

# Putnam Stable Value Fund: Frequently asked questions

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## Stable value as an asset class: Accounting/legal construct

### 1. Accounting standard: FASB Staff Position AAG INV-1 and SOP 94-4-1

Stable value funds rely upon specific accounting guidelines under FASB that allow participant balances to be accounted for at “book value.” Specifically, stable value funds purchase contracts from insurance companies and banks that are considered “benefit responsive,” allowing participant transactions at book value regardless of market value.

### 2. What does “benefit responsive” mean?

The term “benefit responsive” refers to any qualified participant withdrawal or transfer allowed by the plan. These transactions occur at book value rather than at the market value of the underlying investments.

### 3. What types of plans may be invested in stable value?

Stable value funds are conservative investment options created exclusively for U.S. qualified retirement plans, including 401(k), profit sharing, money purchase, governmental 457 plans, and certain 403(b) plans. Stable value funds are *not* available to defined benefit plans, IRAs, most 403(b) plans, SEP, or SIMPLE plans.

#### **4. Can Putnam Stable Value Fund (PSVF) accept 403(b) assets?**

Plans established as 403(b) are a special case. Only 403(b)(7) church plans are eligible to invest in collective investment trusts (CITs). Typically, any other 403(b) plans are *not* eligible to invest in PSVF because they are restricted to investing exclusively in mutual funds and annuities.

#### **5. What types of stable value vehicles are available?**

Third-party stable value funds are typically structured as collective investment trusts (CITs) or as a segregated account for a specific plan or trust. There are no stable value mutual funds. Additionally, there are fund vehicles issued by insurance companies that include guaranteed investment contracts backed by the issuing insurance company's general account assets or insurance separate account contracts that are backed by a segregated asset account.

#### **6. Does stable value really guarantee the investor's principal and interest?**

The term "guarantee" is a misnomer as it relates to an absolute guarantee of principal and interest. In other words, the guarantee is based on the credit quality of the insurance company providing the general account product or traditional GIC. Related to synthetic wraps (please refer to the "Synthetic wraps" section on page 3), that guarantee is also only as good as the quality of the bank or insurance company providing the synthetic wrap, and it is only as good as the quality of the underlying assets. If a security underlying the wrap defaults, the book value wrap provider doesn't protect against credit risk.

### **Putnam Stable Value portfolio structure**

#### **7. Using all available types of book value instruments**

We believe that a diversified investment strategy utilizing the full opportunity set within the stable value universe is optimal for managing stable value portfolios. The full opportunity set includes cash alternatives, traditional GICs, insurance separate accounts, and wrapped, actively managed strategies. Liquidity is provided through cash, traditional GICs, and the insurance separate account. Two of these sources — traditional GICs and the insurance separate account — are also active total return sources along with the actively managed portfolio. Stable value is like any other investment discipline: Combining multiple

independent strategies wherever possible can potentially enhance portfolio returns while lowering overall risk.

### **Cash levels**

#### **8. Is there a guideline for the maximum level of cash held in the portfolio?**

We generally maintain a minimum cash buffer of 5% to handle participant withdrawals and transfers. In PSVF, cash typically ranges from 5% to 10%, although that is not a formal guideline and cash levels may be higher from time to time for tactical reasons. In environments in which cash is not attractive from a return perspective, we do not want to be constrained by a minimum cash level that is too high. In general, a minimum floor of 5% in cash is required by Putnam's book value contract providers.

Cash levels will likely be the higher under certain conditions. First, if there is a market event we believe to be short term in nature, we may hold cash in excess of our target if we think it is likely to move back out. The best example of this was in the fourth quarter of 1999 when cash inflows reached 19% due to Y2K worries. Outflows of 17% subsequently occurred during the first quarter of 2000, confirming our decision not to invest those assets. Secondly, if there is an anticipated plan level cash flow or several terminations of plans, we may potentially hold a higher level of cash. Because we focus our portfolio strategy on liquidity and consistently have maturing assets, we rarely have to increase target cash allocations in order to fund outflows. Finally, if there is an inverted yield curve environment or an overall low-yield environment in which cash and short-term assets offer higher returns than other opportunities farther out on the curve, then we will certainly hold a higher allocation. Not only can this increase return in the short run, but it provides a significant amount of available liquidity ("dry powder") in the portfolio to seek opportunities when longer-term rates become more attractive.

