

MEMORANDUM

DATE: November 2025
TO: State of Delaware Plans Management Board
FROM: CAPTRUST
RE: Fund Recommendation – Champlain Mid Cap Institutional

Overview

CAPTRUST made a recommendation to the State of Delaware Investment Committee to replace the Champlain Mid Cap Institutional fund. For alternatives, they presented two actively managed funds - MFS Mid Cap Growth R6, and Touchstone Mid Cap Growth R6, as well as a passively managed fund already in the Plans' lineup, the Vanguard Extended Market Index fund. The details of the material discussed are outlined below.

Champlain Mid Cap, the current fund, representing 0.48% of plan assets as of 9.30.2025, is an actively managed mid cap growth fund that may invest in stocks of medium sized companies and, to a lesser extent, small and large sized companies. The portfolio is comprised of companies that the fund managers believe have attractive long-term fundamentals, appreciation potential, and valuations. The strategy consists of 50 to 75 common stocks from the Russell Midcap, S&P MidCap 400 and S&P 500.

Alternative Options

MFS Mid Cap Growth is an actively managed mid-cap growth fund that seeks companies that have the potential to generate relatively steady, above average rate and duration of growth that the managers believe is underappreciated by the market. Emphasis is placed on high-quality businesses with a competitive advantage, high barriers to entry, pricing power, and the potential to expand margins. Fundamentals and valuations drive position sizing.

Touchstone Mid Cap Growth is an actively managed mid-cap growth fund focused on mid-cap companies that are believed to have demonstrated records of achievement with excellent prospects for earnings growth over a 1-3 year period. The managers look for companies believed to be reasonably priced with high forecasted earnings potential. They analyze each company's financial statements, interview management, and analyze the company's operations and product development, with consideration to a company's industry.

Vanguard Extended Market Index is a passively managed fund that gives investors a low-cost way to gain broad exposure to U.S. mid- and small- capitalization stocks in one fund. The fund invests in about 3,000 stocks, which span many different industries and account for about one-fourth of the market-cap of the U.S. stock market.

Current Fund: Champlain Mid Cap Institutional

The Champlain team 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 believe 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 strategy's long-term outperformance over the 10- and 15-year time periods. The fund significantly underperformed peers and the benchmark during the third quarter and now lags the Russell Midcap Index by nearly 10% year-to-date. Stock selection continues to be the primary driver of underperformance for this fund, as missing out on key stocks (Applovin, Robinhood, Palantir) has been detrimental in recent years to index-relative performance. This current year underperformance follows similar underperformance in 2024, and lesser underperformance in 2023.

The fund's total net assets are down to \$5.21B, down from a peak AUM of \$11.36B in 2021. AUM growth rate has declined by -25.61% YTD, and has seen consequential decreases in AUM growth rate over the last 4 years. At this point, the magnitude of underperformance during 2025, 2024, and 2023 is substantial enough to warrant the removal of this strategy. Additionally, the fund's long-term performance looks vulnerable, as strong years like 2015 and 2016 are nearly rolling off the fund's 10-year metrics.

Potential Replacement #1: MFS Mid Cap Growth R6

The MFS Mid Cap Growth strategy has an experienced team, disciplined process, and conservative risk profile. Lead Portfolio Manager Eric Fischman has managed the strategy since 2008 and brings twenty-five years of industry experience, while Co-PM Eric Braz, who joined in 2021, has been with MFS for sixteen years. The team targets firms with secular growth, pricing power, and high-quality fundamentals, emphasizing free cash flow and strong capital allocation. The portfolio's conservative positioning (less exposure to cyclical stocks and a beta of 0.9) supports downside protection when economic growth slows. While the strategy may lag in risk-on rallies led by unprofitable or cyclical growth stocks, we expect it to perform well when profitable growth is in favor.

Potential Replacement #2: Touchstone Mid Cap Growth R6

The Touchstone Mid Cap Growth strategy is a higher-risk fund option that has delivered top-quartile returns over the trailing 3-, 5-, and 10-year time frames. The team seeks companies with accelerating earnings while maintaining fundamental stability in the underlying businesses it invests in. The portfolio differs from the index in sector allocation by approximately 5%. Stock selection is the primary driver of the strategy's above-average returns, achieved through higher levels of concentration and fewer total holdings than any of the other proposed investment options. This option is suitable for investors prioritizing total return and tends to experience larger swings in portfolio valuations, while also holding mid-cap names into higher market-capitalization territory to realize larger gains. The portfolio has been managed by William Muggia and Richard Lee since 1999 and 2004, respectively, and recently added two additional portfolio managers in 2025.

Potential Replacement #3: Vanguard Extended Market Index

As an alternative to the actively managed potential replacements described above, CAPTRUST also presented to the Investment Committee the option of transitioning the current assets and future contributions to the Vanguard Extended Market Index. While CAPTRUST typically seeks to replace a plan investment with one that uses a similar investment style (e.g., replace active management with active management; replace passive management with passive management), the fund's low utilization rate by plan participants (representing only 0.48% of total plan assets), combined with current market conditions, has led to the consideration of replacing the actively managed Champlain Mid Cap Fund with this passively managed index option.

Increased market concentration has made active management outperformance much more challenging in the mid-cap space. As evidenced by the descriptions above, if a fund manager misses out on a couple of stocks or does not hold them in sufficient proportion within the portfolio, that manager underperforms the benchmark—potentially by a wide margin. From a plan lineup design standpoint, participants still have access to active management in the small-cap space, and the lack of an active mid-cap value option in the plan means there will not be an imbalance from removing the actively managed mid-cap growth asset class. Additionally, these two investments already exhibit a strong degree of correlation with one another (0.92 over the trailing three-year and five-year periods).

Conclusion

CAPTRUST recommended to the committee, following discussions about the committee's investment philosophy for plan lineup design, that the Champlain Mid Cap Institutional Fund be replaced with the Vanguard Extended Market Index. This shift represents a decrease in investment cost from 0.84% to 0.05%, resulting in immediate cost savings for plan participants. As of 9.30.2025, the Vanguard Extended Market Index, net of fees, has outperformed the Champlain Mid Cap Fund across the 1-, 3-, 5-, and 10-

year time periods. The change reflects the growing shift in investor attention and market efficiency that passive investments can provide for plan lineups.