
APRIL 24, 2024

**AGENDA ITEM 7
INFORMATION ITEM**

CALIFORNIA ABLE ACT BOARD

Review of CalABLE Investment Performance and Evaluation for the Fourth Quarter 2023

Background

The CalABLE Act Board and its investment consultant, Meketa Investment Group, Inc. (Meketa) will review the “Performance and Evaluation Report” for Fourth Quarter 2023, provided by Meketa. Attachment #1 provides comparisons for each underlying fund allocated to the portfolios used in the Plan to applicable benchmark criteria and labels the current status of the funds as “positive,” “acceptable,” “caution,” or “watch.” Attachment #2 is the Watch Review memo.

Presenter

Kay Ceserani, Principal/Consultant, Meketa Investment Group, Inc.
Aysun Kilic, FCA, Consultant/Portfolio Strategist, Meketa Investment Group, Inc.

Attachments

- Attachment #1 – TFI CalABLE Performance and Evaluation Report 4Q23
- Attachment #2 – Watch Review Memo

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CalABLE Plan

April 24, 2024

4Q23 Performance & Evaluation Report

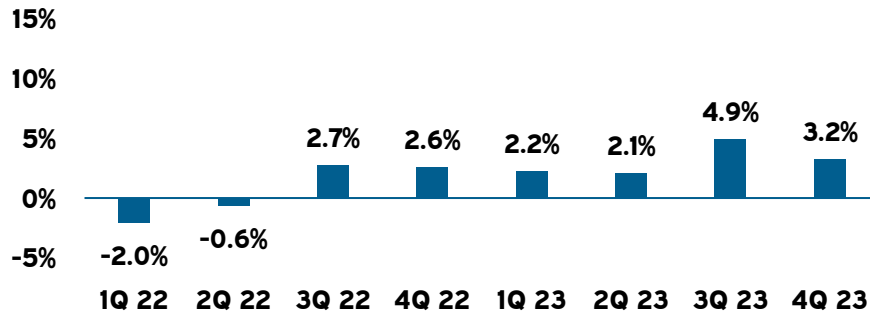
1. Economic and Market Update
2. Summary of Monitoring Status
3. CalABLE Portfolios Analysis
4. Fee Schedule

Economic and Market Update

Data as of December 31, 2023

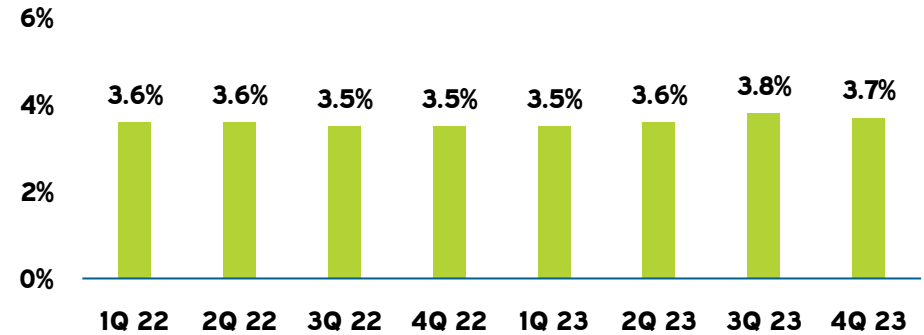
Economic and Market Update

Quarterly Real GDP (Annualized)