### **Use of traditional GICs**

#### **9. Why is there such a large exposure to traditional GICs versus competitors? Is there a maximum allowed exposure?**

The use of traditional GICs has been and always will be a significant part of our investment strategy. We believe there are three main advantages to using traditional GICs:

**1** GICs are highly customizable (amount, maturity, principal, and interest payment dates). To Putnam, this is very beneficial, especially for a fund that strives for constant liquidity generation.

**2** GICs are carried at par value throughout the life of the contract. Therefore, they do not fluctuate with movements in interest rates. This helps provide stability to the fund's overall crediting rate and market/book ratio.

**3** GICs sit at the top of an insurance company's capital structure. If an insurance company defaults, GIC holders are paid out first (along with life insurance payments). This means traditional GICs are more secure than other marketable bonds of the same quality that are lower in the issuer's capital structure (e.g., a typical unsecured corporate bond).

Additionally, traditional GICs may offer better relative value than other marketable bonds. As an example, based on a recent 5-week average, traditional GICs with a 4- to 5-year maturity were yielding approximately 25 bps to 35 bps more than the Bloomberg Barclays Intermediate U.S. Aggregate Index.

Although there isn't an explicit maximum, Putnam's typical allocation to traditional GICs is between 10% and 40% with a single issuer maximum exposure of 15%.

## 10. How big is the GIC market?

As of December 31, 2017, approximately \$9 billion was invested in customized traditional GICs. If General Account funds are included, the approximate size of the market is \$296 billion. (Source: *22st annual investment and policy survey*, Stable Value Investment Association.)

## 11. Are traditional GICs only offered by U.S. insurers?

Yes. Because stable value is a U.S.-only accounting construct, GICs are issued only by U.S. insurers (nearly exclusively life insurance providers) or the U.S. subsidiaries of foreign insurance companies. Additionally, the U.S. insurance business is subject to individual state

insurance regulation and oversight by their specific state insurance departments. As it relates to wrap providers, wrap contracts are also only issued by U.S. entities.

## *Insurance separate account*

### 12. Why do you outsource the insurance separate account portion?

We decided to outsource the insurance separate account strategy after the financial crisis when third-party wrap providers were offering limited, if any, capacity. MassMutual/Barings was the only insurance separate account provider we interviewed that agreed to manage the strategy under our custom guidelines. The insurance separate account is a structured cash flow contract, which generates 5% of the contract in maturing cash flow per quarter if needed.

Babson Capital was the original subadvisor, and it subsequently merged with Barings, which is also a company under the MassMutual umbrella.

## *Synthetic wraps*

### 13. What is a synthetic wrap contract?

A synthetic wrap contract consists of an underlying portfolio of assets (primarily fixed income securities), owned by a trust or plan, and a legal contract with an insurance company or bank. The wrap contract allows participants to transact at book value (dollar in/dollar out plus interest) for qualified withdrawals. Additionally, participants earn an annual effective yield (a crediting rate) based on the characteristics and performance of the underlying assets. The primary differences between a synthetic wrap and a traditional GIC is that with a traditional GIC, the credit exposure falls solely on the insurance company and the assets are owned by the insurance company. With a synthetic GIC, the assets are held in a trust on behalf of invested plans, and there is full look through to the underlying investments.

The underlying assets of a synthetic wrap generally consist of intermediate term, investment grade fixed income instruments. Most commonly, a diversified pool of fixed income assets is wrapped by either a bank or an insurance company. The assets are generally managed by a third party investment manager, such

as Putnam. Ordinarily, the assets are owned directly by the plan/trust or the commingled stable value fund. This is a benefit to the participants because even if the wrap contract became void due to default or some other issue, the underlying assets remain intact and are segregated on behalf of fund participants.

#### **14. What doesn't a synthetic wrap contract do?**

The wrap contract only guarantees that the crediting rate will not fall below zero. The wrap provider also bears the risk of the return of principal if there are no defaults and all withdrawals are qualified. In that situation, the wrap provider will be liable for any gap between the market and book value. However, the crediting rate mechanism is used to amortize gains or losses and keep market and book value close in order to lower the risk to the wrap provider and to maintain equity among participants.

A synthetic wrap contract does not protect against default, and it is not a guarantee of performance. There is no guarantee of return of principal if there is a default of one or more underlying securities. Participants still bear the risk of the underlying fixed income assets just like any other market value fixed income fund. Therefore, an investment manager's credit research team is very important to the success of the stable value option.

