



MEMORANDUM

DATE: February 2019
TO: State of Delaware Office of the State Treasurer (OST)
FROM: Cammack Retirement Group
RE: Fund Recommendation - *ClearBridge Mid Cap Growth*

During the meeting held February 20, 2019, with the Plans Management Board (PMB) Investment Committee, Cammack Retirement Group recommended replacing the ClearBridge Mid Cap Growth fund in all of the State deferred compensation plans (457(b), 401(a), and 403(b) Plans). Cammack Retirement Group made this recommendation based on its ongoing analysis of the fund, the highlights of which are summarized below:

We recommend replacing this fund due to persistent underperformance. While the fund slightly underperformed the Russell Mid Cap Growth Index in the fourth quarter (by 0.56 bps), it lags this benchmark over the 3-year period by nearly 275 bps, and over the 5-year period by over 235 bps. It has only outperformed the benchmark in one calendar year since 2013. While the fund has performed more in line with its peers recently, it trails the peer group average by 140 bps over the 3-year period, and by 54 bps over the 5-year period. Underperformance in the fund's longer-term annualized returns has not reversed.

Sector review, securities selection, and risk management

The fund is a high-quality growth fund that invests in companies with sustainable competitive advantages and tends to avoid momentum stocks. The fund tries to diversify the end market, business model and growth profile of its investments by investing in a wide range of growth companies. The fund invests in steady growers (45-50%), middle growers (30-35%), and hyper-growth (20-25%).

Consumer discretionary stocks presented the most significant headwind to performance during the quarter. Energy also negatively impacted relative performance, as lower demand from slowing global growth and oversupply from U.S. shale drillers, Saudi Arabia and Russia contributed to a more than 35% decline in crude oil prices. The fund did not manage to provide any alpha in the volatile fourth quarter. A declining market should have been an opportunity for the fund's quality tilt to shine, but this did not materialize due to stock selection issues.

Management and additional details

The team consists of four portfolio managers, all of whom have been at the helm since the fund's inception date, 08/31/2010.

Additional Investment Committee Notes:

- Per the Investment Committee's recommendation in February 2018, the Plans Management Board of the State of Delaware placed the fund on Watch in March 2018.
- While the fund was on Watch, the Investment Committee held a call with one of the Portfolio Managers of the fund (during the August 21, 2018 Investment Committee meeting).