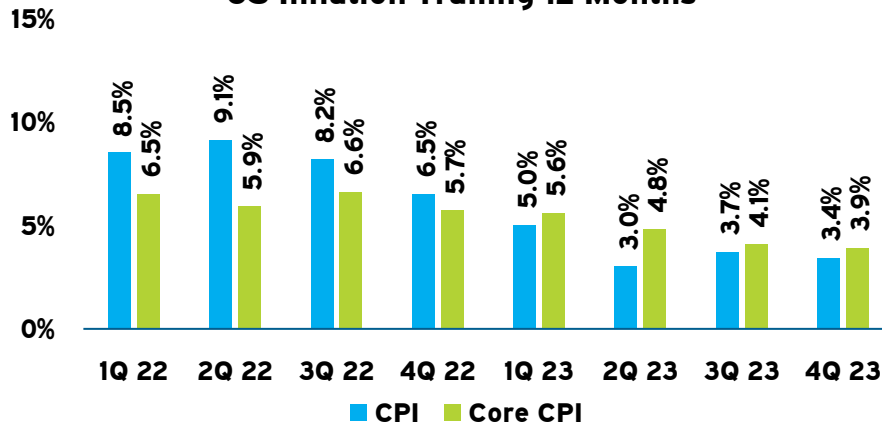
Source: Bureau of Economics Analysis. Data as of Q4 2023 represents the "second" estimate. The Q4 2023 "third" estimate will be released March 28, 2024.

US Unemployment (U-3)



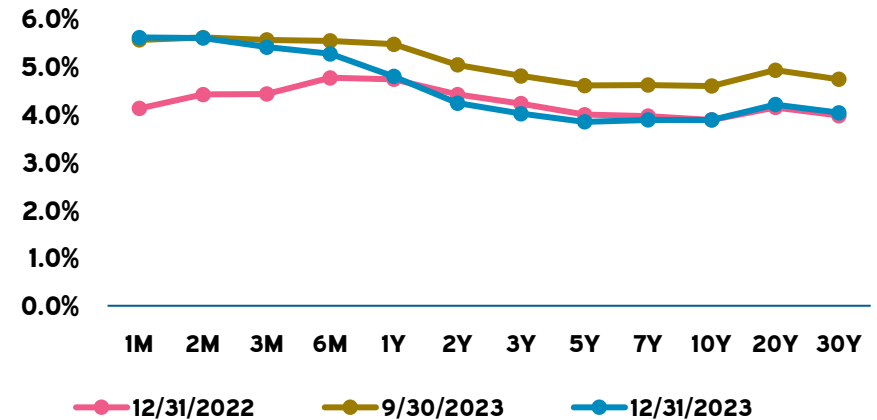
Source: Bureau of Labor Statistics. Data as of December 31, 2023. Seasonally adjusted.
U-3, Total US unemployed, as a percent of the civilian labor forces (official unemployment rate).

US Inflation Trailing 12 Months



Source: Bureau of Labor Statistics. Data is non-seasonally adjusted CPI, which may be volatile in the short-term.
Data as of December 31, 2023.
Core CPI excludes Food and Energy.

US Yield Curve



Source: US Department of the Treasury.

