

August 2024



## **Stable Value Fund Review**

North Carolina Supplemental  
Retirement Plans

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Callan

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## **Executive Summary**

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## Stable Value Review – Executive Summary

- Callan maintains a positive opinion of Galliard’s stable value approach and their underlying fixed income strategies.
- Galliard remains well-supported by parent company Allspring Global Investments and has retained a consistent level of autonomy since its parent company’s acquisition. Allspring was rebranded following the sale of Wells Fargo Asset Management to GTCR LLC and Reverence Capital Partners, L.P. in November 2021.
- The investment team has exhibited low turnover and displayed consistency in its investment process since undergoing a leadership transition in 2019. The team continues to follow its collaborative process to develop wrap contract solutions and manage fixed income portfolios.
- In 2022, stable value crediting rates began steadily increasing as the Federal Reserve began its interest rate hiking cycle. Crediting rates trend towards prevailing yields on a lagged basis due to the “smoothing” mechanic of stable value. Stable value fund market-to-book value ratios began to fall below “par” due to the increase in rates.
- The participant cash outflows from the NCSRP stable value account during the current market-to-book value environment has offset gains in the fund’s crediting rate.

Callan

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**Galliard Stable Value**

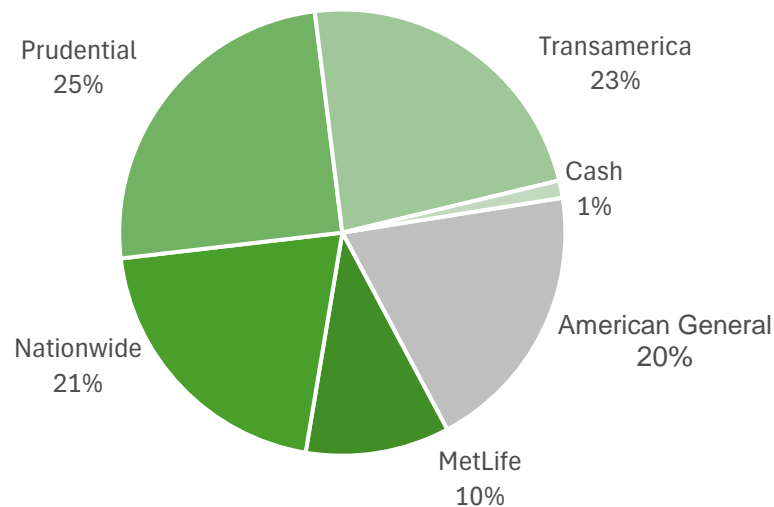
# Galliard Stable Value

## Background

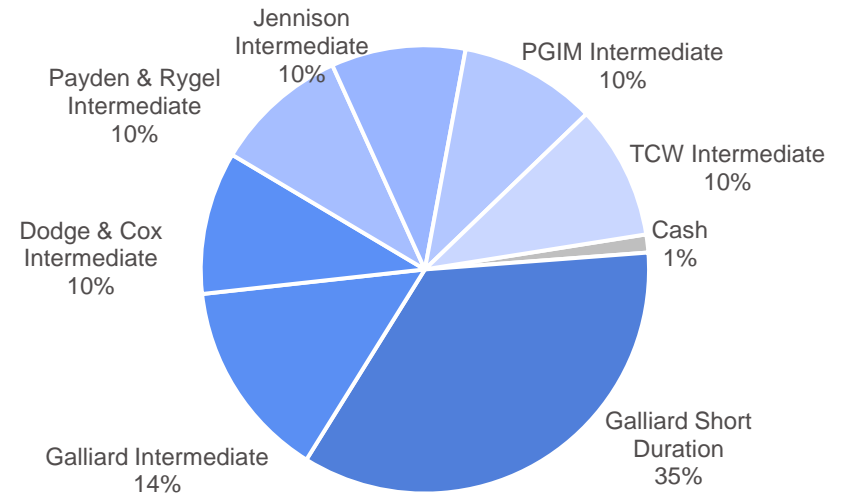
Galliard has honored its objective of capital preservation since inception. Galliard is the manager-of-managers for this custom separate account. Galliard has full discretion to select and allocate assets to subadvisors and wrap providers pursuant to their investment guidelines. Galliard calculates the crediting rate that is paid to participants.

Galliard conducts a collaborative and repeatable process in implementing stable value portfolios. Its stable value and fixed income committees work in concert to ensure that portfolios are managed within guidelines and meet objectives, and wrap contracts are managed prudently.

Wrap Providers  
(by Book Value)



Manager Allocation  
(by Market Value)



Book Value is the cost basis of the assets. Market Value is the current market value of the underlying investment accounts including unrealized gains and losses.

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# Galliard Stable Value

## Organization Review

**Key takeaways: No immediate concerns related to the organization.** Galliard's senior management team has remained stable since transitioning to its current regime in 2019. Callan continues to monitor the organizational transition of its parent company Allspring Global Investments. Galliard's investment teams and strategies have not been impacted by the parent company change.

- In 2019, Galliard transitioned to its current generation of leaders upon the retirement of Founding Partners Richard Merriam and Karl Tourveille, and Managing Partner Carrie Callahan. Michael Norman (chief administrative officer of Galliard) and Andrew Owen (president of Wells Fargo Funds) assumed the roles of co-President of Galliard. Galliard's risk management, technology, and compliance teams began reporting to its parent company.
- In November 2021, parent company Wells Fargo Asset Management was acquired by private equity firms GTCR LLC and Reverence Capital Partners, L.P. and the firm was rebranded as Allspring Global Investments. CEO Nico Marais retired and Executive Chair Joe Sullivan assumed the title of CEO. Approximately 20% of Allspring Global Investments equity is held by employees, providing an alignment of interest for those shareholders.
- Galliard remains a wholly-owned subsidiary under Allspring Global Investments. The firm's revenue sharing agreement and branding was retained.
- Co-President Mike Norman was named sole President of Galliard and Co-President Andrew Owen was named Allspring's Head of Global Fund Governance. Chief Operating Officer Chad Foote left the firm and operational teams began reporting directly to Allspring. Chief Compliance Officer Brian Renelt left the firm and was replaced by Paul Felsch who was named the new Chief Compliance Officer of Allspring Funds Management and Galliard.