Furthermore, wrap contracts do not allow for unrestricted withdrawals from the fund. There are specific provisions of the wrap contract that provide for certain plan sponsor corporate actions to be either covered at book value, partially covered at book value (commonly referred to as a book value corridor), or only available at market value. For instance, a wrap contract may stipulate that only a certain percentage of participant withdrawals can occur as the result of employment termination occasioned by a mass layoff or plant closing.

#### **15. Why is having multiple wrap providers better than a single wrap?**

The concept of diversification applies to not only the underlying marketable securities but the book value instruments as well. Having more than one wrap (or book value insurance) provider helps to mitigate the risk that the portfolio may experience a default by the wrap provider, resulting in the portfolio losing overall book value treatment.

#### **16. How many wrap providers are you using? Why don't you have more with JP Morgan? Are you considering adding wrap providers?**

The fund currently uses four synthetic wrap providers. They include MassMutual, who wraps the insurance separate account strategy. Our existing contract with J.P. Morgan Chase Bank is small because they were added back to PSVF later, after the bank re-entered the synthetic wrap business. We expect to add to the contract over time as cash flow allows. To add further diversification to the book value wrap mix, we are finalizing a contract with another wrap provider and we intend to open negotiations with a sixth provider in the coming months.

#### **17. What are wrap fees at the total fund and contract levels? How is the weighted average wrap fee calculated?**

The effective wrap fees at the total fund level are 0.16%. The effective wrap fee is calculated based on total synthetic wrap fees divided by the fund's average assets at each fiscal year-end.

The average wrap fees at the contract level are 0.21% as of June 30, 2018. The average wrap fee is calculated based on the weighted average exposure multiplied by the contract fees. Because the average wrap fee is based on the percent of the fund held in the wrap contracts, the total fee can vary on a daily basis.

#### **18. While the securities must be rated investment grade (BBB- or better) at the time of purchase, if securities are subsequently downgraded, are there constraints on the percentage of below-investment-grade securities allowed to be held in the portfolio?**

Yes. The wrap contracts contain provisions allowing for 5% in securities downgraded below BBB- with a cure period for disposing of the asset of between 90 and 180 days. We do have the ability to work with the wrap provider to make a case for a longer cure period if there is an investment rationale for doing so.

## *Investment process*

### **19. What is the investment process for PSVF? What is the time frame to implement new ideas into the portfolio?**

Stable value is fully integrated within our broader fixed income organization, which includes approximately 90 investment professionals. As a result, the portfolio construction process within our actively managed strategy is similar to other fixed income portfolios. Portfolio construction is a fluid process; our team-oriented and sector-specialist approach allows us to implement ideas quickly into the portfolio. Steve Horner is the lead portfolio manager for the stable value fund and responsible for the overall investment strategy.

### **20. What is the process around negotiating wrap or GIC contracts?**

In terms of negotiating wrap and GIC contracts, members of Putnam's investment, legal, and compliance divisions work together in the negotiation process with the respective counterparty. We also work with an outside ERISA counsel with over 30 years of SV industry experience. The negotiations include terms and provisions for investment guidelines, underwriting requirements, competing options, and fees.

### **21. How do you manage duration? How will your strategy be impacted if interest rates rise?**

Putnam believes that interest-rate tracking and consistency of long-term performance are important in the stable value strategy. Given this belief, material bets on the direction of interest rates are not part of the investment process; we believe they introduce unnecessary risk and volatility into the participant experience and are generally not a reliable source of alpha. We further believe making large interest-rate bets is inconsistent with achieving our overall objective. We expect that our strategy will be more conservative, and while there can be no guarantee of investment results, it has the potential to provide investors with a consistent, smooth return profile over a full market cycle that in the long run will be very competitive.

## *Financial crisis experience*

### **22. Could you explain the book-to-market ratio and crediting rate underperformance in 2008?**

In 2008, our portfolio was significantly overweight in certain parts of the MBS market, specifically AAA-rated agency mortgage pass-through securities and "super senior" CMBS. In the distressed market environment at that time, broker dealers were only comfortable trading AAA-rated securities. So investors were only able to sell bonds in these specific sectors first in order to meet redemptions during the crisis. As a result, spreads in these sectors widened out significantly based on these buying/selling dynamics and, in our view, not as a result of any change in fundamental value (e.g., 5-year AAA CMBS spreads moved from approximately +25 bps to +2000 bps over Treasuries), and subsequently the market/book ratio in the fund dropped to a low of 89.3% in November 2008. However, it is important to reiterate that although spreads widened dramatically in these sectors, there were no fundamental security losses. We believed the market moves to be temporary.