Market Update as of December 31, 2023
Index Returns

| | QTR (%) | 1 YR (%) | 3 YR (%) | 5 YR (%) | 10 YR (%) |
|--------------------------------|--------------------|---------------------|---------------------|---------------------|----------------------|
| Domestic Equity | | | | | |
| S&P 500 | 11.7 | 26.3 | 10.0 | 15.7 | 12.0 |
| Russell 3000 | 12.1 | 26.0 | 8.5 | 15.2 | 11.5 |
| Russell 1000 | 12.0 | 26.5 | 9.0 | 15.5 | 11.8 |
| Russell 1000 Growth | 14.2 | 42.7 | 8.9 | 19.5 | 14.9 |
| Russell 1000 Value | 9.5 | 11.5 | 8.9 | 10.9 | 8.4 |
| Russell MidCap | 12.8 | 17.2 | 5.9 | 12.7 | 9.4 |
| Russell MidCap Growth | 14.6 | 25.9 | 1.3 | 13.8 | 10.6 |
| Russell MidCap Value | 12.1 | 12.7 | 8.4 | 11.2 | 8.3 |
| Russell 2000 | 14.0 | 16.9 | 2.2 | 10.0 | 7.2 |
| Russell 2000 Growth | 12.8 | 18.7 | (3.5) | 9.2 | 7.2 |
| Russell 2000 Value | 15.3 | 14.7 | 7.9 | 10.0 | 6.8 |
| Non-US Equity | | | | | |
| MSCI ACWI (ex. US) | 9.8 | 15.6 | 1.6 | 7.1 | 3.8 |
| MSCI EAFE | 10.4 | 18.2 | 4.0 | 8.2 | 4.3 |
| MSCI EAFE Growth | 12.7 | 17.6 | 0.3 | 8.8 | 5.2 |
| MSCI EAFE Value | 8.2 | 19.0 | 7.6 | 7.1 | 3.2 |
| MSCI EAFE (Local Currency) | 5.0 | 16.2 | 8.6 | 9.5 | 6.6 |
| MSCI EAFE Small Cap | 11.1 | 13.2 | (0.7) | 6.6 | 4.8 |
| MSCI Emerging Markets | 7.9 | 9.8 | (5.1) | 3.7 | 2.7 |
| MSCI Emg Mkts (Local Currency) | 5.6 | 9.9 | (2.5) | 5.4 | 5.2 |
| MSCI China | (4.2) | (11.2) | (18.4) | (2.8) | (0.9) |
| Fixed Income | | | | | |
| Bloomberg Universal | 6.8 | 6.2 | (3.0) | 1.4 | 2.1 |
| Bloomberg Aggregate | 6.8 | 5.5 | (3.3) | 1.1 | 1.8 |
| Bloomberg US TIPS | 4.7 | 3.9 | (1.0) | 3.2 | 2.4 |
| Bloomberg High Yield | 7.2 | 13.4 | 2.0 | 5.4 | 4.6 |
| JPM GBI-EM Global Diversified | 8.1 | 12.7 | (3.2) | 1.1 | 0.1 |
| Other | | | | | |
| FTSE NAREIT Equity | 16.2 | 13.7 | 7.2 | 7.4 | 7.7 |
| Bloomberg Commodity Index | (4.6) | (7.9) | 10.8 | 7.2 | (1.1) |

During the Quarter:

- Markets rallied in the fourth quarter after a weak Q3 as investors now believe the FOMC's rate hiking cycle is over and that monetary easing is likely in 2024. Inflation declined over the quarter and has retreated meaningfully since December 2022. The consumer continues to be resilient as unemployment has remained historically low and wages have continued to increase.
 - Looking forward, the paths of inflation and monetary policy, China's economic slowdown, slowing global growth and the uncertainty surrounding the geopolitical risks with the wars in Ukraine and Israel will all be key.
- Markets posted strong results in Q4 and year-to-date with major asset classes producing positive returns except for commodities.
- The FOMC maintained the federal funds rate target range of 5.25% to 5.50% during the quarter and the updated projections from the Fed's December Dot Plot now shows an overall 0.75% rate cut in 2024.
- Equities rebounded strongly in Q4 as most asset classes were positive.
 - US equities (+12.1%) continue to outpace non-US equities (+9.8%).
 - US Small Caps outperformed US Large Caps during the quarter, but large cap stocks still outperformed by a wide margin YTD.
 - Growth outpaced Value across all market capitalizations in the US except for Small Cap.
 - YTD Large Cap Growth kept its massive lead over value (+42.7% v +11.5%). The "Magnificent 7" stocks generated more than 50% of the total gains for the S&P 500 for the year.
 - Within Non-US, Developed Markets outperformed Emerging Markets.
- Broad fixed income returns were positive.
 - US Treasury yields declined mainly due to more dovish policy expectations. The 10-year Treasury declined ~70 basis points during the quarter ending December below 4%.
- Diversifying asset classes produced mixed results.
 - Commodities were down (-4.6%).
 - REITs increased (+16.2%)

