STABLE VALUE INVESTMENT CONTRACTS

A Key Component of a Stable Value Solution

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STABLE VALUE was created specifically for use in retirement plans. It is the only fixed income investment option available that seeks to provide contract value payouts (principal plus accrued income) for participant transactions instead of market value payouts. The contract value protection feature is a key reason why stable value has been and remains among the most popular investment choices of retirement plan participants since the 1970s.

Galliard has extensive experience evaluating investment contract issuers, as well as negotiating and managing a variety of types of stable value investment contracts for its clients. Following is an overview of three commonly used types of stable value investment contracts available in the market today: Traditional GICs, Separate Account GICs and Synthetic GICs (also called security backed investment contracts).

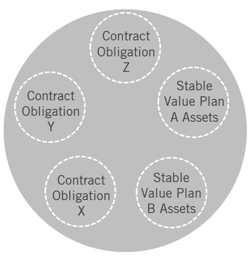
GALLIARD CAPITAL MANAGEMENT is a wholly owned, independently operated investment management subsidiary of Wells Fargo Bank, N.A. Founded in 1995, Galliard specializes in architecting fixed income and stable value investment solutions for institutions nationwide. The firm's deeply rooted client-centric culture and in-depth level of expertise in every critical area of the investment solution are the key differentiating characteristics of Galliard. Galliard manages more than $84.8 billion in assets for more than 240 institutional clients nationwide.

STABLE VALUE INVESTMENT CONTRACTS

A number of financial contracts designed to provide protection for stable value strategies have evolved over the past 30 years. Contract value protection means that participants who invest in stable value can typically transact at principal plus accrued interest, regardless of the market value of the stable value fund's underlying assets. Participant-initiated transactions typically include benefit withdrawals, loans, and transfers. Three commonly used stable value investment contracts include: traditional GICs, separate account GICs, and synthetic GICs (also known as security-backed investment contracts). Many stable value investment strategies utilize a combination of contracts from these three alternatives/ categories. While all the financial contract structures share a common goal of providing contract value protection for participant initiated transactions, each alternative has distinct considerations which include, but are not limited to, differing contractual terms, ownership/custody of fund assets, and protection benefits.

Traditional GICs

Plan assets are part of Insurance Company's General Account

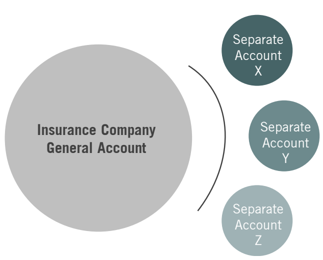


TRADITIONAL GICs

Introduced by insurance companies in the late 1970s, traditional GICs are still widely used in stable value strategies today, and are perhaps the most easily understood of the financial contract structures available in the marketplace. A traditional GIC is a group annuity contract issued and backed by the financial strength of the insurance company. Traditional GICs provide a fixed rate of interest over a specified time period. Upon maturity, the issuer is obligated to repay principal plus accrued income back to the stable value fund. While GICs are not insured by any federal agency, GICs offer direct and explicit guarantees from issuing insurance companies. As a policy holder, a stable value fund has priority claim over bond and equity holders should the issuing entity experience default during the term of the agreement. The contract reserves for GICs are held in the insurer's general account, and the ability of the insurer to meet its contractual obligations ultimately depends on its financial stability.

Separate Account GICs*

Plan assets are segregated and insulated from the Insurance Company's General Account for exclusive benefit of Policy Holder.



*Participating Separate Account GIC

SEPARATE ACCOUNT GICs*

Separate account GICs were created in the late 1980s by insurance companies. Separate account GICs are generally issued as group annuity contracts and offer certain guarantees from the issuing insurance companies. Like traditional GICs, separate account GICs seek to enable participants to make contract value withdrawals (principal plus accrued interest) subject to certain conditions. Unlike a traditional GIC, separate account GIC assets are invested in a portfolio of marketable fixed income securities and segregated for the exclusive benefit of the policy holder which is the plan trust. While ownership of the assets is retained by the insurer, separate account GIC assets are insulated from the insurance company's general account.

**The Separate Account GICs described above refer to participating Separate Account GICs. Some insurers also offer non-participating Separate Account GICs which are typically fixed or floating rate, fixed maturity contracts.*

SYNTHETIC GICs (SECURITY BACKED INVESTMENT CONTRACTS)

Synthetic GICs (also called security-backed investment contracts), were developed in the late 1980s/early 1990s. The introduction of synthetic GICs represented a departure in the stable value world from traditional GICs and separate account GICs in that this type of structure unbundled the contract value guarantee from the ownership of the plan assets. Thus, two distinct components were established: 1) a portfolio of marketable fixed income securities (i.e. bonds) owned outright by the plan trust and 2) stable value investment contracts issued by various financial institutions such as banks and insurance companies. Unbundling ownership of the underlying plan assets from the investment contract component offers the plan direct access to the underlying assets if the insurer experiences financial difficulty. With synthetic GICs (security-backed investment contracts), the plan trust retains 100% direct ownership over the underlying portfolio of fixed income securities. Direct control of the assets clearly limits exposure to the issuer the stable value investment contract is further reduced to any shortfall that might occur between a synthetic GIC's contract value and market value of the assets.