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# Galliard Stable Value

## Personnel Review

**Key takeaways: No immediate concerns related to the investment team.** Galliard's investment team is deep with solid experience among its senior professionals and has experienced low turnover in recent years.

- Ajay Mirza and Brandon Kanz serve as Galliard's key fixed income investment professionals acting as Chair and Vice-Chair of the Investment Committee. Mirza joined the firm in 1995 and industry in 1993. Kanz joined the firm in 2005 and industry in 2002.
- Head of Stable Value Contract Strategy Nick Gage is a veteran of the stable value team and industry. In 2020, Gage was promoted when his co-lead and predecessor Leela Scattum retired from the industry. Gage joined the firm and industry in 2008 and 1999, respectively.
- Galliard continues to maintain a deep stable value team with dedicated professionals overseeing wrap contract negotiation, external management oversight, contract administration, and stable value accounting.

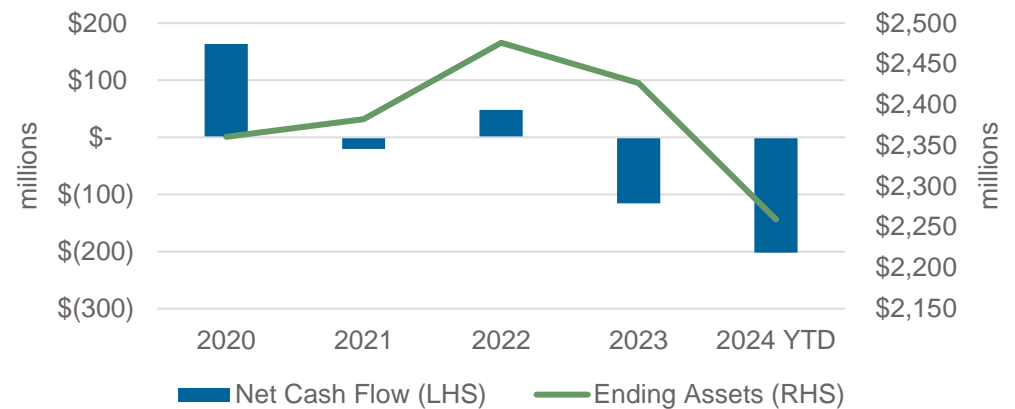


# Galliard Stable Value

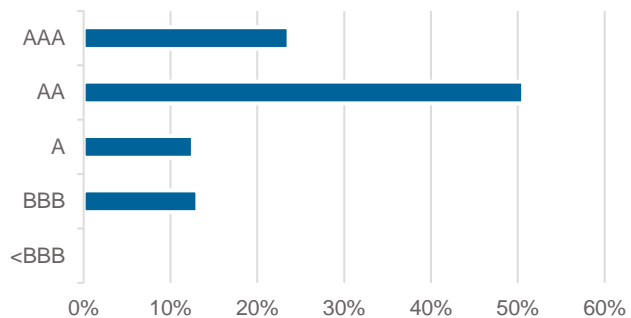
Snapshot as of June 30, 2024

- Book Value: \$2.3 billion
- Crediting Rate: 3.08%
- Market-to-Book Ratio: 93.87%
- Number of Wrap Providers: 5
- Average Wrap Contract Fee: 15 bps

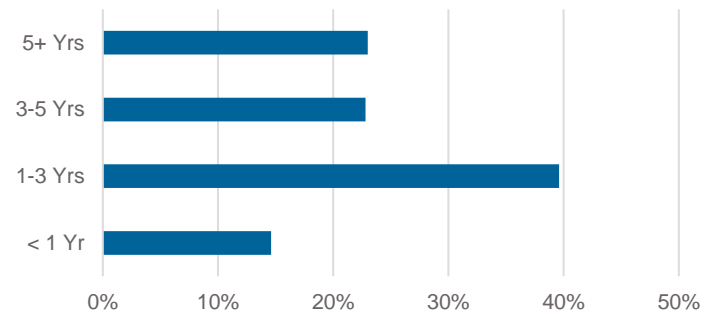
Historical Cashflows



Credit Quality Exposure



Duration Exposure

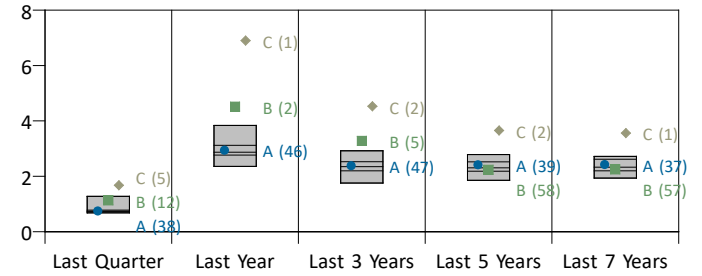


# Galliard Stable Value

## Book value-based performance vs benchmark and peers in line with expectations

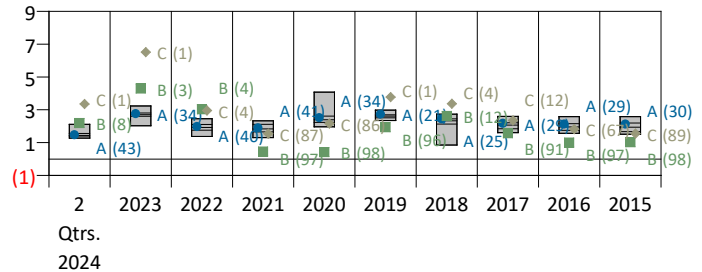
- The Fund continues to deliver capital preservation, but has underperformed its benchmarks over the short-term. Longer-term performance is ahead of the 3-yr Constant Maturity Treasury Yield (CMT) Index benchmark.
- The Fund has ranked above or in line with the median separate account manager over all periods and since inception.
- Short-term performance for the Fund has lagged the benchmark, the 3-yr (CMT) Index and 3-month T-Bill Index plus 1.50%.
- The 3-year CMT Index does not reflect the price impact from changes in interest rates.
- Short term rates shifted up aggressively in recent years.

