

## STABLE VALUE FUND

This Disclosure summarizes information about the Stable Value Fund offered as an investment option under the various Defined Contribution Plans of the Commonwealth of Virginia (“Plan”). Plan participants should read and retain this Disclosure for future reference.

### TABLE OF CONTENTS

<b>Key Information</b> .....	<b>page 2</b>
<b>Who Should Consider Investing</b> .....	<b>page 2</b>
<b>Investment Objective And Policies</b> .....	<b>page 2</b>
<b>Investments</b> .....	<b>page 3</b>
<b>Risks</b> .....	<b>page 4</b>
<b>Fund Management And Structure</b> .....	<b>page 5</b>
<b>Fees And Expenses</b> .....	<b>page 5</b>
<b>Valuation Of Units</b> .....	<b>page 6</b>

*Investments in the Fund are NOT bank deposits, are NOT guaranteed by the Virginia Retirement System or the investment adviser, are NOT insured by the Federal Deposit Insurance Corporation or any other agency of the U.S. Government, and are subject to investment risks, including loss of principal. The Fund is not an investment company and, accordingly, is not required to be registered under the Investment Company Act of 1940. This Fund is only available to plan participants for various defined contribution plans of the Commonwealth of Virginia.*

### COPIES OF THE DISCLOSURE AND ACCOUNT INFORMATION

**Copies of the Disclosure.** For additional copies of this Disclosure, go to [www.varetire.org](http://www.varetire.org) and select a Plan under the *Defined Contribution Plans* tab. Select “Plan Investments” and then “Fund Information.” Or, call the Plan Information Line toll-free at 1-VRS-DC-PLAN1 (1-877-327-5261).

**Account Information.** For account balance, performance and other Plan information, go to [www.varetire.org](http://www.varetire.org) and select “Account Log-in” under the *Defined Contribution Plans* tab. Then, select the “My Accounts” tab. Or, call the Plan Information Line toll-free at 1-VRS-DC-PLAN1 (1-877-327-5261).

For additional information about Galliard Capital Management, please visit the firm’s website at [www.galliard.com](http://www.galliard.com), or write to the following address and ask for a copy of Galliard’s Form ADV which provides information about the adviser and its business.

Galliard Capital Management, Inc.  
 Att’n: Virginia Retirement System Plans  
 800 LaSalle Avenue  
 Suite 1100  
 Minneapolis, MN 55402-2054

## KEY INFORMATION

The Stable Value Fund (“Fund”) is a managed investment fund offered under the Plan exclusively for plan participants. The Fund invests in various Wells Fargo trustee collective investment funds managed by Galliard Capital Management, Inc. The Fund’s assets are held in a custody account with Wells Fargo Bank, N.A. The Fund is advised by Galliard, a wholly owned subsidiary of Wells Fargo Bank, N.A.

**Objective.** The Fund seeks to provide safety of principal while earning a reasonable level of interest income consistent with an underlying portfolio of short to intermediate duration high quality fixed income (bond) securities, and maintain adequate liquidity to accommodate participant transactions. There is no assurance that the Fund will achieve its objective.

**Strategy.** The Fund will pursue its objective through the active management of a diversified portfolio of high quality fixed income securities coupled with a wrap contract (together known as a Security Backed Contract), Guaranteed Investment Contracts, and/or Bank Investment Contracts issued by major financial institutions. Refer to the Investments section for information about these contract types.

**Risk vs. Return.** The Fund is designed for investors who seek current income, preservation of principal and liquidity. No government agency either directly or indirectly insures or guarantees the performance of the Fund. When interest in the Fund is redeemed it may be worth more or less than the amount paid for it.

**Trading Restriction.** A trading restriction will be imposed on transfers out of the Stable Value Fund into the Money Market Fund, the Active Inflation-Protected Bond Fund or the Self-Directed Brokerage Account (considered “competing funds”). This means participants are not allowed to transfer dollars directly from the Stable Value Fund to the Money Market Fund, the Active Inflation-Protected Bond Fund or the Self-Directed Brokerage Account. To comply with the restriction, dollars must first be exchanged into stock or other bond funds and remain there for a 90-day period before they can be exchanged into the Money Market Fund, the Active Inflation-Protected Bond Fund or the Self-Directed Brokerage Account.

