



MEMORANDUM

DATE: May 2019
TO: State of Delaware Office of the State Treasurer (OST)
FROM: Cammack Retirement Group
RE: Fund Recommendation – JPMorgan US Small Company

Cammack Retirement Group is recommending *JPMorgan US Small Company* for Watch due to its relative underperformance to the benchmark over the near term, with the following background in mind:

The fund employs a quantitative and fundamental process to construct a portfolio of attractively valued companies with conservative management teams and high-quality earnings. Each stock is ranked based on its valuation, earnings quality, and capital deployment attributes; the stocks with the strongest score are candidates for purchase. While this fund is managed to a blend benchmark, the manager invests with a value and quality bias.

The fund's performance in 2017 was in the bottom quartile for its asset class due primarily to the market's strong growth bias; this negatively impacted the fund's longer-term performance results. Although the market place has rewarded momentum over value, we want to monitor the fund to observe how management responds in a late cycle environment. While the fund had relative outperformance in the fourth quarter of 2018 (where the valuation tilt of the fund benefited performance), the fund underperformed in Q1 as markets bounced back.

In addition, various risk indicators show that the fund has had above average risk and below average return for the past 3 years. We are also concerned that the fund's beta and the downside-capture ratios compare unfavorably to the peer group.