### Annualized Returns ending June 30, 2024



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years
10th Percentile	1.28	3.84	2.93	2.79	2.72
25th Percentile	0.78	3.12	2.53	2.53	2.62
Median	0.74	2.87	2.35	2.31	2.33
75th Percentile	0.73	2.77	2.20	2.19	2.20
90th Percentile	0.68	2.36	1.76	1.86	1.94
NCSRP Stable Value Fund	0.75	2.94	2.39	2.42	2.43
Treas:Const Maty 3 Yr	1.14	4.52	3.28	2.24	2.25
3 Month T-Bill + 1.50%	1.68	6.90	4.53	3.66	3.57

### Calendar Year Returns ending June 30, 2024



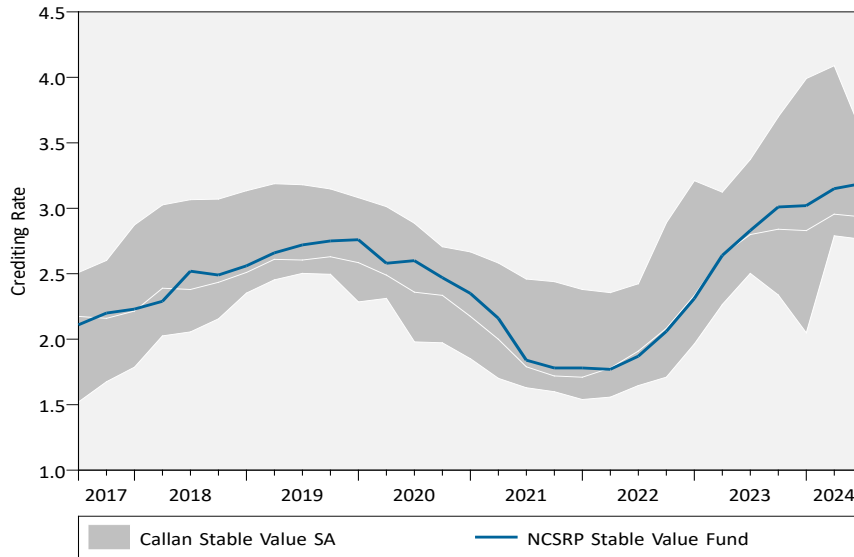
	2023	2022	2021	2020	2019	2018	2017	2016	2015
10th Percentile	2.12	3.23	2.46	2.33	4.08	2.98	2.73	2.60	2.58
25th Percentile	1.56	2.81	2.11	2.12	2.62	2.70	2.45	2.21	2.20
Median	1.44	2.71	1.93	1.84	2.39	2.62	2.33	2.07	1.95
75th Percentile	1.40	2.61	1.76	1.66	2.24	2.51	2.13	1.85	1.67
90th Percentile	1.28	2.03	1.38	1.31	1.97	2.35	0.85	1.61	1.51
NCSRP Stable Value Fund	1.49	2.77	1.98	1.91	2.52	2.74	2.45	2.18	2.13
Treas:Const Maty 3 Yr	2.20	4.30	3.04	0.46	0.43	1.94	2.63	1.58	1.01
3 Month T-Bill + 1.50%	3.36	6.51	2.96	1.55	2.17	3.78	3.37	2.36	1.83

# Galliard Stable Value

The crediting rate remains competitive, and the market-to-book ratio remains in-line with peers

