City of Milwaukee
Deferred Compensation Plan

Financial independence. It starts today.

Invesco Stable Value

Defined Contribution Plan Capital Preservation Options

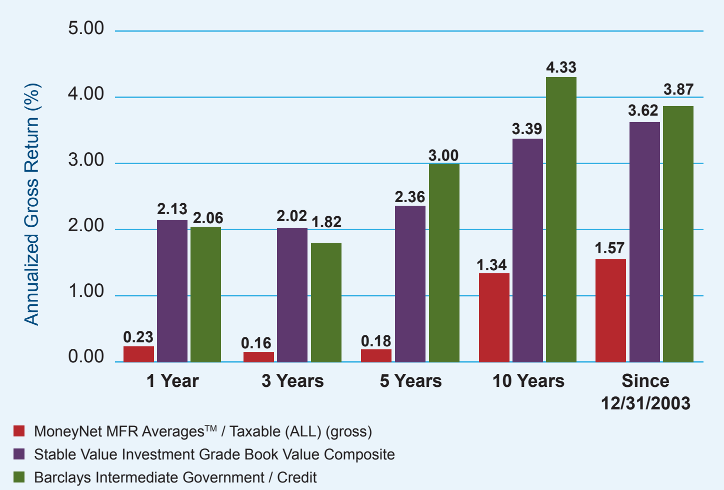
Plan sponsors of defined contribution plans have the responsibility to determine the appropriate investment options offered to their plan participants. The Employee Retirement Income Securities Act (ERISA) provides guidance regarding the number and types of investment options that should be made available under the plan. According to ERISA, defined contributions plans should be structured with at least three diversified investment alternatives with materially different risk and return characteristics. As a matter of practice, most defined contribution plans offer considerably more than the three investment choices suggested by ERISA. While plan sponsors are not required to offer a capital preservation option, the majority of plan sponsors include one in order to provide participants with a low-risk alternative to equity, bond and blended strategies. Plan sponsors commonly select between money market funds and stable value funds to serve as the capital preservation investment vehicle. While both types of funds can serve as the low risk, capital preservation investment option, their holding and performance characteristics are quite different. The definitions below provide a brief description of money market funds and stable value funds:

Money Market Fund: A money market mutual fund invests in debt securities characterized by their short maturities and minimal credit risk. Money market funds are among the lowest-volatility investments, seeking to preserve the share price at $1.00. Federal regulations provide maturity and credit quality parameters to improve their ability to maintain a stable share price even during times of financial market stress. Investments typically include short-term U.S. Treasury securities, federal agency notes, Eurodollar deposits, repurchase agreements, certificates of deposit, corporate commercial paper, and obligations of states, cities, or other types of municipal agencies; depending on the fund objectives. Money-market funds have historically produced returns that have been lower than bond funds and investors run the risk that returns will not keep pace with inflation. The Securities & Exchange Commission (SEC) recently approved amendments to the rules governing money market funds, making several structural and operational reforms scheduled to take effect October 14, 2016. The largest regulator changes will impact institutional prime and municipal funds that will be subject to floating net asset values, liquidation fees and redemption gates.

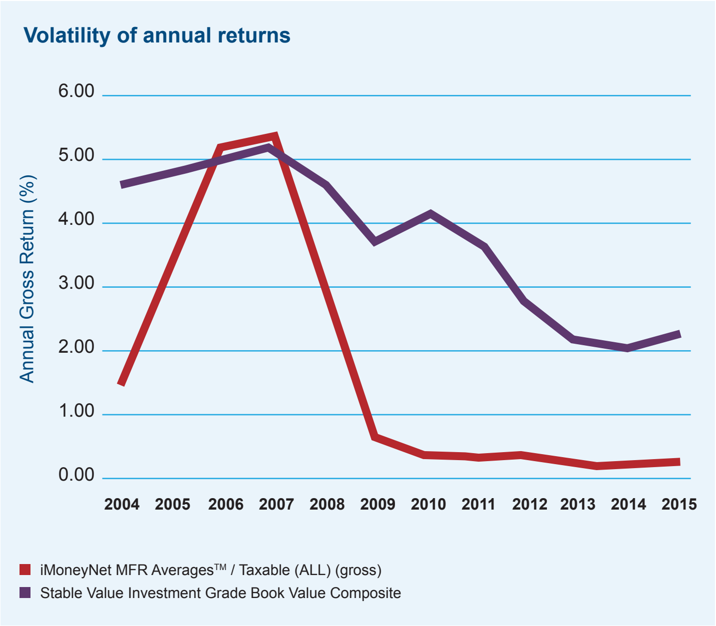
Stable Value Fund: Stable value funds are only available in defined contribution plans and are designed to provide investors with positive daily returns. While money market yields reflect rates available in the cash market (or short duration investments), stable value funds have historically produced returns that are comparable to high quality, intermediate-term bond funds (over full market cycles). Stable value funds consist primarily of investment contracts (aka insurance contracts) issued by a financial institution that are paired with portfolios of fixed income securities, i.e. bonds. The investment contracts smooth the volatility of the underlying fixed income investments, resulting in a positive return that gradually tracks changes in market interest rates. While bond prices vary inversely to changes in interest rates, the investment contracts allow participants to transact at contract value (principal plus accrued interest) without experiencing principal fluctuations. Investors have daily access to their stable value balances under normal plan operations to make investment transfers or to take distributions allowed under the plan.