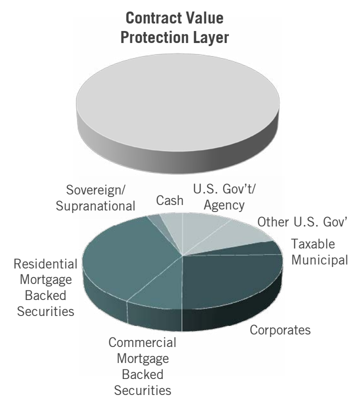
CONTRACT STRATEGY AND ISSUER PLACEMENT

The stable value asset class has been well-served by the variety of financial contract options available to provide benefit responsive features for participant transactions. However, these contracts are highly complex financial instruments, and like any investment, are not risk free. Investment contracts typically include certain provisions which limit their ability to provide participants with contract value payouts under certain circumstances. These risks and circumstances should be understood and carefully weighed when evaluating stable value investment options.

Since contractual terms are customized, a stable value manager may negotiate with contract issuers on behalf of plan sponsors. Therefore, contract negotiation, management, and administrative expertise, are as critical and valuable as the adeptness and skill of a fixed income manager in stable value investing. A holistic stable value management approach that effectively integrates the two core components of contract management and fixed income management ultimately results in a more optimal client aligned stable value investment solution.

Synthetic GICs (Security Backed Investment Contracts)

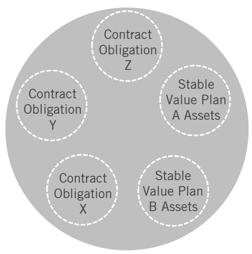
Plan assets are unbundled from the stable value investment contract. The Plan Trust has direct ownership of the plan assets.



STABLE VALUE INVESTMENT CONTRACTS

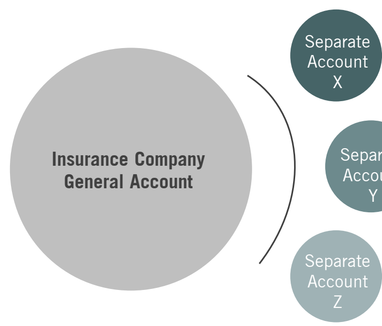
Traditional GICs

Plan assets are part of insurance company's general account



Separate Account GICs*

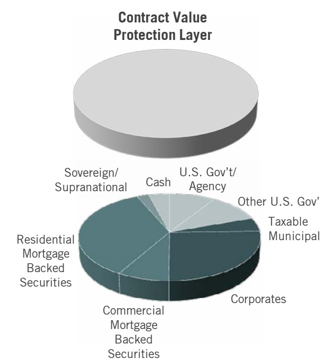
Plan assets are segregated and insulated from the Insurance company's general account for exclusive benefit of policy holder



*Participating Separate Account GIC

Synthetic GICs (Security Backed Investment Contracts)

Unbundles contract value protection from ownership of underlying investments



Issuer: Insurance company issues group annuity contract and owns GIC assets

Plan Trust: Policy holder of group annuity contract backed by insurance company general account

Issuer: Insurance company issues group annuity contract and owns separate account assets

Plan Trust: Policy holder of group annuity contract backed by a portfolio of segregated/ insulated assets

Issuer: Banks and insurance companies issue investment contracts but do not own underlying assets

Plan Trust: Direct ownership of underlying fixed income portfolio and contract holder of stable value investment contract

What is... a Traditional GIC?

A traditional GIC is backed by the creditworthiness of the issuer.

A traditional GIC is a group annuity contract issued by an insurance company and provides a guarantee of principal and accumulated interest. Most GICs for stable value provide a specified interest rate for a set period of time. GICs seek to enable participants to make withdrawals at contract value. At the plan level, GICs are relatively illiquid until maturity.

... a Separate Account GIC?

A separate account GIC is backed by bonds held in an account separate from the insurance company general account.

Like a traditional GIC, a separate account GIC seeks to enable participants to make contract value withdrawals; assets are owned by the insurer. Unlike a traditional GIC, the separate account GIC is typically backed by a marketable (open maturity) portfolio of fixed income securities.

... a Synthetic GIC (Security Backed Investment Contract)?

A synthetic GIC is backed by bonds owned by the plan trust.

A synthetic GIC seeks to enable participants to make contract value withdrawals. Unlike a traditional GIC, a synthetic GIC unbundles contract protection from the marketable portfolio of fixed income securities. Unlike a separate account GIC, the plan trust is the owner of the underlying assets in a synthetic GIC.

Who Owns Plan Assets?

Plan assets are part of the insurance company's general account and are owned by the insurer. The plan trust is considered a policy holder with priority claim status over bond and equity holders of the insurer's general account.

Plan assets are segregated for the exclusive benefit of the policy holder and insulated from the insurance company's general account, but are owned by the insurer. The plan trust is a policy holder.

Plan assets are unbundled from the stable value investment contract. The plan trust has direct ownership of the underlying plan assets.