Summary of Monitoring Status

**Total Fund Assets Summary
As of December 31, 2023**

| Portfolios | Total Fund Assets (\$K) | % of Total |
|-------------------------------|----------------------------|---------------|
| Growth Portfolio | 4,504 | 4% |
| Moderate Growth Portfolio | 30,221 | 24% |
| Conservative Growth Portfolio | 547 | 0% |
| Balanced Portfolio | 24,034 | 19% |
| Income & Growth Portfolio | 482 | 0% |
| Conservative Portfolio | 20,449 | 16% |
| Income Portfolio | 605 | 1% |
| FDIC-Insured Portfolio | 46,094 | 36% |
| Total | 126,935 | 100% |

Summary of Monitoring Status
**Monitoring Summary
As of December 31, 2023**

| Underlying Funds | Total Fund Assets (\$K) | % of Total | Prior QTR Status | Current QTR Status | Qualifies for Watch? | On Watch ¹ |
|---|-------------------------|-------------|------------------|--------------------|----------------------|-----------------------|
| Fidelity Total Market Index Fund | 15,006 | 12% | --- | Positive | No | No |
| Schwab Total Stock Market Index Fund | 14,501 | 11% | --- | Positive | No | No |
| Fidelity International Index Fund | 11,241 | 9% | --- | Caution | No | No |
| Fidelity Emerging Markets Index Fund | 4,585 | 4% | --- | Caution | No | No |
| Fidelity US Bond Index Fund | 14,535 | 12% | --- | Positive | No | No |
| Schwab US Aggregate Bond Index Fund | 13,774 | 11% | --- | Positive | No | No |
| Fidelity Long-Term Treasury Bond Index Fund | 2,964 | 2% | --- | Caution | No | No |
| Schwab Treasury Inflation Protected Securities Index Fund | 1,127 | 1% | --- | Positive | No | No |
| Vanguard Emerging Markets Bond Fund Admiral Shares | 1,510 | 1% | --- | Positive | No | No |
| Vanguard High-Yield Corporate Fund Admiral Shares | 1,506 | 1% | --- | Acceptable | No | No |
| Vanguard Cash Reserves Federal Money Market Fund Admiral Shares | 121 | 0% | --- | --- | | |
| FDIC-Insured TIAA Bank Account | 46,094 | 36% | --- | --- | | |
| Total | 126,935 | 100% | — | — | | |

¹ Watch criteria summarized on Page 9.

Monitoring Guidelines

| Performance Category | Active Funds | Passive Funds |
|----------------------|---|---|
| Positive | Performance exceeds the benchmark | Tracking error is within the allowable range (short-, medium-, and long-term periods) |
| Acceptable | Performance meets or trails the benchmark but is within the allowable range | N/A |
| Caution | Performance is below allowable range but either: <ul style="list-style-type: none"> i) For less than six consecutive months ii) The Board has not taken (or decided not to take) a formal action to place the underlying fund on Watch even though performance has been below allowable range for six months or longer. | Tracking error falls outside of the allowable range but either <ul style="list-style-type: none"> i) For less than six consecutive months or ii) The Board has not voted to place the underlying fund on Watch. |
| Watch | Performance is below allowable range for more than 6 consecutive months and the Board has formally voted to place the underlying fund on Watch. | Tracking error falls outside of the allowable range for more than 6 consecutive months and the Board has formally voted to place the underlying fund on Watch. |

Monitoring Guidelines As of December 31, 2023

| Asset Class | Shorter-Term Performance (rolling 12-month periods) | Medium-Term Performance (rolling 36-month periods) | Long-Term (>60 months) ¹ |
|--------------------------------|---|---|---|
| Actively Managed Funds | Fund return < Benchmark return for 6 consecutive months | Fund return < Benchmark return for 6 consecutive months | VRR < for 6 consecutive months |
| Emerging Markets Bond | -6.5% | -3.25% | 0.96 |
| Passively Managed Funds | Tracking Error > for 6 consecutive months | Tracking Error > for 6 consecutive months | Fund annualized return < Benchmark annualized return for 6 consecutive months |
| Domestic Equity | 0.30% | 0.25% | -0.30% |
| International Equity | 0.75% | 0.70% | -0.30% |
| Fixed Income | 0.40% | 0.55% | -0.35% |

