

**MEMORANDUM**

DATE: August 2020  
TO: State of Delaware Office of the State Treasurer (OST)  
FROM: Cammack Retirement Group  
RE: Fund Recommendations – Templeton Global Bond Fund and JPMorgan US Small Company R6

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Upon completion of the investment analysis of the Program as of 06.30.2020, Cammack Retirement Group is recommending the following fund actions.

*JPMorgan US Small Company R6* is recommended to be removed from watch status. This is based on the fund's increased relative performance and successful management transition following the departure of Dennis Ruhl from the firm's behavioral finance department. The change in management has thus far been beneficial for the fund, as it performed in the top third of its peer group through the first two quarters of 2020. This performance has been attributed to strong stock selection which follows a portfolio restructuring at the beginning of 2019.

The fund employs a quantitative and fundamental process to construct a portfolio of attractively valued companies with conservative management teams and high-quality earnings. The fund's longer-term performance is impacted negatively by the fund's bottom quartile performance in 2017, due primarily to the strong growth bias in the market. Moving into 2020, as the 2017 data begins to roll off the 3-year metrics, the fund has substantially increased in relative performance standings. The fund's value tilt has proven successful, especially in down market quarters where the fund has outperformed peers over the last three years.

The fund strategy is underpinned by the belief that investors are prone to behavioral biases that cause them to overreact to negative news and underreact to positive news. The management team's emphasis has been on identifying undervalued stocks that should perform well in the "new normal" economic environment. As 2020 looks to be increasingly volatile, management is focusing on its high-quality holdings.

*Templeton Global Bond Fund* is recommended for removal from the Program. This is due to deterioration of performance relative to its prospectus benchmark and peers. This benchmark agnostic-strategy prefers to invest in high real yielding sovereign markets and currencies and traditionally has limited exposure to the low-and-negative yielding developed market countries (i.e., Europe and Japan). The sharp decline in interest rates in 2019 was a key source of underperformance relative to its prospectus benchmark and peers. The fund's low duration positioning was further hurt by rates falling dramatically amid the coronavirus outbreak in Q1 2020. The sharp decline in interest rates, a sizable out-of-benchmark position in Argentina, and the fund's currency positioning have detracted from returns in recent quarters. These missteps have opened a sizeable performance deficit versus the fund's benchmark and peers.

The manager seeks to add value via three main sources: yield curve/duration, currencies, and sovereign credit. While the fund's prospectus benchmark is the FTSE World Government Bond Index, the manager follows a more unconstrained approach and it is not uncommon for the fund's positioning to vary significantly from its benchmark.



In addition to the fund's individual positioning, the global bond asset class has many headwinds that have eroded the categories diversification benefits with traditional bond and equity investments. Because of this, Cammack Retirement Group recommends removing this investment option, as well as the asset class, and mapping current assets/future contributions to PIMCO Total Return Instl (PTTRX), an Intermediate Core-Plus Bond fund.

Once approved, OST would work with Voya to remove Templeton Global Bond Fund from the available investment array and map current assets/future contributions to PIMCO Total Return Instl (PTTRX). This action will be preceded by a communication to participants informing them of the fund change.

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