CONSIDERATIONS

Understanding Stable Value in Target Date Funds

Great Gray Trust Company, LLC — Trustee

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OVERVIEW

Target date funds (TDFs) are designed to change over time, periodically adjusting their investment mix as participants approach and enter retirement. The fixed income allocation within a TDF — and the specific instruments used to fulfill it — is one of many decisions made in glidepath design.

Stable value is one fixed income instrument that plan fiduciaries and advisors may consider when evaluating TDF construction. Within a TDF, stable value and traditional fixed income instruments are generally designed to serve distinct but complementary roles, and understanding how each may function within a glidepath is a meaningful part of the fiduciary evaluation process. This resource focuses on the potential use of stable value funds as a component of a TDF construction and is intended to support informed decision-making by describing stable value's characteristics, industry context, and data that may be relevant to that broader conversation.

WHAT IS STABLE VALUE?

Stable value is a principal preservation investment option designed to provide retirement plan participants with bond-like returns with lower interest volatility, in order to provide an attractive risk/return profile.[1]

Stable value is designed to pursue the following combination of features, though outcomes are not guaranteed:

- Principal preservation
- Consistent returns that seek to remain positive over time
- Liquidity for participant benefit payments

Stable value is generally only available in tax-qualified retirement plans, most notably defined contribution plans, and is offered in approximately 3 out of 4 defined contribution plans.[2] As of December 31, 2025, approximately $854 billion is invested in stable value across the industry.[1]

KEY CHARACTERISTICS OF STABLE VALUE

When evaluating a TDF with stable value as a component in the TDF glidepath, plan fiduciaries and advisors may wish to consider the following characteristics. These are general attributes of stable value as an asset class and may not be representative of any specific fund.

1

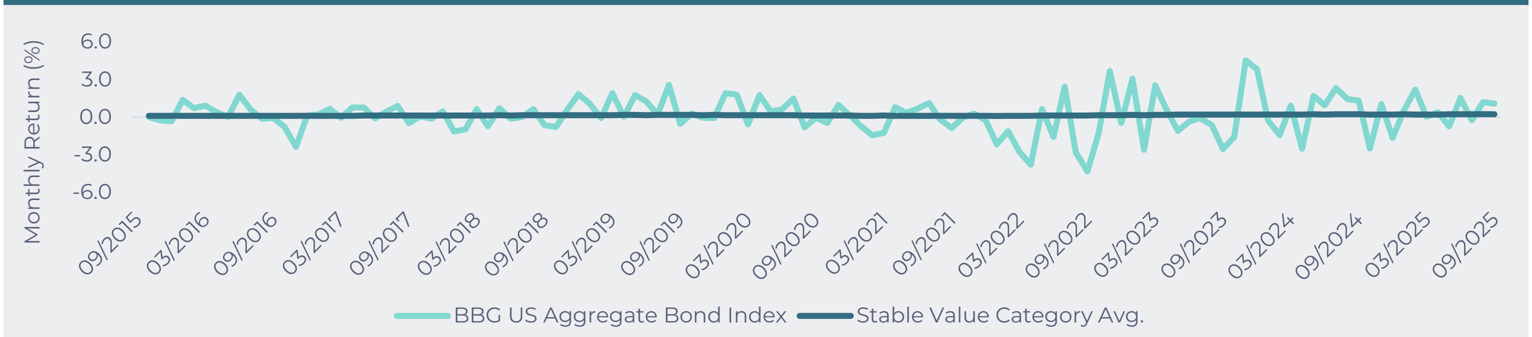
Reduced Portfolio Volatility

Stable value is designed to exhibit low return volatility relative to many traditional fixed income instruments. Its crediting rate adjusts periodically rather than fluctuating with daily market prices, which may help smooth overall portfolio volatility — this is particularly helpful for participants nearing retirement who desire to protect their investments from market gyrations.

The following chart below illustrates portfolio volatility:

Stable Value Morningstar Category Average performance has historically exhibited less volatility of returns compared to the broad fixed income index (BBG US Aggregate Bond Index).