FDIC Insured Deposit Portfolio

| Asset Class | FDIC-Insured Status | Stability |
|--------------|---|--|
| Bank Deposit | Bank continues with appropriate levels of insurance with the FDIC | No identifiable issues regarding changes in the bank's financial stability |

¹ VRR – Value Relative Ratio, which is calculated as Manager Cumulative Return / Benchmark Cumulative Return

CalABLE Portfolios Analysis

Asset Allocation & Performance | As of December 31, 2023
Underlying Investment Trailing Performance

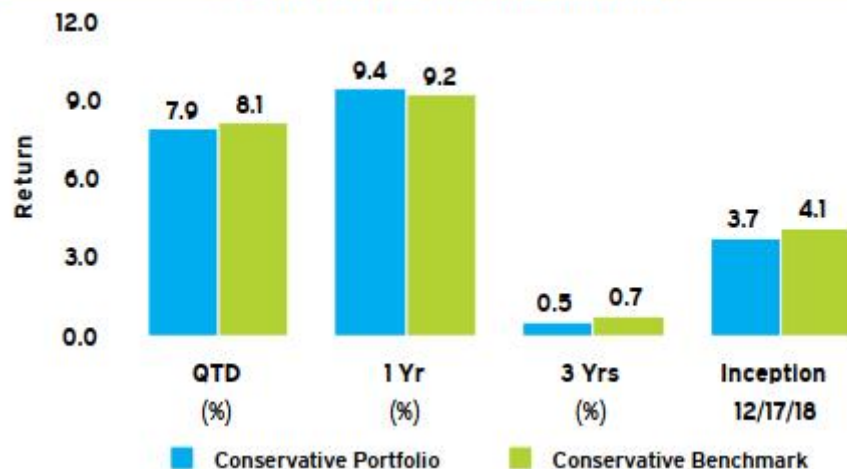
| | Market Value (\$) | QTR (%) | 1 Yr (%) | 3 Yrs (%) | 5 Yrs (%) | Since Inception | Inception Date |
|--|--------------------|-----------|-----------|------------|-----------|-----------------|----------------|
| CalABLE Total Plan | 126,934,969 | | | | | | |
| Fidelity Total Market Index | 15,006,024 | 12.2 (26) | 26.1 (28) | 8.4 (65) | 15.1 (37) | 8.4 (23) | Dec-97 |
| <i>Dow Jones U.S. Total Stock Market Index</i> | | 12.1 (27) | 26.1 (29) | 8.4 (66) | 15.0 (38) | 8.4 (23) | |
| <i>Large Blend Median</i> | | 11.6 | 24.4 | 9.0 | 14.5 | 7.9 | |
| Schwab Total Stock Market Index | 14,501,419 | 12.1 (26) | 26.0 (30) | 8.4 (66) | 15.0 (39) | -- | May-99 |
| <i>Dow Jones U.S. Total Stock Market Index</i> | | 12.1 (27) | 26.1 (29) | 8.4 (66) | 15.0 (38) | 7.5 (28) | |
| <i>Large Blend Median</i> | | 11.6 | 24.4 | 9.0 | 14.5 | 7.0 | |
| Fidelity International Index Fund | 11,241,139 | 10.8 (26) | 18.3 (21) | 4.2 (19) | 8.3 (30) | 5.1 (51) | Dec-97 |
| <i>MSCI EAFE (Net)</i> | | 10.4 (39) | 18.2 (22) | 4.0 (23) | 8.2 (36) | 5.0 (55) | |
| <i>Foreign Large Blend Median</i> | | 10.0 | 16.4 | 2.5 | 7.8 | 5.1 | |
| Fidelity Emerging Markets Index Fund | 4,585,008 | 7.7 (55) | 9.5 (63) | -5.3 (47) | 3.4 (64) | -- | Sep-11 |
| <i>MSCI Emerging Markets (Net)</i> | | 7.9 (49) | 9.8 (60) | -5.1 (44) | 3.7 (56) | 2.4 (48) | |
| <i>Diversified Emerging Mkts Median</i> | | 7.8 | 10.9 | -5.6 | 4.0 | 2.3 | |
| Fidelity US Bond Index Fund | 14,535,153 | 6.6 (62) | 5.6 (53) | -3.4 (46) | 1.1 (51) | 5.1 (25) | Apr-90 |
| <i>Blmbg. U.S. Aggregate Index</i> | | 6.8 (39) | 5.5 (56) | -3.3 (38) | 1.1 (48) | 5.2 (19) | |
| <i>Intermediate Core Bond Median</i> | | 6.7 | 5.6 | -3.4 | 1.1 | 4.9 | |
| Schwab US Aggregate Bond Index | 13,744,466 | 6.6 (70) | 5.4 (62) | -3.5 (52) | 1.0 (60) | -- | Feb-17 |
| <i>Blmbg. U.S. Aggregate Index</i> | | 6.8 (39) | 5.5 (56) | -3.3 (38) | 1.1 (48) | 1.3 (42) | |
| <i>Intermediate Core Bond Median</i> | | 6.7 | 5.6 | -3.4 | 1.1 | 1.2 | |
| Fidelity Long-Term Treasury Bond Index | 2,963,984 | 12.2 (69) | 3.2 (60) | -11.5 (60) | -1.4 (37) | 3.7 (36) | Jan-06 |
| <i>Blmbg. U.S. Treasury: Long</i> | | 12.7 (34) | 3.1 (64) | -11.4 (41) | -1.2 (20) | 3.8 (21) | |
| <i>Long Government Median</i> | | 12.5 | 3.3 | -11.5 | -1.5 | 3.5 | |