## WHO SHOULD CONSIDER INVESTING

**You should consider investing in the Fund if:**

- You are looking to safeguard principal;
- You are looking for current income;
- You are seeking an investment with low volatility.

**You should not consider investing in the Fund if:**

- You are looking for FDIC insurance coverage or interest that is guaranteed for a specific period, such as in a certificate of deposit;
- You are unwilling or unable to accept that you may lose money on your investment;
- You are unwilling to accept the risks involved in the securities market.

**Who May Invest.** The Fund is offered exclusively to participants in the Plan. There is no minimum amount for initial and subsequent purchases of Fund units.

## INVESTMENT OBJECTIVE AND POLICIES

**The Fund’s investment objectives are:**

- Safety of principal
- Current income
- Adequate liquidity
- Long term returns superior to shorter maturity alternatives

The primary emphasis in managing the Stable Value Fund is preservation of principal. Liquidity is another key element in the strategy since the Fund must accommodate participant withdrawals and investment transfers in a timely fashion.

Once these objectives are met, the Fund adviser’s focus is on selecting the best securities available to provide participants with competitive returns compared to shorter maturity fixed income alternatives. To achieve its investment objectives, the Fund invests in a variety of investment contracts. Examples of these include security backed contracts (SBCs), guaranteed investment contracts (GICs) and bank investment

contracts (BICs). Refer to the Investments section for information about these contracts. The Stable Value Fund is appropriate for investors seeking more income than money market funds without the price fluctuation of stock or bond funds.

## INVESTMENTS

**Security Backed Contracts (“SBCs”).** In structuring a security-backed contract, the Fund purchases one or more marketable fixed income portfolios, which are held and owned by the Fund on behalf of investors. The Fund then contracts for a fee with a financially responsible third party such as a large bank or insurance company to assure payments for participant withdrawals and transfers at book value (principal plus credited interest). This contract is typically referred to as a “wrapper agreement” or a “wrap.” The issuer is a “Wrap Provider.” The yield of the portfolio changes over time based on the impacts of the cash flow, the fixed income portfolio’s duration and the market value of the underlying fixed-income securities. Gains or losses are recognized over time by adjusting the yield of the portfolio. The underlying fixed-income securities for security backed contracts that the Fund may purchase include, but are not limited to U.S. government securities, collateralized obligations such as mortgage backed or asset backed securities, corporate debt obligations and derivative investments including futures, options and swaps. The SBCs are generally not assignable or transferable and, therefore, are illiquid investments. However, the underlying fixed-income securities are marketable and may be exchanged for other fixed-income assets, with the knowledge and consent of the wrap provider, providing added flexibility.

**Active Management.** The Security Backed Contracts utilized within the Fund are backed by actively managed portfolios of fixed income securities in varying investment styles. Active management of the fixed income securities can improve diversification and enhance performance of the Fund through use of fixed income management strategies including, but not limited to, sector allocation, yield curve analysis and issue selection. Such strategies can positively or negatively affect the earnings rate of the Security

Backed Contract over time without adding materially to the volatility of the overall Fund.

**Guaranteed Investment Contracts (“GICs”).** The Fund may invest in GICs issued by credit worthy insurance companies, which, at the time of investment, meet strict credit guidelines. Compliance with these guidelines is monitored by the Fund adviser. GICs are obligations of insurance companies that generally provide fixed rates of interest over set periods of time. Some GICs can be structured to have either variable rates or variable maturities, or both. GICs are backed by either the general accounts or separate accounts of the insurers. The insurers’ ability to meet their contractual obligations to pay interest, to pay principal, and to make benefit payments at contract value ultimately depends on the financial stability of the insurers. GICs are not insured by any federal agency. GICs may not be recognized as insurance policies in the event of the insolvency of the issuer and therefore the claims of GIC holders may remain unpaid until the claims of policyholders are paid. The instruments are generally not assignable or transferable without the consent of the issuers and have no publicly traded secondary market.

