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Stable Value Fund versus Money Market Fund Yields through Interest Rate Cycles

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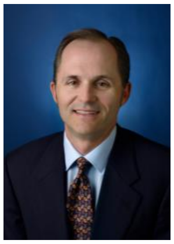

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The primary objective of stable value and money market funds is capital preservation. Both use book value accounting (technically called "amortized cost" in the case of a money market fund) that values assets each day at principal plus accrued interest. Generally, both types of funds invest in securities that have a similar credit quality. The book valuation of stable value funds is explicitly backed by investment contracts issued through financial institutions. Money market funds' amortized cost accounting is maintained as long as the underlying market value (or "shadow net asset value") does not fall more than 50 basis points below the daily amortized cost value. The biggest difference between the two, however, is the maturity of the underlying investments. Whereas money market funds typically have an average maturity of 30 to 45 days, stable value funds usually have a 3.0 to 3.5-year average maturity. The ability to invest in longer-dated, higher-yielding assets has historically provided stable value funds a return advantage compared to money market funds.

In most interest rate environments, investors face a positively sloped yield curve in which they receive higher incremental yields (and greater returns) the longer the maturity of a fixed income security. The more positively sloped a yield curve, the greater the advantage of a stable value fund relative to a money market fund. At the same time, the more a stable value fund or money market fund manager extends maturity, the less responsive the portfolio's crediting rate will be to changes in interest rates. This is a tradeoff between yield and responsiveness to movements in interest rates.

There have been periods of time in which money market fund yields have exceeded those of stable value funds. This tends to happen when the Federal Reserve (Fed) embarks on a monetary tightening policy by increasing the target federal funds rate. The Fed would implement this type of policy when economic growth and/or inflationary pressures increase beyond its targeted range. In the case of multiple Fed interest rate increases in a relatively short period, money market funds will be more responsive to the interest rate shift than stable value funds. In fact, in some cases yields on short term securities actually exceed those of long term securities for a brief period of time—a circumstance known as an "inverted yield curve." Over longer

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periods of time, however, stable value yields have generally surpassed money market fund yields.

Through September 30, 2018, the Standish Stable Value Separate Account Composite[1] has outperformed the ICE BofAML 3-Month US Treasury Bill Index[2] (a proxy for money market investments) by 2.26% on an annual basis, net of fees, over the previous ten years (2.60% vs. 0.34%). This is within the range of expected performance throughout a full interest rate cycle—which tends to be a period of five to ten years (please see table below). More recent returns have been closer—with the one-year return of the Standish Stable Value Separate Account Composite exceeding the ICE BofAML 3-Month US Treasury Bill Index return by 0.57% (2.16% vs. 1.59%).

Standish Stable Value Separate Account Composite
Performance Summary

As of September 30, 2018

	3-Mos	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Standish Stable Value Separate Account Composite (Net of Fees)[1]	0.56%	1.63%	2.16%	2.09%	2.10%	2.60%
ICE BofAML 3-Month US Treasury Bill Index[2]	0.49%	1.30%	1.59%	0.84%	0.52%	0.34%
Composite vs. Benchmark	0.07%	0.33%	0.57%	1.25%	1.58%	2.26%

For nearly three years the Federal Reserve has engineered a measured tightening of monetary policy. Thus far in 2018, the Fed has increased the target federal funds rate three times, by a total of 0.75%. The most recent increase in mid-September raised the rate to a target range of 2.00% - 2.25%. Should short-term interest rates continue to increase, it is likely that money market fund yields will exceed those of the average stable value fund. This may be short lived, however, based on recent experience. Comparing more than 20 years of monthly data (back to January of 1998) – our Standish Stable Value Separate Account Composite crediting rate versus the yield of

Past performance is not necessarily indicative of future results.

Periods greater than 1-year and since inception have annualized return values. The performance of the composite is expressed in US dollars. This material is accompanied by the corresponding composite disclosure for this strategy, which has been prepared and presented in compliance with the Global Investment Performance Standards (GIPS®).

[1]The following standard fee schedule for the Stable Value Separate Account Strategy has been used to calculate net performance: 0.20% on the first $75 million, 0.15% on the next $75 million, 0.10% on the next $100 million and 0.08% on assets over $250 million. See fee schedule disclosure at end of document. Net results reflect the above-mentioned fee schedule; actual investment advisory fees incurred by clients may vary depending on account size, structure, cash flow and other account-specific factors. BNY Mellon Asset Management North America's standard fees are shown in Part 2A of its Form ADV. Performance results are presented both before and after the deduction of management fees and include the reinvestment of all income.

[2]The ICE BofAML 3-Month Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issued selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. While the index will often hold the Treasury Bill issued at the most recent 3-month auction, it is also possible for a seasoned 6-month Bill to be selected.

the 3-month Treasury bill – revealed that there were only 12 months out of 249 in which the 3-month Treasury bill had a yield that exceeded that of our separate account composite. One of the primary reasons for this relatively infrequent occurrence is that investors tend to demand higher yields on longer-dated Treasury securities in order to compensate for inflation risk. When the yield curve inverts, the market is signaling that economic growth and inflation are expected to be lower in the future. Generally, an inverted yield curve precedes a recession by 12 to 24 months. In fact, according to research from the Federal Reserve Bank of San Francisco, every US recession since 1955 was preceded by an inverted yield curve (Source: *FRBSF Economic Letter, 2018-07, March 5, 2018*). There are several plausible reasons for this. First, an inverted curve is forecasting that the Federal Reserve is at the end of its tightening cycle. When growth slows, the Fed responds by quickly lowering short-term rates. Second, during the tightening phase, credit becomes more expensive, leading to a slowdown in demand for funds and a contraction in borrowing. Finally, as the curve flattens, banks become less profitable, as they make money on the difference between short and long term rates. With lower profit expectations from lending, banks restrict credit availability, which further erodes economic growth.