The graphs below illustrate historical stable value performance relative to money market and fixed income investments to provide the reader with general performance characteristics. As illustrated in the chart below, stable value funds have delivered returns that are in line with (factoring in the impact of fees) intermediate-duration, high quality fixed income investments over a full market cycle.

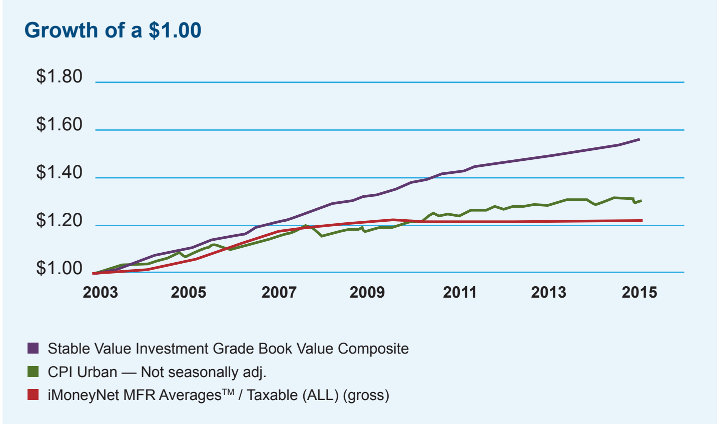
Periodic Performance as of 3/31/16



The accommodative Federal Open Market Committee (FOMC) monetary policy that began in response to the 2008 financial market dislocation has served to suppress yields on short-term investments and has adversely impacted performance of money market funds. The graph below illustrates the historical returns on money market funds and stable value funds.



Yields on both money market funds and stable value funds have declined in response to declining market interest rates. However, as can be seen in the graph below, money market funds have failed to keep pace with inflation for the last several years.



While most money market funds met the capital preservation objective, their failure to keep pace with inflation has eroded the purchasing power of investors. As illustrated in the graph above, the historical returns on stable value have exceeded inflation.

Stable value offers principal protection for investors with shorter time horizons and is popular with investors who favor certainty over growth. Stable value also provides a capital preservation anchor, reducing volatility within diversified asset allocation strategies. The Fed's accommodative monetary policy has driven the return difference between money market funds and stable value funds to historically wide levels. Stable value investments have outperformed money market investments and inflation over the last two decades, creating more wealth for defined contribution plan investors. Stable value is a popular investment option with defined contribution plan investors who have allocated more than $777 billion to the asset class[1]. It is offered in 50% of employee benefit defined contribution plans, approximately 168,000 plans[1].

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[1] Source: Stable Value Investment Association Stable Value Quarterly Characteristics Survey for 4Q 2015.

About risk

Fixed-income investments are subject to credit risk of the issuer and the effects of changing interest rates. Diversification does not guarantee a profit or eliminate the risk of loss. Obligations issued by US Government agencies and instrumentalities may receive varying levels of support from the government, which could affect the ability to recover an investment should they default. Past performance is not indicative of future results. Yield more closely reflects the current earnings of money market funds than total returns. The Invesco Stable Value Investment Grade (Book Value) Separate Account Composite is used as a proxy for Stable Value since there is no publicly available separate account Stable Value universe.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in such a fund.

NOT FDIC INSURED • MAY LOSE VALUE • NO BANK GUARANTEE

Information as of March 31, 2016, unless otherwise stated.