Asset Allocation & Performance | As of December 31, 2023

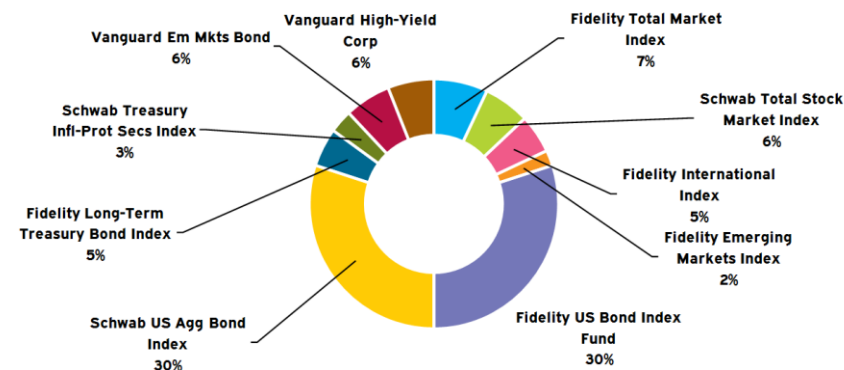
| | | QTR (%) | 1 Yr (%) | 3 Yrs (%) | 5 Yrs (%) | Since Inception | Inception Date |
|---|------------|--------------------|---------------------|----------------------|----------------------|----------------------------|---------------------------|
| Schwab Treasury Infl-Prot Securities Index | 1,127,448 | 4.4 (45) | 3.8 (51) | -1.1 (51) | 3.0 (45) | 3.2 (44) | Apr-06 |
| <i>Bloomberg U.S. TIPS</i> | | 4.7 (31) | 3.9 (47) | -1.0 (46) | 3.2 (33) | 3.6 (10) | |
| <i>Inflation-Protected Bond Median</i> | | 4.4 | 3.8 | -1.1 | 3.0 | 3.2 | |
| Vanguard Emerging Markets Bond | 1,509,715 | 9.2 (47) | 13.8 (9) | -0.8 (8) | 5.8 (2) | 6.3 (1) | Apr-16 |
| <i>JPM EMBI Global Diversified</i> | | 9.2 (48) | 11.1 (53) | -3.6 (76) | 1.7 (65) | 2.4 (59) | |
| <i>Emerging Markets Bond Median</i> | | 8.9 | 11.4 | -2.7 | 2.1 | 2.6 | |
| Vanguard High-Yield Corporate Fund | 1,505,724 | 7.3 (10) | 11.7 (61) | 1.8 (48) | 5.2 (28) | 7.9 (35) | Jan-79 |
| <i>Vanguard High Yield Benchmark</i> | | 7.0 (25) | 13.0 (21) | 1.8 (48) | 5.2 (29) | -- | |
| <i>High Yield Bond Median</i> | | 6.5 | 12.1 | 1.7 | 4.7 | 7.7 | |
| Vanguard Cash Reserves Federal Money Market | 121,313 | 1.3 (4) | 5.1 (3) | 2.2 (3) | 1.9 (2) | -- | Oct-89 |
| <i>Lipper Inst US Gov MM IX</i> | | 1.3 (32) | 5.0 (25) | 2.1 (20) | 1.8 (18) | 2.7 (24) | |
| <i>Money Market-Taxable Median</i> | | 1.3 | 4.8 | 2.0 | 1.7 | 2.5 | |
| BNY Mellon FDIC Account | 46,093,576 | | | | | | |