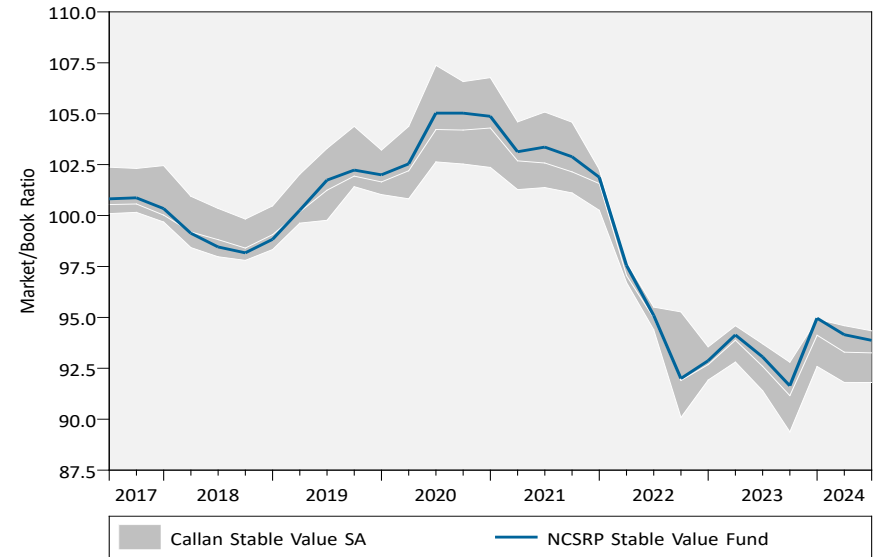
## Crediting Rate

Relative to Callan SA Stable Value Peer Group



## Market-to-book Ratio

Relative to Callan SA Stable Value Peer Group

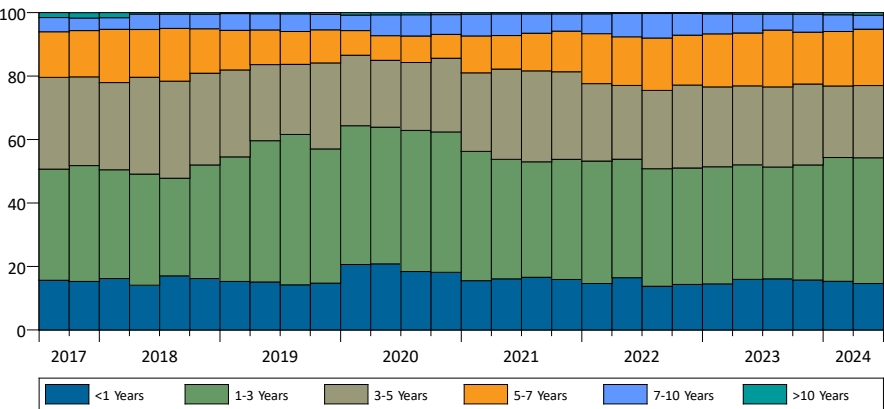


- The Fund's crediting rate increased following the Fed's rate hikes in 2022.
- Stable value had a historic decline in market-to-book ratios in 2022. However, wrap providers remain supportive as the decline was related to interest rates as opposed to credit events which was the case during the 2008 crisis.
- The Fund experienced heavy outflows in 2023 (\$115 million) and YTD (\$202 million) which depressed the market/book value ratio and was a headwind to the crediting rate.

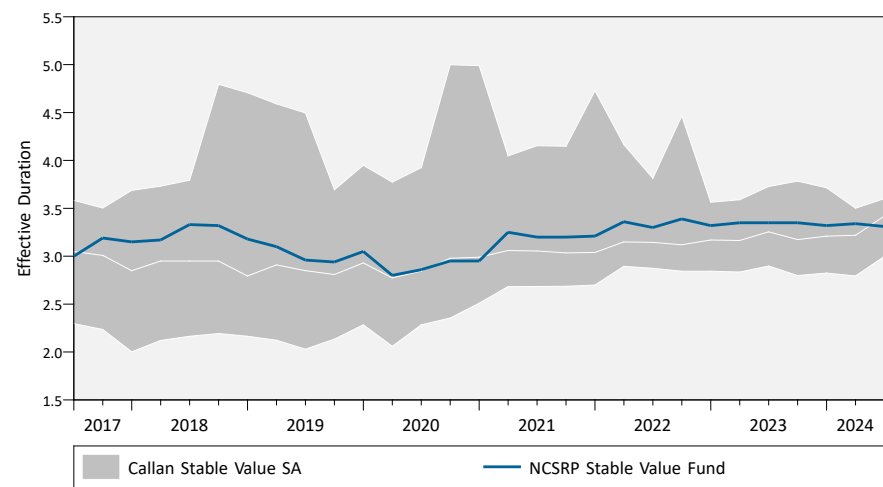
# Galliard Stable Value

The duration and allocation to credit have been managed within an acceptable range

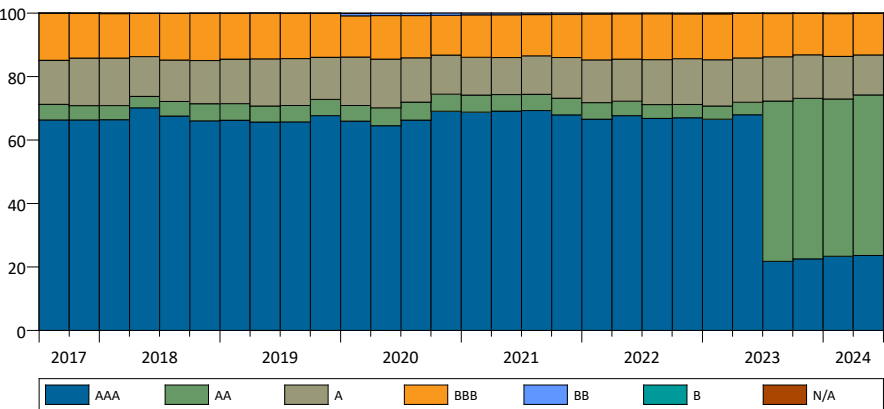
Duration Exposure  
for 7 Years Ended June 30, 2024  
Portfolio: NCSRP Stable Value Fund



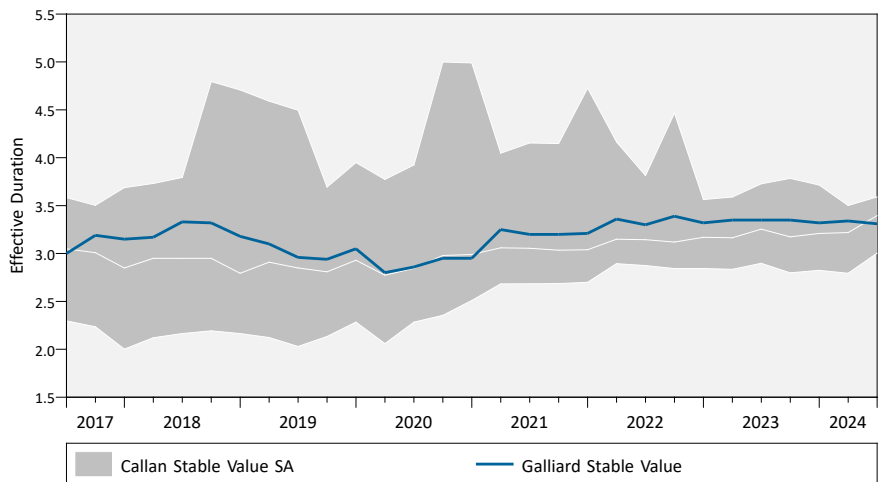
Effective Duration  
for 7 Years Ended June 30, 2024



Quality Exposure  
for 7 Years Ended June 30, 2024  
Portfolio: NCSRP Stable Value Fund