During this time frame, we successfully negotiated with our wrap providers in order to continue to hold these securities given our high degree of conviction in their creditworthiness. We were able to achieve this due to both our fund structure (cash, GICs, and insurance separate accounts are all in front of the actively managed synthetics in the withdrawal hierarchy) as well as our close professional relationships with our wrap partners. As the market normalized, spreads in these sectors tightened back to pre-crisis levels and our market/book ratio rallied to over 105% by September 2010. Again, it's important to note that the fluctuation in market-to-book ratio and crediting rate was a transitory liquidity-driven event rather than a credit issue; none of these securities defaulted.

## The crediting rate: What it does and how it is calculated

### 23. How does the crediting rate work?

#### Portfolio crediting rate

Each individual book value contract has an associated crediting rate (or interest rate). The portfolio is valued on a daily basis, and the crediting rate is calculated based on the weighted average of the crediting rates of all of the book value instruments of the fund. The portfolio calculates interest on a daily accrual basis, and the crediting rate fluctuates daily. The overall portfolio crediting rate will fluctuate based on contract crediting rates as well as trading and cash flow activity.

#### Traditional GIC crediting rates

Typically, the crediting rates of traditional GICs are fixed. From time to time, floating-rate traditional GICs may be offered by the issuing insurance companies. However, this is a relatively infrequent occurrence; the majority of traditional GIC contracts are a fixed rate.

#### Synthetic contract crediting rates

Synthetic contracts are generally reset on a quarterly basis. The standard synthetic crediting rate calculation is shown below; there are variations of this formula. Underlying portfolio data and the contract book value is used for the elements of the calculation.

When the crediting rates are reset for synthetic contracts, data from the previous month-end is used in calculating the next quarter's crediting rate (e.g., November 30 data is used to calculate the reset occurring on January 1).

The crediting rate formula (for both traditional GICs and synthetics) can vary between issuers. Below is a very commonly used formula that we will also use for the other example on this page.

$$CR = (((MV/BV) ^ (1/D)) * (1 + Y/2)^2) - 1) - F$$

- Y = Bond equivalent yield (BEY) to maturity of the portfolio
- MV = Market value of the underlying portfolio
- BV = Book value of the contract
- D = Duration of the portfolio
- F = Wrap fees

### 24. What does the crediting rate do? How does it amortize the market-to-book difference?

The crediting rate formula is the way interest is accrued for book value accounting, and it is reset quarterly in order to bring the book value into alignment with the market value of the underlying securities. This is accomplished by amortizing any market value gains or losses over the duration of the portfolio. The crediting rate calculation is the mechanism that creates the amortization effect. This allows for a "smoothing" of return streams for stable value funds, with the goal of protecting the investor from short-term principal fluctuations due to changes in the market value of underlying securities (assuming no defaults).

The crediting rate of a book value contract on day 1 is equal to the annual yield of the underlying assets of the fund less the wrap fee. While bond yields are typically quoted as a semiannual yield, a.k.a., bond-equivalent yield, quoting annual yield is an insurance industry convention.

Over time, the book value of the contract grows at the crediting rate of interest and the market value fluctuates depending on security prices. So naturally, the market value may be above or below the book value. The crediting rate is reset quarterly to help bring the book value and the market value back in line with each other.

Effectively, the calculation takes the difference between market and book, and divides it by the duration of the underlying assets. The result is then added to (or subtracted from) the crediting rate to raise (or lower) it to start to bring the book value to equal market value.

### 25. Please provide an example of the crediting rate calculation.

$$CR = (((MV/BV) ^ (1/D)) * (1 + Y/2)^2) - 1) - F$$

- MV = Market value of the underlying portfolio
- BV = Book value of the contract
- D = Duration of the portfolio
- Y = Bond equivalent yield (BEY) to maturity of the portfolio
- F = Wrap fees



The crediting rate will change based on fluctuations in MV/BV. For instance, when  $MV > BV$ , the crediting rate increases, when  $MV < BV$ , the crediting rate decreases. Note the changes in the market value of the underlying assets (98%, 100%, 102%) and the resulting changes in the crediting rate.

		Market value shift		
Bond-equivalent yield (YTM/YTW)	BEY	3.25%	3.00%	2.75%
Market value of underlying assets	MV	98	100	102
Book value of contracts	BV	100	100	100
Duration of underlying assets	DUR	3.0	3.0	3.0
Wrap fees	F	0.20%	0.20%	0.20%
Crediting rate	CR	2.13%	2.82%	3.51%
Change		-0.69%	—	0.68%

The crediting rate also changes based on fluctuations in duration. For instance, when  $MV > BV$ , the crediting rate decreases as duration increases because the “surplus” is being amortized over a longer period of time (and vice versa).