**Bank Investment Contracts (“BICs”).** The Fund may also invest in BICs issued by U.S. commercial banks and U.S. branches of foreign commercial banks. BICs have similar investment characteristics as GICs, except that BICs are issued by banks. BICs include, but are not limited to, deposit notes, medium-term notes, and other institutionally-sized, non-negotiable deposit instruments. Although all banks that issue BICs must be members of the Federal Deposit Insurance Corporation (“FDIC”), BICs are not insured by the FDIC. BICs are also not insured by any other federal agency. Issuers of BICs purchased by the Fund must meet the same stringent credit quality requirements, at the time of investment, as GIC issuers.

**Stable Value Collective Funds.** The Fund may invest in stable value collective trust funds, which have similar objectives to the Fund and invest in assets as

*(Continued on page 4)*



described above. Currently, the Fund invests in the Wells Fargo Stable Return Fund which is a large stable value collective trust fund trustee by Wells Fargo Bank, N. A. and advised by the Fund's adviser, Galliard Capital Management, Inc. The Stable Value Fund will generally maintain at least 5% of its assets in the Stable Return Fund to provide for daily liquidity.

**Other Investments/Cash Reserves.** The Fund may invest in other collective investment trust funds with investment objectives that are consistent with the Fund's investment strategy. The Fund may also invest in other assets including high quality money market instruments.

**Portfolio Diversification.** The Fund can invest up to 95% of its assets in Security Backed Contracts (SBCs) which are comprised of diversified portfolios of high quality fixed income securities and wrap contracts. The Fund contracts with more than one wrap provider for diversification and default risk reduction purposes. No single issuer of general obligation bank investment or guaranteed investment contracts may exceed 3% of the Fund's assets. The overall average credit rating of the contract issuers (e.g. wrap, GIC, and BIC providers) in the Fund will be maintained by the Fund's adviser at a minimum of A-/A3. The marketable fixed income securities underlying the Security Backed Contracts must be rated investment grade at time of purchase and the minimum average quality of the underlying portfolio must be at least AA/Aa2. The overall duration of the underlying securities in the Fund is maintained between 2.0 and 3.5 years.

**Use of Derivatives.** The Fund may enter into transactions in certain derivatives, each of which involves risk. Derivatives are financial instruments whose values are derived, at least in part, from the prices of other securities or specified assets, indices, or rates. A variety of risk management procedures ensure the Fund's use of derivatives is closely monitored, remains consistent with the Fund's objectives and avoids undue exposure to risk.

**Securities Lending.** As of March 18, 2009, the Fund does not participate in securities lending activities. However, the Fund does have the ability to do so as opportunities present themselves.

## RISKS

The Fund is designed to allow participants to transact at book value (principal plus credited interest). There are a number of risks and events that may positively or adversely affect future yields of the portfolio. These risks include:

**Default (Credit) Risk.** Default risk refers to the possibility that parties who issue securities or instruments purchased by the Fund may not be financially able to make interest or principal payments when due. The default risk of securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities is low. The default risk on contract providers or other securities is moderately higher. However, to be eligible for acquisition by the Fund, an investment contract must be issued by an institution whose credit worthiness has been approved by Galliard Capital Management based on its comprehensive internal credit evaluation and third-party ratings by recognized credit-rating agencies. This risk is mitigated by investing in high quality assets and contracting with high quality contract issuers as well as focusing on very broad diversification of the underlying securities. In the case of a Security Backed Contract, the risk of loss due to a default of the institution providing the wrap is minimized because the Fund owns the marketable securities backing the investment contract. There is a risk that the market value of the securities owned may be lower than the book value.

**Interest Rate Risk.** Interest rate risk in stable value investing is primarily a function of reinvestment of cash flows. Interest rate risk is lessened within the Fund by (1) primarily investing in investment contracts with the intention of holding them to maturity and (2) through active management, the fund adviser intends to select investments that provide predictable consistent cash flow through

*(Continued on page 5)*



varying maturities and interest payment features. The Fund also maintains a short to intermediate duration, reducing the volatility of longer-term investments. Also, changes in interest rates affect the prices of the underlying fixed income securities. In general, as interest rates rise, the prices of the fixed income securities fall, and vice versa. Like all fixed income investment options, the Fund is subject to reinvestment rate risk, meaning cash flows are reinvested as received at prevailing interest rates which may be more or less than the current yield of the overall Fund.