Portfolio Returns and Allocations | As of December 31, 2023

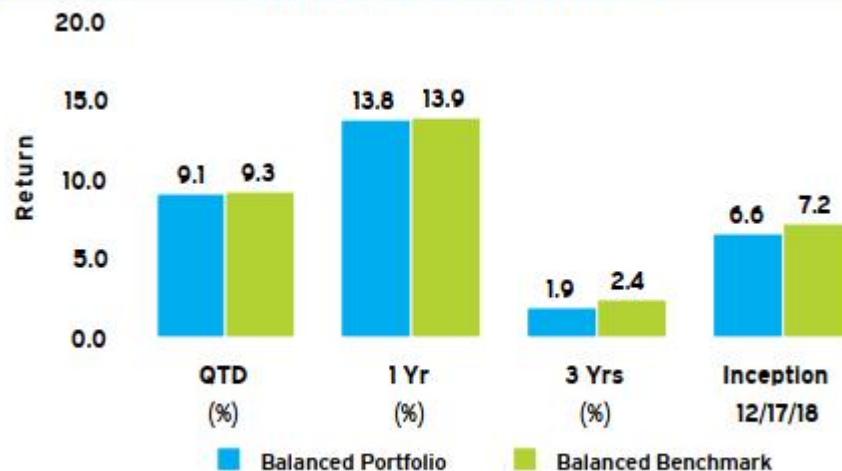
Conservative Return Summary



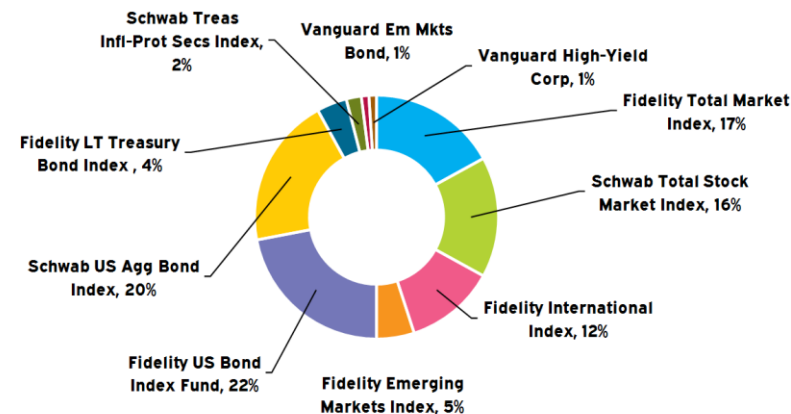
Conservative Current Allocation



Balanced Return Summary



Balanced Current Allocation



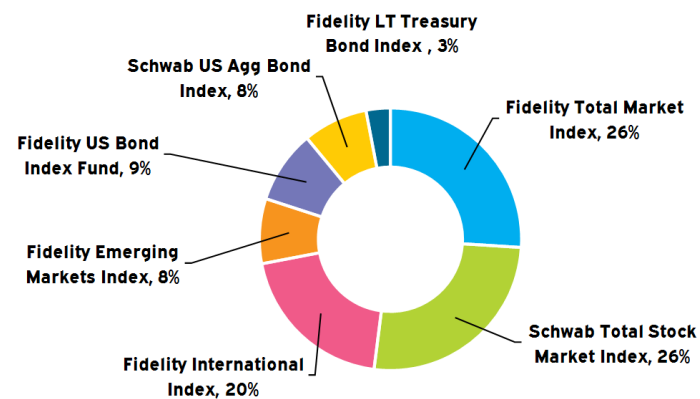
Returns prior to 8/1/2023 reflect prior program manager's conservative and moderate options. Vestwell program inception date is 8/1/2023.