		Duration shift, $MV > BV$		
Bond equivalent yield (YTM/YTW)	BEY	3.00%	3.00%	3.00%
Market value of underlying assets	MV	102	102	102
Book value of contracts	BV	100	100	100
Duration of underlying assets	DUR	2.5	3.0	3.5
Wrap fees	F	0.20%	0.20%	0.20%
Crediting rate	CR	3.64%	3.51%	3.40%
Change		0.14%	—	-0.09%

		Duration shift, $MV < BV$		
Bond equivalent yield (YTM/YTW)	BEY	3.00%	3.00%	3.00%
Market value of underlying assets	MV	98	98	98
Book value of contracts	BV	100	100	100
Duration of underlying assets	DUR	2.5	3.0	3.5
Wrap fees	F	0.20%	0.20%	0.20%
Crediting rate	CR	1.99%	2.13%	2.23%
Change		-0.14%	—	0.09%

**26. Does each dollar invested during the period earn the crediting rate at that time, thus giving each participant a different overall crediting rate for their allocation of assets to the fund?**

No. Each dollar is invested at that day’s crediting rate. The crediting rate fluctuates daily, and all investors in the fund

on that day earn the crediting rate in effect on that day. Participant return experiences will vary based on the timing of participants’ individual subscriptions/redemptions in and out of the fund.

**27. Does Putnam have a guaranteed minimum on principal and interest? Is there a full principal guarantee, and is there a minimum on interest or just a floor at 0%?**

Unlike an insurance company general account product, stable value third-party pooled funds (including Putnam Stable Value Fund) and segregated accounts do not guarantee principal and interest, and there is no guaranteed floor for the interest rate at the fund level. Insurance company general account and separate account contracts only guarantee principal and interest to the extent of the creditworthiness of the issuing insurance company. Said another way, the guarantee is only as good as the credit quality of the insurer. For stable value funds that use synthetic wrap contracts, the contracts themselves contain provisions that the contract crediting rate will not go below 0%.

**Participant transfer restriction: Equity wash rule**

**28. What is the equity wash rule?**

The equity wash rule is the one participant-level liquidity provision related to stable value. The rule requires that participants transfer assets from stable value to a non-competing fund and keep them there for a minimum of 90 days before the transfer to a competing fund takes place. It is known as the “equity wash” rule because equity funds were historically the “non-competing” fund used to invest the transfer funds for the 90-day waiting period, although today that is not necessarily always the case.

**29. Why does it exist?**

The purpose of the equity wash rule is to prevent participants from engaging in interest-rate arbitrage, and reduce the risk of withdrawals from wraps, especially in a period of rising interest rates. If short-term interest rates rise significantly and quickly, a money market fund (or competing short-term bond fund) may offer a higher yield than stable value until the stable value fund’s crediting-rate reset catches up. Without the equity wash, participants could game the more attractive yield by transferring back and forth between the two. This type of activity can be harmful to the remaining participants in the stable value fund, particularly if assets need to be

sold in a rising-rate environment and those sales result in realized investment losses that translate to a lower crediting rate.

### **30. When will the equity wash rule apply?**

The equity wash rule will apply any time a participant wants to transfer assets to a “competing fund.”

### **31. What are competing funds?**

Generally speaking, a competing fund includes money market funds or other short-term bond funds with a duration less than three years. Most wrap providers currently consider self-directed brokerage accounts in 401(k) plans as competing. Additionally, conservative or balanced asset allocation funds and target-date funds, among others, may be considered competing.

### **Plan sponsor restriction: 12-month put**

### **32. Do you pay at market or book? If the market-to-book value did drop below 100% and a plan wants to liquidate, what are their options?**

Plan terminations from Putnam Stable Value Fund are paid at book value (subject to potential imposition of a 12-month “put” in Putnam’s discretion — please see questions 34–36), in addition to also paying qualified participant withdrawals at book value. Plan terminations are only paid at book value, and we do not offer a market value alternative.

Putnam Stable Value Fund pays qualified participant withdrawals at book value, as well as plan terminations (subject to potential imposition of a 12-month “put” in Putnam’s discretion). This is not unique to Putnam. There are some fund families that do allow for a plan to exit their stable value fund at market value rather than book value. We do not allow this at Putnam because plan sponsors always want to take market value when it is above book value, but always want book value when market is below book. That is not fair to the remaining participants.