Monthly Volatility (Oct '15 – Sep '25): Stable Value vs. BBG US Aggregate Bond Index



Source: Data from MPI as of 12/31/2025. Stable Value Category Average consists of the average monthly return of all CITs within Morningstar "Stable Value" category. BBG US Aggregate Bond Index is the Bloomberg US Aggregate Bond Index. Indexes are unmanaged and cannot be invested in directly. Indexes do not reflect expenses that are borne by investors in the Fund, such as management fees and transaction costs, which reduce returns.

2

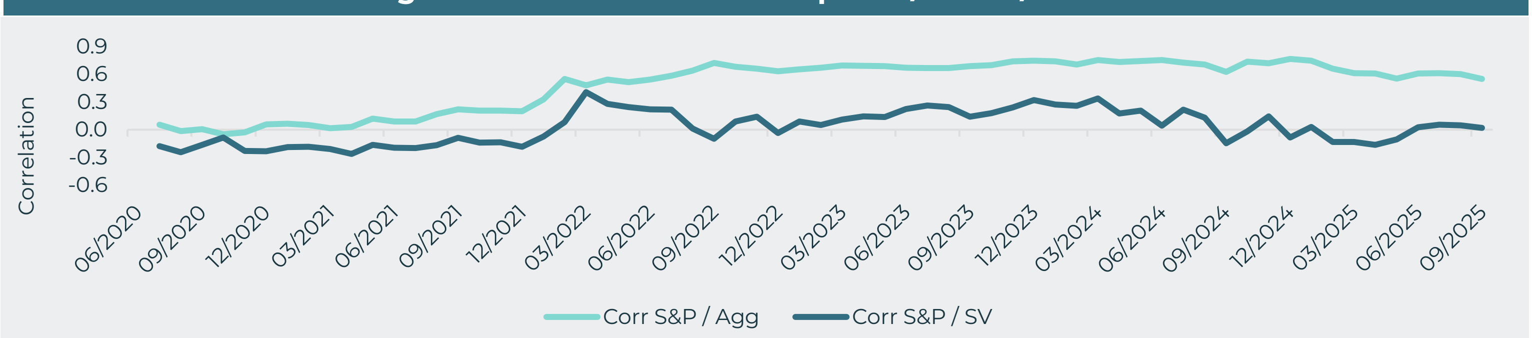
Potential to Support Risk-Adjusted Returns

Because stable value has historically exhibited low volatility relative to its return profile, it may contribute to a more favorable risk-adjusted outcome within a diversified TDF. Its low historical correlation to equities may provide an additional portfolio diversification benefit.

The following chart below illustrates risk-adjusted returns:

While the correlation of Investment-Grade fixed income (represented by BBG US Aggregate Bond Index) to equities (represented by S&P 500 Index) rose in 2022 and did not provide a diversifying return, Stable Value maintained a low correlation to equities, providing diversifying exposure.

Rolling 24-Month Correlations: Equities/Bonds/Stable Value



Source: Data from MPI as of 12/31/2025. Stable Value Category Average consists of the average monthly return of all CITs within Morningstar "Stable Value" category. BBG US Aggregate Bond Index is the Bloomberg US Aggregate Bond Index. S&P is the S&P 500 Index. Indexes are unmanaged and cannot be invested in directly. Indexes do not reflect expenses that are borne by investors in the Fund, such as management fees and transaction costs, which reduce returns.

KEY CHARACTERISTICS OF STABLE VALUE

3

Capital Preservation and Contract-Backed Returns

As a glidepath transitions toward capital preservation, stable value may help support principal stability through its contractual structure. The insurance contract-backed nature of stable value returns may be an attractive characteristic for participants approaching or in the distribution phase of retirement. However, similar to other fixed income products, any guarantee of repayment of principal and interest is subject to the claims-paying ability of the issuing provider, and can be impacted by interest rate changes along the yield curve.

4

Optimize Participant Behavior

Lower volatility may reduce participants' temptation to panic-sell during drawdowns. Incorporating stable value thoughtfully may help participants stay invested, which can support improved long-term outcomes..