Effective Duration  
for 7 Years Ended June 30, 2024



# Galliard Stable Value

Subadvisor performance for periods ended June 30, 2024

Manager	1 month	1-quarter	YTD	1-years	3-years	5-years	Since Inception	Inception Date
<b>Galliard</b>	0.62	1.11	1.93	5.87	1.08	1.77	2.25	June 1, 2018
<i>BB 1-3 yr Gov't/Credit Index</i>	0.56	0.95	1.38	4.87	0.55	1.25	1.72	-
<b>Galliard</b>	0.99	0.71	0.72	4.56	-1.32	0.77	1.79	June 1, 2018
<b>Dodge &amp; Cox</b>	0.95	0.78	0.85	4.83	-0.90	1.15	1.86	Mar 1, 2015
<b>PGIM Fixed Income</b>	0.92	0.51	0.42	4.29	-1.43	0.62	1.65	Feb 1, 2016
<i>BB Intermediate Aggregate Index</i>	0.92	0.46	0.04	3.55	-1.77	0.22	1.25 / 1.20 / 1.14	-
<b>Payden &amp; Rygel</b>	0.90	0.55	0.25	4.08	-1.35	0.73	1.79	July 1, 2009
<sup>1</sup> <i>Linked Benchmark</i>	0.92	0.46	0.04	3.55	-1.77	0.22	1.29	-
<b>Jennison</b>	0.77	0.64	0.57	4.54	-1.00	1.14	2.04	<sup>1</sup> See Note
<b>TCW</b>	0.91	0.53	0.24	3.98	-1.27	0.91	1.94	June 1, 2018
<i>BB Intermediate Gov't/Credit Index</i>	0.80	0.64	0.49	4.19	-1.18	0.71	1.64 / 1.68	-

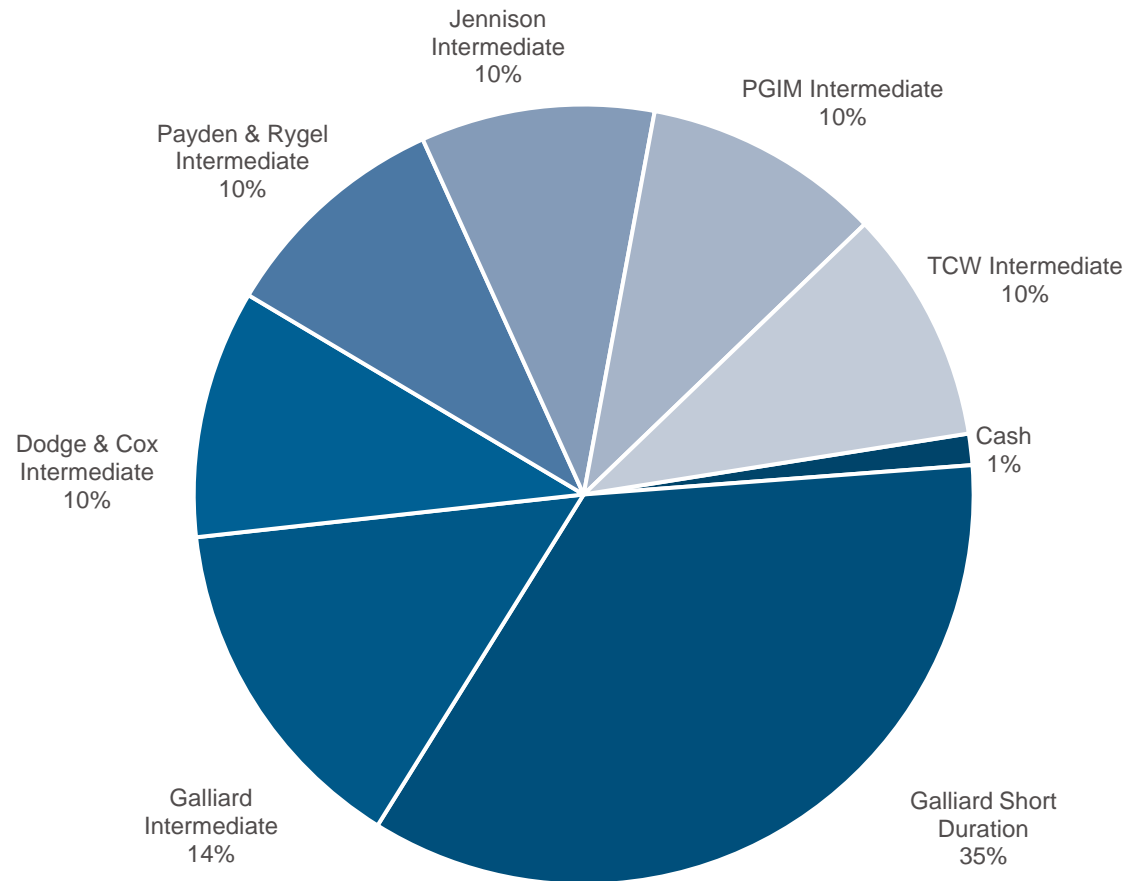
<sup>1</sup>Payden Linked BM: Bloomberg Barclays U.S. Intermediate Aggregate Bond Index. Prior to June 1, 2018 benchmark was Bloomberg Barclays U.S. 1-3 Year Government/Credit Bond Index. Performance inception: June 1, 2018. Prior to June 1, 2018 returns are linked to Wells Fargo Fixed Income Fund N (Jennison).