### **33. Are there ever circumstances when there might be a payment at market value rather than book value?**

Yes, there are other circumstances in which a stable value fund may pay at market value instead of book value. It is typical for all benefit responsive book value contracts to contain provisions regarding the circumstances in which the payout may be at market instead of book value. The provisions may differ between book value issuers.

Under PSVF’s contracts, events that potentially result in a market value payout include transfers from stable value to a competing fund without imposition of a 90-day equity wash feature, transfers/redemptions incited by certain fund-specific plan sponsor communications, or default by the issuer of the contract, among others. Certain corporate actions like a layoff or spinoff of a division may be subject to limitations on the allowable amount covered at book value. Additionally, defaults of underlying securities held by the strategies are not covered by the book value feature. These events are not specific to Putnam, but are common to the stable value industry.

### **34. How do you manage your put?**

Similar to other commingled stable value funds, 12-month advance written notice is required for any plan terminations. In practice, we work to pay clients out on their desired transfer date; however, the Trustee (Putnam Fiduciary Trust Company) has absolute discretion regarding when to disburse withdrawals during that 12-month period and bases the decision on the best interest of the remaining investors in the portfolio. Along with the plan termination notice, it is helpful to include the plan sponsor’s desired date of transition. Typically, we provide information regarding our ability to potentially pay out the plan assets no more than 45 days in advance of the desired date of transition. For more information, please refer to the Offering Statement. To receive the termination notice form, please contact your DCIO Investment Specialist.

### **35. How do you determine if you will implement the put?**

We evaluate participant and plan cash flow activity in conjunction with the current composition of the portfolio. This includes an evaluation of anticipated liquidity from the traditional GICs and the structured cash flow contract. If we believe the fund will not remain at least structurally and economically neutral due to a plan-sponsor redemption, we may elect to implement the 12-month put. However, this doesn’t necessarily mean we will put the client for the entire 12 months.

### **36. Why can you not confirm until 45 days out?**

We cannot commit at the initiation of a plan termination because there could be distinct market and cash flow changes in the interim between the termination notification and the desired transition date. We must always base our decision on the best interest of the remaining participants. The 45-day window is actually now



a longer notification period than we provided historically. The time frame is short enough that we believe we have a good understanding of the market/cash flow dynamics of the fund, but long enough so the plan sponsor is able to provide any required notice to participants.

## Plan transition scenarios

At the time of the put notice to the existing SV manager, the Putnam DCIO team contact (regional investment advisor consultant, consultant relations, etc.) will inquire about the transition plan for the stable value assets: What is the plan sponsor's expected transition date, is a new or successor stable value option being added, will there need to be/can there be a blending of the crediting rate, etc.?

### Cash-only transition

The most common transition is book value and cash only (no securities transferred in kind) sent directly to the new manager, particularly for commingled SV funds.

Formal termination notice provided by the fiduciary in writing to start the clock on the 12-month put.

With that notice, the fiduciary is also expected to provide an anticipated transition date.

Approximately 45 days prior to the anticipated transition date:

#### Conversion into Putnam:

- Putnam's DCIO team contact asks the advisor/consultant to confirm the timing and dollar amount of incoming cash.

#### De-conversion out of Putnam:

- Putnam's DCIO team contact asks Investment Management to provide confirmation regarding our ability to pay out the exiting plan on the anticipated transition date.
- If the flow cannot be accommodated on the anticipated transition date, Investment Management is expected to provide an alternative funding date or dates, with 100% of assets to be transferred no later than the expiration of the 12-month put (Putnam controls the timing of this payment).

## Two stand-alone stable value options

This occurs when the New SV option is added before the Old SV option terminates and the crediting rates of the two strategies are not blended together.

There must be an equity wash in place between the two stand-alone SV options because they are considered competing investments.

**New SV option cash flow:** New SV option typically accepts all contributions and transfers or exchanges into stable value to ensure that the Old SV option does not grow in size.

**Old SV option cash flow:** Old SV option is closed ("frozen") to new contributions and transfers or exchanges in. Old SV option will continue to fund withdrawals and transfers or exchanges out to non-competing options within the plan.

**Conversion into Putnam:** Putnam SV will receive the full remaining balance of the Old SV option at any time during the 12-month put period at the prior manager's discretion.