THE ROLE OF STABLE VALUE IN A TDF

A TDF glidepath is designed to shift a participant's exposure from growth-oriented investments toward more capital-preserving ones over time. Stable value, by design, is a lower-volatility fixed income instrument that may serve a role in the capital preservation portion of a glidepath. Generally, its allocation may vary across participant stages:

Objectives	Metrics
EARLY CAREER	Stable value allocations are generally minimal or absent, given a longer investment horizon and higher tolerance for market volatility.
MID TO LATE CAREER	As participants approach retirement, TDF managers may introduce or gradually increase stable value alongside traditional fixed income to help reduce portfolio volatility and support capital preservation.
NEAR/INTO RETIREMENT	Increased stable value exposure may help secure income and mitigate sequence-of-returns risk while simultaneously increasing selective bond exposure for diversification and potential price appreciation.

Bonds are designed to act as a **diversifier** to equities in risk-off environments; stable value is designed to act as a **stabilizer** regardless of market environment. Together, they may help reduce volatility, preserve capital, and improve participant outcomes — precisely the goals of a glidepath as it de risks over time.

Traditional fixed income instruments, such as intermediate-term bonds, may provide diversification to equity exposure and the potential for price appreciation in certain market environments. Stable value, by contrast, is designed to provide principal preservation, lower volatility, and contract-backed returns that do not fluctuate with daily market price movements.

Decisions about the appropriate combination of these instruments, and how that combination shifts over time, also may factor in participant demographics, plan objectives, and a range of market and structural considerations. A thoughtful glidepath may seek to leverage the distinct characteristics of each in a way that serves participants across varying market environments and stages of their retirement journey.

ADDITIONAL FIDUCIARY CONSIDERATIONS

The inclusion of any investment option in a plan lineup, including stable value within a TDF, requires a deliberate and fulsome fiduciary process. Under ERISA, fiduciaries are required to act prudently and in the exclusive interests of plan participants and beneficiaries when making investment decisions. Advisors and plan sponsors evaluating stable value for inclusion in a TDF structure may find it useful to analyze factors such as:

- The stable value product type and structure (e.g., pooled fund vs. individually managed account vs. insurance company product)
- Underlying portfolio characteristics, including duration, credit quality, and diversification
- Wrap contract terms, including any plan-initiated termination provisions or market value adjustments
- Participant and plan-level liquidity provisions and any applicable restrictions such as market value adjustments relative to book or contract value
- Fee structure and transparency of compensation (fee-based vs. spread-based)
- Current and expected crediting rates in the context of the broader interest rate environment, and the frequency of crediting rate changes
- Asset ownership structure and issuer default provisions
- Credit and default risk of any insurance provider.

As part of this process, advisors should also be aware that stable value, like any investment, carries risks — including wrap contract and counterparty risk, crediting rate lag in rapidly rising rate environments, liquidity restrictions such as equity wash requirements or market value adjustments, and issuer and credit risk inherent in the underlying fixed income portfolio — all of which should be considered as part of a comprehensive fiduciary evaluation.[4]

For questions about how stable value solutions may fit within a broader plan design or TDF structure, contact your region's Retirement Plan Consultant

Sources

1. Stable Value Investment Association (SVIA), Stable Value at a Glance, data as of 12/31/2025. Total stable value industry assets: $853.95 billion.
2. Alight Solutions, Trends & Experience in Defined Contribution Plans survey, as cited in SVIA Stable Value at a Glance (12/31/2025).
3. SVIA, Stable Value at a Glance, 15-Year Risk vs. Return, data as of 12/31/2025. Returns are gross of stable value management fees, but net of fees necessary to deliver the product (e.g., wrap, third-party fixed income management, trust, custody, and fund administrative fees). Standard deviation is calculated on monthly returns over the 15-year period; monthly standard deviation will appear lower than annual figures as single-year events are distributed across 12 data points. This composite is composed of varying types of stable value products and should not be used as a comparison to a specific product. Past performance is not indicative of future results. "Intermediate Bonds" is a simulation of market value bond fund returns from the Bloomberg Barclays Intermediate Government/Credit Bond Index. "Money Market" is a simulation of returns from the iMoneyNet MFR Money Funds Index. Indices are unmanaged and not available for direct investment.
4. SVIA is a non-profit organization whose mission it to educate plan sponsors about stable value products. It has a number of free, helpful resources, including https://www.stablevalue.org/what-are-the-risks-of-investing-in-stable-value/.

DISCLOSURES

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