## Galliard Stable Value

Galliard, Staff and Callan reviewed potential guideline changes

- **Galliard proposed three scenarios as alternative portfolio structures**
- **Scenarios 1 and 2** resulted in maintaining existing guideline limitations with respect to Galliard (max 50%) and external manager exposure limitations (max 15% to any single manager)
- **Sc. 1** replaced PGIM with IR+M resulting in modest fee reduction of 0.4 bps
- **Sc. 2** consolidated from 5 to 4 managers (removed PGIM and Jennison, added IR+M), resulting in a modest fee reduction of 0.4 bps
- **Scenario 3** would amend guidelines resulting in Galliard managing 70% and the balance being equal weighted to three external managers (D&C, P&R, TCW); fee would be reduced by 2.8 bps, but structure would be less diversified

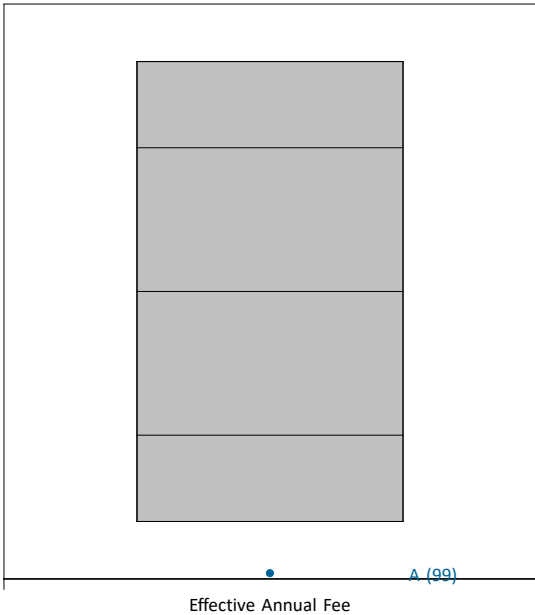
**Existing structure**  
All in fee: 0.262%



# Galliard Stable Value - Fees

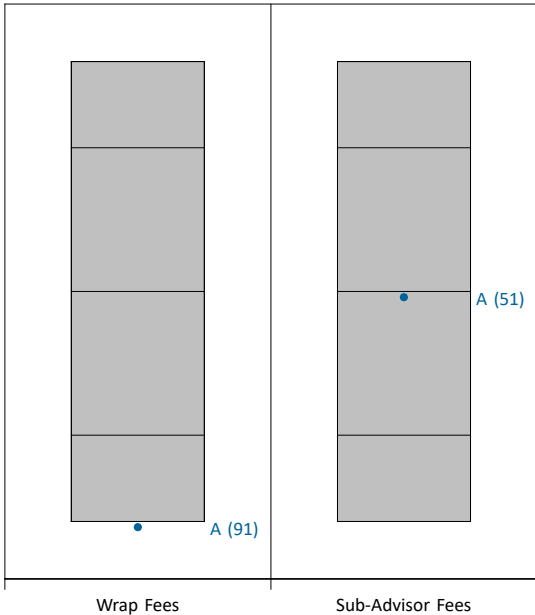
## Management Fee and Wrap/Subadvisor Comparison

Management Fee Comparison  
Ended March 31, 2024  
Group: Callan Stable Value SA



25th Percentile	0.16
Median	0.11
75th Percentile	0.09
90th Percentile	0.08
NCSRP Stable Value Fund • A	0.06

Fee Comparison  
Ended December 31, 2023  
Group: Callan Stable Value SA



25th Percentile	0.15	0.11
Median	0.15	0.06
75th Percentile	0.15	0.00
90th Percentile	0.15	0.00
NCSRP Stable Value Fund • A	0.15	0.06

- Galliard’s management fee of 5.5 bps remains competitive among reported management fee schedules.
- Galliard has also been assertive in negotiating wrap contract fees—they expect fees to remain at roughly 15 bps on average for the foreseeable future.

Note(s): Peer group fees are provided as of year-end due to limited data.

Callan

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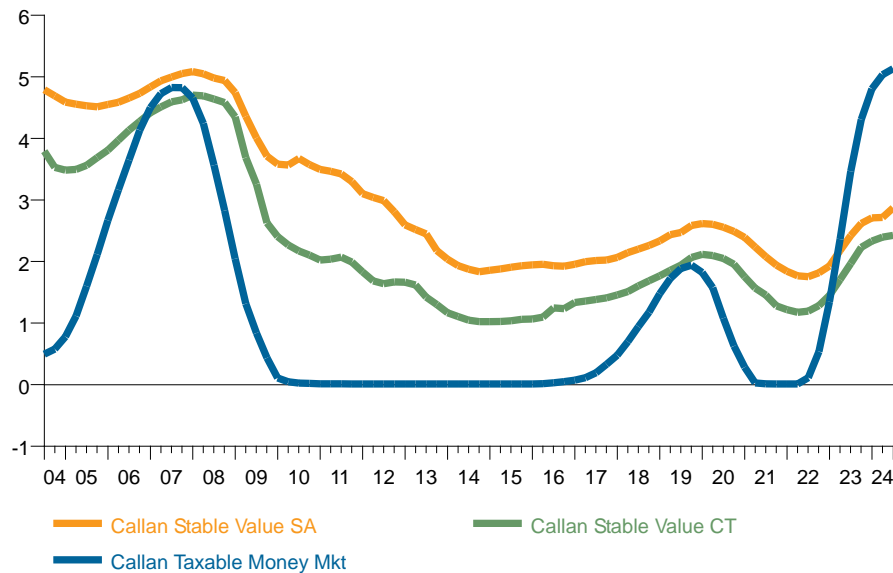
## **Stable Value Trends**