**De-conversion out of Putnam:** New SV option must be prepared to receive the remaining balance at any point during the 12-month put period, which allows Putnam to maintain control over the distribution of the plan cash flow.

## Blended stable value option

This may occur when the New SV option is added before the Old SV option terminates. Participants will then have one Combined SV option during the transition period instead of separate Old and New options (described in “Two stand-alone stable value options” on page 9).

Old SV option generally transfers a percentage of assets to New SV at the time the New SV option is added to the lineup in order to provide initial liquidity for any daily participant activity.

- The amount transferred to New SV option is agreed upon between the investment managers; it is typically between 5% to 10%.

### **New SV option cash flow:**

- New SV option accepts all contributions and transfers or exchanges into the Combined SV option.
- New SV option serves as first liquidity for withdrawals and transfers or exchanges out to non-competing options within the plan.

**Old SV option cash flow:** Old SV option only funds withdrawals and transfers or exchanges out if the cash balance in New SV option is exhausted.

The back office teams for each SV manager interface with each other; both provide a daily mill rate to the recordkeeper who calculates (blends) an asset-weighted average crediting rate for the Combined SV option and provides participants with one daily, blended crediting rate.

**Conversion into Putnam:** Putnam SV will receive the full remaining balance of the Old SV option at any time during the 12-month put period at the prior manager’s discretion.

**De-conversion out of Putnam:** New SV option must be prepared to receive the remaining balance at any point during the 12-month put period, which allows Putnam to maintain control over the distribution of the plan cash flow.

## Additional questions

### **37. Have you ever had to close the portfolio to new investors?**

Yes, we made the decision to close Putnam Stable Value Fund to *new plan investments* (not new investors in existing invested plans) for approximately two and a quarter years. This occurred primarily in 2012 to early/mid 2014 when there were several stable value managers exiting the business as a result of their experience in the financial crisis. Our fund had one of the highest crediting rates in the industry at the time, and we were receiving inquiries to accept significant amounts of plan assets. While the crediting rate was quite high due to the rebound in market value of the underlying securities, the level of interest rates was very low, so the yield of any potential new investments resulting from these flows was very low and also below the level of the existing crediting rate. We opted to close the fund rather than to accept additional assets and dilute the return to the existing participants. We re-opened the fund once the gains were amortized through the crediting rate, and new investments were able to be made at levels closer to the existing crediting rate, benefiting all participants. We have not been forced to close the strategy due to a lack of wrap capacity.

### **38. Is there a minimum investment size? Is there a maximum deposit Putnam will accept into Putnam Stable Value Fund? At what asset level will Putnam run a segregated account?**

Currently, there are no investment minimums for the majority of Putnam Stable Value Fund share classes. Generally, \$150 million and under in stable value assets are considered for investment in Putnam Stable Value Fund. Higher levels of investment will be reviewed on a case-by-case basis. The minimum investment amount to open a Putnam Stable Value Strategy segregated account is approximately \$150 million.

### **39. Is the fund NSCC registered?**

Yes. Please see the table on page 11 for share class CUSIPS and related disclosures.

**40. On which recordkeeping platforms is Putnam Stable Value Fund available?**

Putnam Stable Value Fund is available on over 100 recordkeeping platforms. In order to ensure the recordkeeping platform in question is (or remains) available, please contact your DCIO Investment Specialist.

**41. Can we add Putnam Stable Value Fund to any platform by obtaining a participation agreement?**

No. There must be a service agreement in place with the specific recordkeeping platform first. Once that agreement is in place, a participation agreement may then be executed by the plan sponsor/fiduciary.

In order to initiate obtaining a service agreement with a recordkeeping platform, please contact your Putnam DCIO team.

**42. Are there any restrictions on advisor firms being able to utilize this strategy?**

The only advisor-related restriction in using PSVF as a stand-alone investment option is that advisors must execute Putnam’s commingled fund service agreement if they are receiving service fees from Putnam for a Putnam Stable Value Fund account.

Investing plans must execute a standard participation agreement and must trade through a recordkeeper with a service agreement in place with Putnam. In addition, certain advisor models or related programs must be reviewed for compliance with the equity wash rule, described above.

In order to initiate obtaining either a commingled fund service agreement or a plan participation agreement, please contact your Putnam DCIO team.

