



## MEMORANDUM

DATE: March 2018  
TO: State of Delaware Office of the State Treasurer (OST)  
FROM: Cammack Retirement Group  
RE: Fund Recommendation - ClearBridge Mid Cap Growth

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In our most recent analysis of the investments in the State of Delaware retirement plans (457(b), 401(a), 403(b)), we identified concerns with one of the investments. Using the criteria established in the Plans' investment policy statement, we are recommending that the ClearBridge Mid Cap Growth fund be placed on Watch. Our rationale for this recommendation is outlined below.

*We recommend this fund for watch due to its relative underperformance to the benchmark over the short-term. The fund's approach of investing in a different spectrum of growth companies has protected capital in challenging markets, while also enabling participation in strong markets. The fund's recent underperformance for both 2016 and 2017 warrant close observation of future near-term performance. The fund continues to maintain a portfolio that has a higher earnings growth rate than the benchmark with a price/earnings ratio that is comparable; which may help in returning to previous levels of performance over a full market cycle.*

### **Sector review, securities selection, and risk management**

- *The is a high-quality growth fund that invests in companies with sustainable competitive advantages. Strategically, the fund identifies companies that maintain attractive valuation factors, while attempting to lower volatility relative to its peer group. The fund has had underperformance due to issues in stock selection, along with relative underperformance from overexposures in the information technology and healthcare sectors. This underperformance appears in both the 3-Year and 5-Year total returns.*
- *The fund's high-quality bias has led to periodic underperformance, specifically when valuations are inflated due to risk-on environments, as we have seen over the last two years. Performance driven from stock selection has been inconsistent for the fund. Recently, stock selection in Technology has yielded more positive results than in sectors such as Healthcare, the two sectors in which the fund is overweight the most. Historically, the fund stays mostly in line with the benchmark for sector weightings, except for its consistent overweight to technology and healthcare, and underweight towards discretionary sector.*
- *In the fourth quarter, the fund saw some positive improvement, outperforming both the benchmark and its peer group. This was due mostly to significant growth and recent acquisitions from long-term holdings of the fund. The fund has also readjusted sector allocations, as it is now overweight in consumer cyclical, and underweight industrials. It does continue to be overweight in healthcare; however, it has reduced its overweight in technology to be more in line with the benchmark. As market volatility appears to be increasing towards the end of 2017, and now beginning of 2018, it is possible that this may be a turning point for this high-quality based fund. Historically in periods of market under-performance, such as 2011, the fund has been able to outperform.*

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