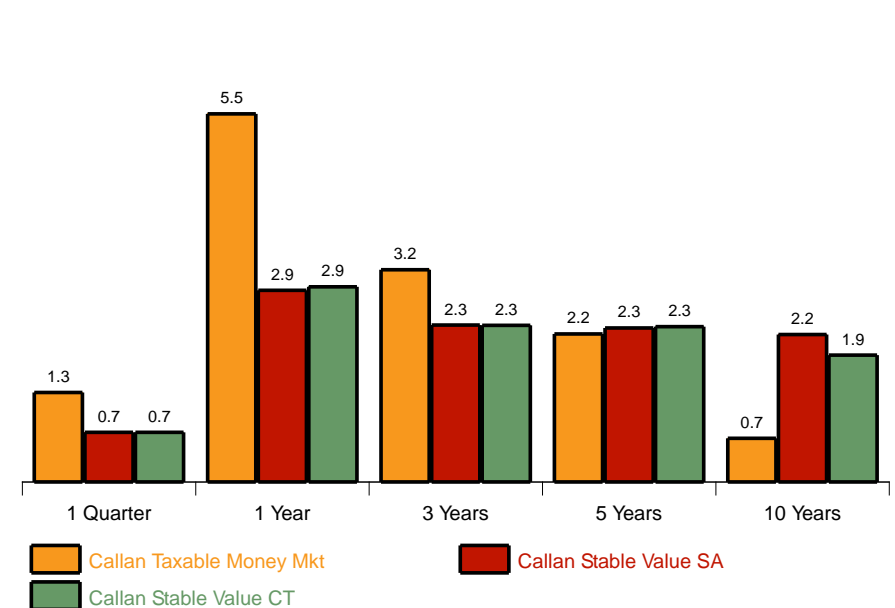
## Stable Value Overview

Historical Performance: In a rising interest rate environment, Stable value underperforms money markets

Rolling 1 Year Returns for 20 Years ended June 30, 2024



Returns for Periods ending June 30, 2024



- Stable value funds, by definition, reflect changes in interest rates more slowly than money market funds. In 2022, the rapid increase in interest rate to historic levels was immediately reflected in money market fund rates. Stable Value funds are still amortizing the lower rates in the prescribed crediting rates.
- The sustained inversion of the yield curve (cash and short-term bonds yield more than longer ones) has led to a period of sustained underperformance by stable value funds. The current yield curve inversion became the longest on record in March 2024. As the yield curve normalizes, stable value should return to form as it has historically.
- Callan continues to advocate for stable value given its long-term outperformance and price smoothing mechanics.

# Stable Value Overview

## Market-to-book ratios (M/B) and crediting rates adjust, but within expectations

### Market-to-book ratios have been below par (100%) since 1Q22

- Funds averaging 94% market to book ratios reflect the rapid rise in rates and cash outflows from stable value
- Downgrades remain low in funds that Callan closely tracks. Note that investment guidelines were broadly tightened following the GFC.

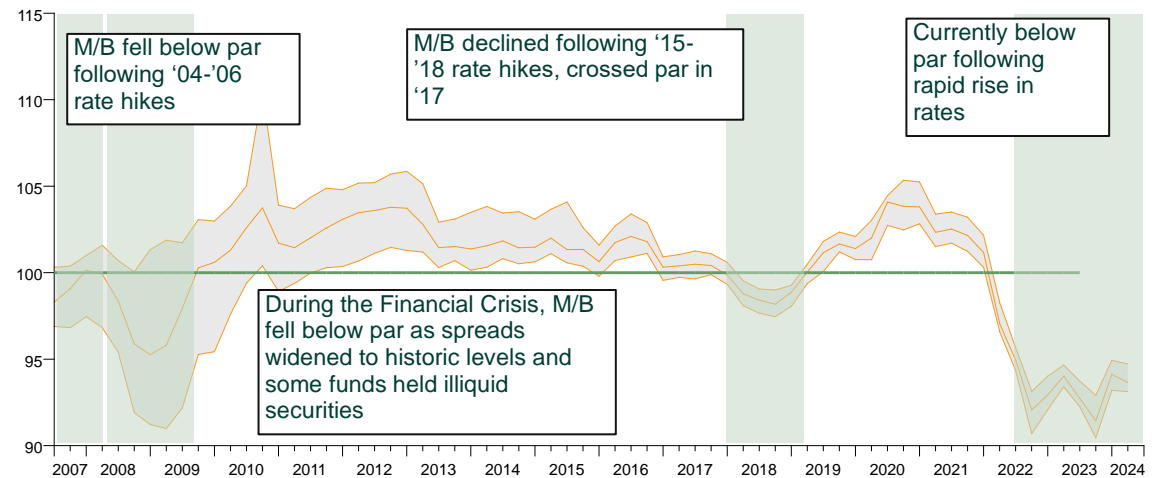
### Stable value meeting expectations

- Wraps contracts are designed to amortize price volatility and provide stable returns through book value accounting.

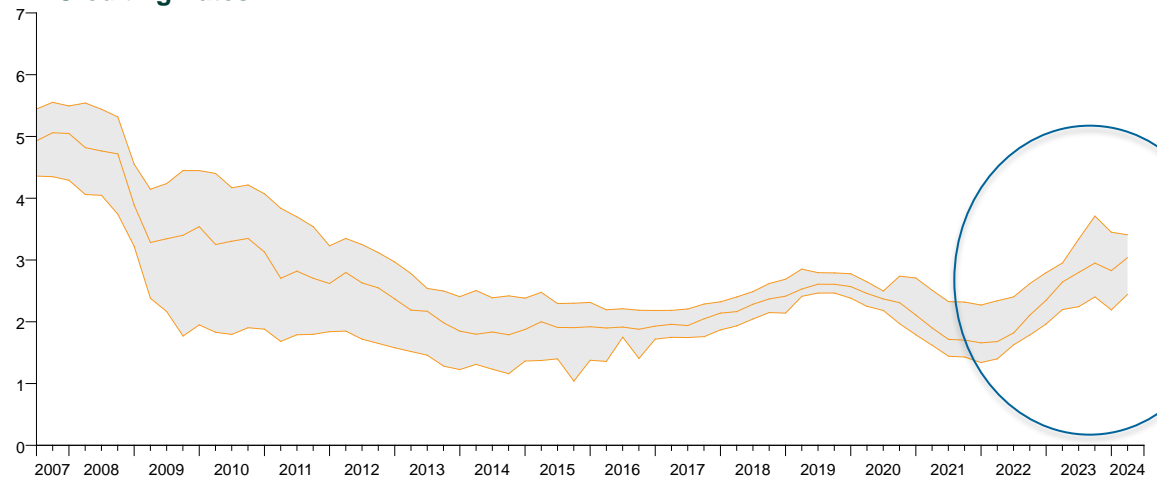
### Crediting rates began to increase in 2022

- Stable value tends to benefit from rising rates as new cash flows are invested at higher yields.

