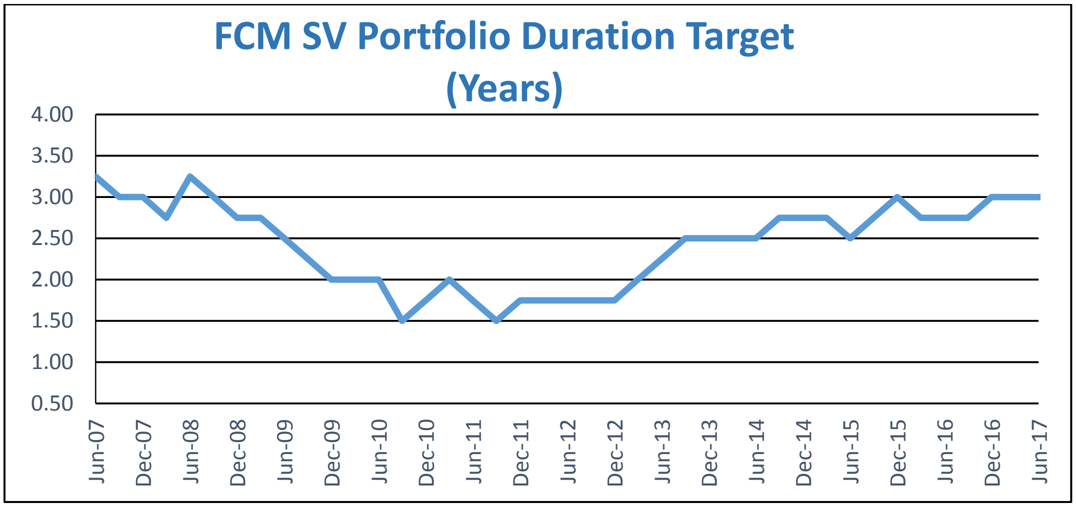


Source: FCM GIC Rate Survey/Bloomberg. *Net of book value wrap fees

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 6/30/17, average 5yr GICs offered a spread of 58 bps to Treasuries compared to 33 bps for AA financial corporate bonds, after book value wrap fees (net). Moreover, the high 5yr GIC contract currently offers a spread of 86 bps to Treasuries, which equates to an excess spread of 53 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 45 bps, down from 59 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 1.50 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 second 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

Stable Value Establishing Growth in the 403(b) Market

According to the annual survey published by the Stable Value Investment Association, total stable value assets under management (AUM) ended 2016 at $821 billion, compared to $540 billion at year end 2010. The industry has enjoyed consistent growth in recent years despite challenges including lack of approval from the DOL as a qualified default investment alternative (QDIA) and the subsequent emergence of target date funds, along with historically low interest rates and surging equity markets. A large chunk of this growth came back in 2011 with stable value AUM increasing 16% from $539.8 billion in 2010 to $645.6 billion at year end 2011. This increase was across all three management segments: individually managed funds, pooled funds, and life insurance company accounts. The important thing to note from five years ago to today - contribution rates for the total stable value segment of the industry were outpacing withdrawal rates which is not the case today. Historically, stable value assets have predominately been concentrated in the defined contribution space with 401(k) plans accounting for the majority of the assets. In 2016, 401(k) plans accounted for 56% of all assets covered by the survey, compared to 63% in 2011. What is notable in the survey is that as the industry's share of the 401(k) market has declined growth in other market segments have picked up the slack, most notably 403(b) assets. In 2016, 403(b) assets represented 29% of total stable value AUM, compared to 21% back in 2011.

The above observations highlight opportunities and challenges for the stable value industry as a whole. 403(b) concentrations are growing while 401(k) concentrations in stable value are falling. Why is this shift occurring and how can we as an industry find a way to further penetrate this market, especially from the stable value manager perspective as life insurance company accounts continue to be primary stable value vehicle due to existing regulations. The two largest segments of the 403(b) market include healthcare and higher education. Healthcare occupations and industries are expected to have the fastest employment growth and to add the most jobs in the years from 2014-2024 according to a 2015 report by the U.S. Bureau of Labor Statistics. Additionally, over this period, the number of jobs within the healthcare sector is expected to overtake the state and local government sector, along with the professional and business service sector. These projections are imperative to our industry because as we know 401(k) plans are largely anchored in the professional and business service sector. In the higher education segment, projected employment growth is estimated to be 9% from 2014 to 2024, which is faster than the average estimated growth for all occupation sectors.

In 2013, LIMRA produced a study reporting significant differences between both segments stating that higher education plans have higher than average participation rates in their 403(b) plans (82% versus 65% in healthcare) and are more likely to offer a match (82% versus 72%). This is in part due to the fact that healthcare firms are more likely to offer a defined benefit (DB) plan as opposed to the higher education sector. The interesting result of employers offering both defined benefit (DB) plans in addition to a 403(b) plan is that bigger balances tend to accumulate for the stable value portion of their 403(b) plans. This is a positive for our industry because participants tend to view their 403(b) plan as a savings vehicle with greater emphasis placed on the stable value option, while they continue to count on their defined benefit (DB) plan as their primary source of retirement savings.

In conclusion, the stable value industry would be wise to continue to find ways to better understand the needs of both healthcare and higher education sectors. As we have seen the shift in assets invested in stable value change over the past five years with 403(b) plans growing greatly we need to be in front of the issues and trends these sectors are most concerned with. The more stable value industry can offer valuable expertise, fiduciary responsibility, and advise on changing regulations the more we can meet the needs of the market in the future.

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