History has shown that there are times when money market fund yields exceed those of stable value funds. However, if the past relationship between inverted yield curves preceding a recession holds true, one would expect these times to be short lived. While the yield curve has not yet inverted, it is the flattest since 2007, with only a 25 basis point difference between the 2-year and 10-year US Treasury yield *(Data: November 14, 2018)*. Through a full interest rate cycle, stable value funds have the ability to invest further out on the yield curve than money market funds, thereby potentially capturing incremental yield typically associated with positively sloped yield curves.

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Performance by Year

	2017	2016	2015	2014	2013	2012 [1]	2011 [1]	2010 [1]	2009 [1]	2008
Asset-weighted Gross[5]	2.14	2.17	2.23	2.21	2.37	2.77	3.17	3.55	3.67	4.72
Asset-weighted Net[5]	2.04	2.06	2.13	2.10	2.25	2.65	3.05	3.43	3.55	4.59
ICE BofAML 3-Month Treasury Bill Index[4]	0.86	0.33	0.05	0.03	0.07	0.11	0.10	0.13	0.21	2.06
BNY Mellon AMNA 1-5 Gov/Credit Wrapped	2.04	2.01	2.01	1.93	2.05	2.48	2.90	3.24	3.46	4.22
Composite 3-Yr Standard Deviation	0.02	0.02	0.03	0.07	0.10	0.10	0.08	0.15	0.16	0.05
Benchmark 3-Yr Standard Deviation	0.11	0.05	0.02	0.02	0.03	0.03	0.03	0.36	0.63	0.48
Number of Portfolios	24	22	21	22	21	22	22	21	23	25
Composite Assets ($mm)	14,251	14,010	13,039	14,431	13,886	14,152	14,028	12,296	12,238	12,538
Firm Assets (Smm)[3]	151,956	147,706	156,443	166,402	162,029	104,439	86,804	78,393	63,448	185,793
Composite Dispersion[2]	0.21	0.21	0.23	0.19	0.31	0.31	0.31	0.22	0.34	0.26

Composite performance started on January 1, 1998; [1]Performance shown for the time period January 1, 2009 through December 1, 2012 represents results achieved by the members of the affiliated firm BNY Mellon Cash Investment Strategies (CIS), a division of The Dreyfus Corporation; [2]Internal Asset Weighted Standard Deviation. Only includes accounts which were in composite for entire calculation period.

The Stable Value Separate Account composite contains all fully discretionary separate account stable value portfolios and for comparison purposes is measured against the ICE BofAML US 3-Month Treasury Bill Index. Effective January 1, 2013 the minimum portfolio size for inclusion is $40 million. The use of derivatives (futures, options, forwards, swaps and other derivatives) is not a characteristic of this investment strategy. The composite was created on March 31, 2004. No portfolio with the same objectives, preferences, or constraints has been excluded unless it has not been under management for more than one full measurement period or does not meet the minimum asset size. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying portfolios are not included in this composite. The performance of the composite is expressed in US Dollars. The firm maintains a complete list and description of composites, which is available upon request.

[3]BNY Mellon Asset Management North America Corporation ("BNY Mellon AMNA") is a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"). The Firm also includes assets managed by BNY Mellon AMNA personnel acting as dual officers of affiliated companies. Prior to February 1, 2018, the firm was defined as Mellon Capital Management Corporation ("Mellon Capital") a subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"). The Firm was redefined on February 1, 2018 following a merger with affiliated firms The Boston Company Asset Management, LLC ("TBCAM") and Standish Mellon Asset Management Company LLC ("Standish") which were also registered investment advisors and subsidiaries of BNY Mellon. Firm Assets presented through December 31, 2017 represent the Firm Assets of the BNY Mellon AMNA prior affiliated firm Standish which merged with TBCAM and MCM to form BNY Mellon AMNA on February 1, 2018.

[5]Performance is presented to show the performance of all fee-paying portfolios with substantially similar investment objectives, policies and strategies, which were managed at a prior firm affiliated with BNY Mellon AMNA until February 1, 2018. Performance results from the prior affiliated firm were linked on February 1, 2018 to the results achieved at BNY Mellon AMNA in compliance with the GIPS Guidance Statement on Performance Record Portability.

[4]This composite's benchmark is ICE BofAML US 3-Month Treasury Bill Index which is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issued selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. While the index will often hold the Treasury Bill issued at the most recent 3-month auction, it is also possible for a seasoned 6-month Bill to be selected. Until June 30, 2012, the composite's primary benchmark was the BNY Mellon AMNA 1-5 Gov/Credit Wrapped, a customized benchmark. The change was made to comply with new DOL requirements to use a widely known benchmark that is easily accessible.

The standard management fee for this style is: 0.20% of assets on the first $75 million, 0.15% of assets on the next $75 million, 0.10% of assets on the next $100 million, and 0.08% of assets thereafter. BNY Mellon AMNA maintains a list of standard fees for fixed income separate accounts. Performance results are presented both before and after the deduction of management fees. Net results reflect the corresponding historical fee schedule for each measurement period, actual results may vary for each individual portfolio. For historical fees, please contact BNY Mellon AMNA.

BNY Mellon Asset Management North America Corporation claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. BNY Mellon Asset Management North America Corporation has been independently verified for the periods January 1, 2007 through December 31, 2016. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The CFA Institute has not been involved with the preparation or review of this report. Gross performance figures are time-weighted rates of return, which include the deduction of transaction costs. Performance results reflect the reinvestment of interest income and other earnings. Past performance is not an indication of future performance. Additional information regarding policies and procedures for valuing securities, calculating performance, and preparing compliant presentations is available upon request.