Market-to-book Ratios<sup>1</sup>



Crediting Rates<sup>1</sup>



Comment(s):

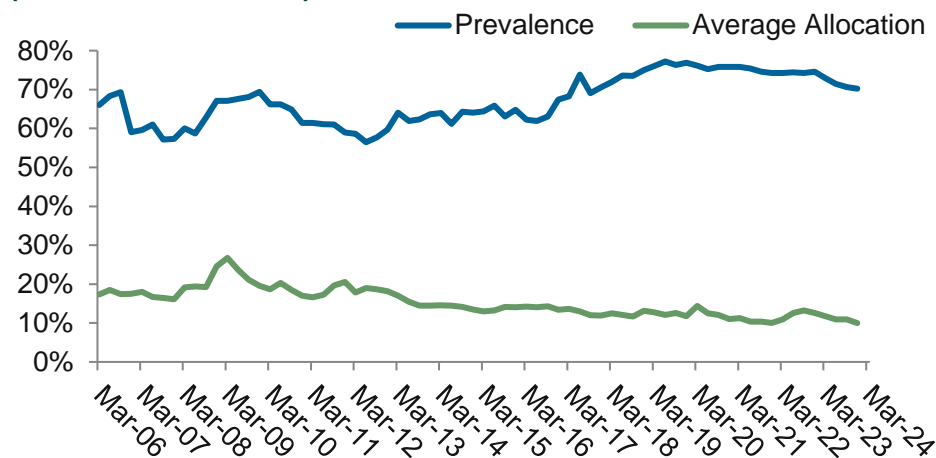
<sup>1</sup>Callan Stable Value Peer Group's 10<sup>th</sup>-90<sup>th</sup> percentile range and group median.

# Stable Value Overview

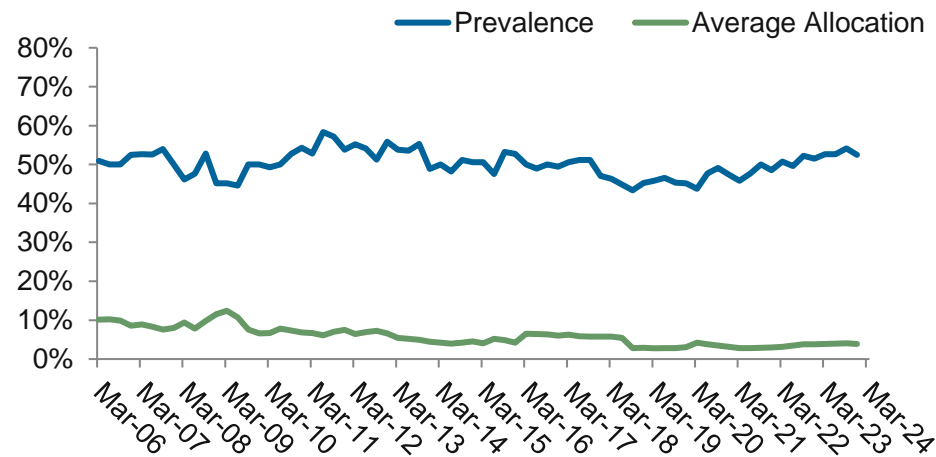
## What is Stable Value?

- Stable value is an investment vehicle that combines principal preservation and stable income
  - Approximately 70% of DC plans offering Stable Value options
  - Where offered, 9% of participant assets on average are allocated to this option
- Money market funds are the competing option
  - Approximately 52% of DC plans offer money market funds
  - Stable value strategies have provided a return premium over money market funds over the long term, as underlying assets typically invest in longer term bonds (3-5 years). See Slides

**Stable Value Prevalence and Average Allocation  
(as of March 31, 2024)**



**Money Market Prevalence and Average Allocation  
(as of March 31, 2024)**



The blue bars indicate the prevalence of asset classes within DC plans, while the green bars show the average allocation to particular asset classes when offered as an option.  
Source: Callan's DC Index

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## Stable Value Glossary of Terms

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**Book Value:** The value of initially deposited principal, plus accumulated interest, plus additional deposits, minus withdrawals and expenses.

**Commingled Fund:** A fund that combines the assets of unaffiliated plans in to one large group. Also known as pooled funds, collective funds, collective trusts, commingled investment trusts (CITs), or group trusts.

**Competing Option:** Another investment option offered by a defined contribution plan that has principal preservation as a primary objective or other characteristics similar to stable value. Self-directed brokerage or mutual fund windows often also qualify. Competing options may require an equity wash provision to restrict participant transfers between the stable value option and competing options.

**Corporate-Initiated Events:** Employer-driven events, such as layoffs, bankruptcy, or a new early retirement program, may result in the loss of book value accounting due to wrap contract language.

**Crediting Rate:** The interest rate applied to the book value of a stable value fund.

**Equity Wash:** A provision in a stable value fund that requires participants that transfer assets out of the fund to not invest these assets into a competing option for a period of time (often 90 days).

**Fees:** Stable value funds pay both management fees and wrap fees. Returns are generally quoted net of wrap fees, but gross of management fees. However, both fees must be disclosed to investors.

**Market Value:** The value at which an investment would sell on the open market.

**Market-to-Book Ratio:** The ratio of market value to book value, used to measure the overall “health” of a stable value option, and the degree to which a stable value option has a market value shortfall.

**Put Provision:** For stable value options, a plan may elect to fully exit a fund or pool provided the investor gives proper notice. The “put provision” term refers to the length of time the investor may have to wait for a full contract value liquidation..

**Wrap Contract:** An agreement between a stable value fund and a counterparty, usually an insurance company or bank, that allows the stable value fund to maintain book value accounting practices with full participant liquidity.