Fund name	CUSIP	Management fee (bps)	Wrap fee (bps)	Admin/Other (bps)	Expense ratio	Servicing fees (bps) <sup>†</sup>
Putnam Stable Value (100 bps)	74686Q603	100	16	1	1.17%	75
Putnam Stable Value (75 bps)	74686Q504	75	16	1	0.92%	50
Putnam Stable Value (50 bps)	74686Q405	50	16	1	0.67%	25
Putnam Stable Value (45 bps)	74686Q868	45	16	1	0.62%	20
Putnam Stable Value (35 bps)	74686Q306	35	16	1	0.52%	10
Putnam Stable Value (30 bps)	74686Q553	30	16	1	0.47%	5
Putnam Stable Value (25 bps)	74686Q207	25	16	1	0.42%	0
Putnam Stable Value (20 bps)*	74686Q876	20	16	1	0.37%	0
Putnam Stable Value (15 bps)*	74686Q801	15	16	1	0.32%	0

\* This share class has restrictions, and its use is subject to Putnam’s approval on a plan by plan basis.

† Servicing fees are paid by Putnam for administrative services provided by the recordkeeper to the plan with respect to fund holdings.

Putnam Stable Value Fund is NSCC registered. Please note that the expense information above is for the fund’s fiscal year ended 12/31/17 and is calculated in accordance with Department of Labor requirements, which require that wrap fees be reflected as a separate expense item. Expense information in the fund’s annual report, which is prepared under U.S. general accounting principles, does not reflect these fees and will differ as result. More recent expenses may differ.

Wrap fees are calculated based on total synthetic wrap fees (in dollars) divided by the fund’s average assets. Synthetic wrap contracts account for only a part of the overall portfolio. As a result, the fund’s blended expense is 0.16% for the twelve-month period ended 12/31/17, although the average wrap fee, on a contract basis, is higher. For example, if the fund had half its assets in synthetic wrap contracts over the period and the contracts had wrap fees of 0.20%, the fund’s reported wrap fees would be 0.10% of assets. Current wrap fees may be higher than the fees shown. Implicit expenses associated with traditional guaranteed investment contracts and other portfolio investments that do not charge an explicit wrap fee are not included in the table, but are reflected in the fund’s performance and crediting rate. The fund (or any other fund in which it invests) also bears its other operating expenses, such as custody, middle office services and accounting fees, audit fees, legal expenses, and any other miscellaneous expenses, which may vary overtime. The wrap fee for the MassMutual insurance separate account is inclusive of both wrap and subadvisory fees, which are charged on a combined basis.

**For more information on Putnam's Stable Value Fund, please reach out to your DC Investment Specialist.**

**To reach your Putnam DCIO team, call 1-866-4PUTNAM (1-866-478-8626) or visit [putnam.com/dcio/contacts](http://putnam.com/dcio/contacts).**

The fund is a collective trust managed and distributed by Putnam Fiduciary Trust Company, a non-depository New Hampshire trust company. However, it is not FDIC insured; it is not a deposit or other obligation of, and is not guaranteed by, Putnam Fiduciary Trust Company or any of its affiliates. The fund is not a mutual fund registered under the Investment Company Act of 1940, and its units are not registered under the Securities Act of 1933. The fund is only available for investment by eligible, qualified retirement plan trusts, as defined in the declaration of trust and participation agreement.

This material is for informational and educational purposes only. It is not a recommendation of any specific investment product, strategy, or decision, and is not intended to suggest taking or refraining from any course of action. It is not intended to address the needs, circumstances, and objectives of any specific investor. Putnam, which earns fees when clients select its products and services, is not offering impartial advice in a fiduciary capacity in providing this sales and marketing material. This information is not meant as tax or legal advice. Investors should consult a professional advisor before making investment and financial decisions and for more information on tax rules and other laws, which are complex and subject to change.

**Consider the risks before investing:** The fund seeks capital preservation, but there can be no assurances that it will achieve this goal. The fund's returns will fluctuate with interest rates and market conditions. The fund is not insured or guaranteed by any governmental agency. Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed.

Mortgage-backed securities are subject to prepayment risk. The use of derivatives involves additional risks, such as the inability to terminate or sell derivative positions and the potential failure of the other party to the instrument to meet its obligations. The fund may be exposed to risks associated with the providers of any wrap contracts (synthetic GICs) covering the fund's assets, including credit risk and capacity risk. You can lose money by investing in the fund.

**Crediting rate:** The weighted average net interest rate of all of the fund's investments (including cash) is as of May 31, 2018. This rate is quoted net of all fees, including investment management fees.

**To request the offering document for the fund, visit [putnam.com](http://putnam.com). The offering document includes investment objectives, risks, charges, expenses, and other information that you should read and consider carefully before investing.**