

MEMORANDUM

DATE: November 2024
TO: State of Delaware Plans Management Board
FROM: CAPTRUST
RE: Fund Recommendation – Champlain Mid Cap Institutional

Upon completion of the investment analysis of the Program as of 09.30.2024, CAPTRUST is recommending the following fund action.

Chaplain Mid Cap Institutional is recommended to be placed on watch status. This is due to the fund's underperformance relative to the benchmark and category peer group.

The investment management team from Champlain seeks mid-cap businesses with strong and stable business models, superior relative growth, capable management, and an ability to compound returns. It holds 60-70 stocks with an average turnover of 30% per year. Team members focus on sectors where they think they can add value, namely industrials, consumer staples, healthcare, technology, and financials.

The strategy benefits from a deep and tenured team led by CIO Scott Brayman, who co-founded Champlain Investment Partners in 2004. In 2022, longtime analysts Corey Bronner and Joseph Caligiuri were both made deputy CIOs, signaling their potential as future leaders.

Recent underperformance has been uncharacteristic given the strategies long-term outperformance over the 10- and 15- year time periods. In 2020, the fund lagged peers that held more speculative growth names. In 2021 the fund bounced back, with the strategy placing in the top decile, and returned nearly double the category return at 24%. The strategy was able to outperform peers again in 2022, protecting on the downside by roughly 100bps. 2023 was a lackluster year for the fund, lagging by roughly 600bps due predominately to stock selection.

Year-to-date underperformance has been staggering, as several stock-picking missteps drove the underperformance, particularly in industrials and healthcare. The portfolio's exclusion of both utilities and Real Estate Investment Trust (REIT) holdings also hurt performance during the third quarter. Year-to-date as of the end November, the fund has returned ~13%, compared to the category's ~25%.

While we maintain confidence in the portfolio management team, recent underperformance warrants further monitoring.