

**BLUE  
PRAIRIE**  
— Group —

**CASE STUDY:**  
Stable Value - There are risks

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**Challenge:**

In mid-2008 Blue Prairie Group (BPG) met with a Fortune 500 company headquartered in Texas that sponsors a 401(k) plan with \$1.4 billion in total assets and 45,000 participants. Although the prospect had originally wanted to meet because of a concern about one of their core equity funds, BPG quickly identified a significant fiduciary problem with their stable value fund that needed to be addressed immediately:

1. High subprime exposure compared to peer group,
2. Low crediting rate compared to peer group,
3. Subpar market-to-book ratio compared to peer group and the likelihood of continuing future declines,
4. Significant number of distressed securities held in the portfolio,
5. Rumors about some of the “wrap” providers exiting the business, and
6. Poor risk-control metrics and members of the stable value management team leaving the fund.

**Results:**

1. BPG conducted a due diligent search and contacted six quality stable value managers that met specific criteria within our proprietary stable value database. After reviewing proposals and meeting with semi-finalists, BPG was able to narrow the list of semi-finalists down to two and ultimately recommend a candidate that was the best fit for our client.
2. BPG retained the services of a third-party “wrap contract expert” to identify the details of the existing wrap contracts to and in particular, to understand the portability of these contracts to another investment manager. This was a key step since at this time the wrap provider marketplace was contracting and there were growing limitations on wrap provider capacity.
3. BPG recognized the challenges of transitioning the portfolio during the national credit crisis and was instrumental in coordinating the communication between all affected parties: wrap providers, current investment manager and future investment manager and client which led to a successful transition.
4. Our client was one of limited number of plan sponsors in early 2009 that were able to successfully transition their stable value portfolio despite larger wrap provider market constraints and despite feedback from many stable value managers that moving a \$350 million stable value portfolio was not feasible.

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## Background:

Blue Prairie Group uses a well-defined approach to investment selection, monitoring and manager replacement, with respect to ERISA plans. Our approach is based on the simple insight that investment committees need to use a consistent and prudent evaluation process in discharging their fiduciary duty. Blue Prairie Group's approach to fund and investment manager evaluation is grounded in several core beliefs about investing. These beliefs have their roots in academic and empirical evidence that support the notion of efficient markets. Our core beliefs are that (1) Asset allocation is the primary determinant of portfolio performance, (2) Diversification reduces risk, and (3) Costs matter.

## Stable Value Consulting Capabilities

Blue Prairie Group is a leader in the complex area of stable value consulting. We review all of our clients' stable value funds and maintain formal procedures to monitor the quality of the portfolios on an ongoing basis

We request detailed information from managers on a quarterly basis regarding management procedures and personnel, market-to-book ratio, assets under management, wrap provider exposure, expense options, performance, and several other portfolio measures and metrics. We track this information on our proprietary stable value database.

Blue Prairie Group's internal Investment Analytics Group (IAG) regularly meets with stable value managers to "dig deeper" into their portfolios to better understand their management practices, portfolio holdings, risk control procedures and contract provisions.

Blue Prairie Group retains the services of one of the nation's leading stable value contract experts who is able to quickly review the contract provisions of these complicated investment instruments.

Blue Prairie Group provides regular stable value write ups to all of its clients summarizing the detailed information we maintain in our proprietary stable value database.

### If you have any questions or comments, please contact:

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