**Liquidity Risk.** Liquidity risk is reflected when the liquidation of contracts/securities is necessary to meet liquidity demands on the portfolio. The Fund is structured to provide adequate liquidity for normal withdrawal needs.

**Event Risk.** A material plan event or plan sponsor event including but not limited to changes in the law or regulation, bankruptcy of the employer, plan termination, early retirement programs, or group layoff of employees may result in termination of a wrap contract. Termination of a wrap contract may result in participant transactions occurring at market value, which may be higher or lower than book value. However, due to the nature of public plans and certain contract provisions, the probability of a wrap termination is extremely low. In addition, wrap providers will typically work with the investment manager and the plan sponsor to retain book value coverage, if at all possible, although future crediting rates may be impacted as a result of the event.

## FUND MANAGEMENT AND STRUCTURE

**Fund Management.** Galliard Capital Management, Inc., a wholly owned subsidiary of Wells Fargo Bank, N.A., is registered as an investment adviser under the Investment Advisers Act of 1940 and advises the Fund in a manner consistent with the policies described under “Investment Objective and Policies.” Plan participants have no voting or management rights in the Fund. Galliard will

devote resources it believes are necessary to fulfill its management and administrative duties to the Fund. Galliard will not invest the Fund’s assets in investments that are not consistent with Galliard’s obligations as a fiduciary under applicable laws or regulations.

**Reinvestment of Income.** The Fund reinvests all of its income (including realized capital gains, if any); such income will not be paid out as dividends or other distributions. Income earned on assets in the Fund is reinvested and included in net asset values.

**Other Investments/Cash Reserves.** For liquidity purposes, pending investments into investment contracts, and other investment-related purposes, the Fund will maintain at least 5% of its assets in high quality money market instruments, and other collective investment trust funds including stable value collective funds.

## FEES AND EXPENSES

**Advisory Fees.** Galliard Capital Management charges an investment advisory fee for ongoing management and supervision of the investment and reinvestment of Fund assets, which is paid directly from the Fund and reflected in the yield of the Fund. This fee includes investment management, custody, trust, audit and other administrative expenses for the various underlying collective investment funds managed by Galliard.

### **Investment Contract (Wrap Provider)/Securities Transaction Costs.**

The Fund will pay all investment contract costs including wrapper fees and brokerage commissions incurred on its portfolio transactions. Securities brokers and dealers for the Fund’s portfolio transactions are selected on the basis of their ability to provide the best execution on terms that do not include any charge for research services. Investment contracts are selected on the basis of issuer credit quality, ability to meet contract bid specifications and cost.

*(Continued on page 6)*



Refer to the Fund Fact Sheet and monthly performance reports to obtain the Fund's expense ratio.

## VALUATION OF UNITS

**Valuation of Units.** The Fund is valued daily with a fluctuating unit value. Investment income is credited within the Fund daily resulting in an expected slight increase in the unit value on a daily basis. In the unlikely event the Fund trades at market value, the Fund may experience a decrease in the unit value. The investment by a participant in the Fund results in the issuance of a given number of participation interests ("Units") in the Fund for that participant's account. Galliard Capital Management determines the purchase price and redemption price of Units (the "Unit Value") as of 5:00 PM Eastern time each day Galliard is open for business (a "Valuation Date"). Generally, the Fund's Unit Value equals the total value of assets held by the Fund, less any liabilities (including fees payable to the adviser), divided by the total number of Units outstanding on the Valuation Date.

**Suspension of trading.** Under certain circumstances, Galliard Capital Management may in its discretion choose temporarily not to execute requests to purchase or redeem units of the Fund. Such circumstances include restriction or suspension of trading on the exchanges where the Fund's portfolio of securities are traded and such other unusual circumstances as would in the judgement of Galliard, make disposal of the Fund's investments not reasonably practicable. This may result in a delay in the valuation date as of which the execution of purchases and redemptions occur.