Portfolio Returns and Allocations | As of December 31, 2023

Moderate Growth Return Summary



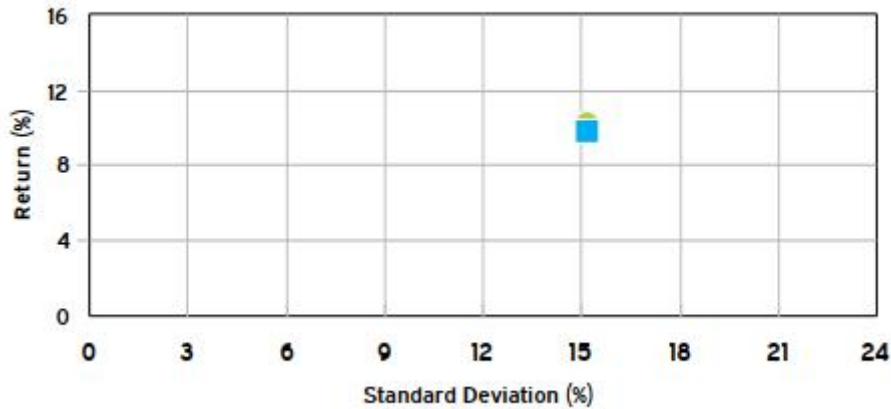
Moderate Growth Current Allocation



Returns prior to 8/1/2023 reflect prior program manager's aggressive growth option. Vestwell program inception date is 8/1/2023.

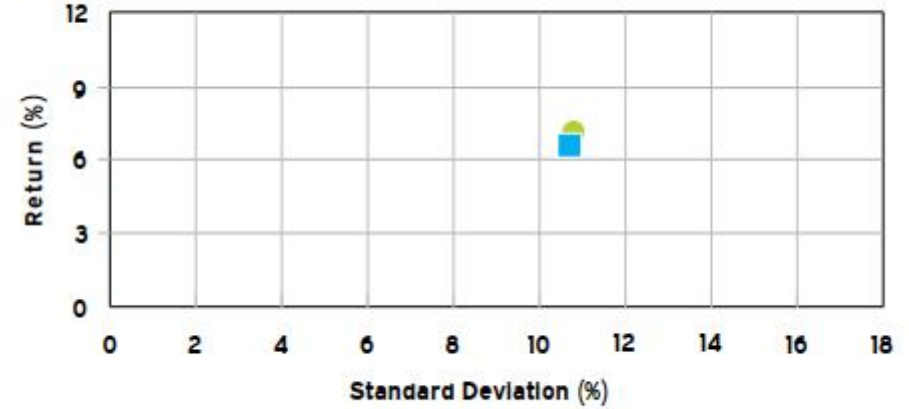
Managed Portfolios | As of December 31, 2023

Since Inception Standard Deviation vs Return
As of Dec 31, 2023



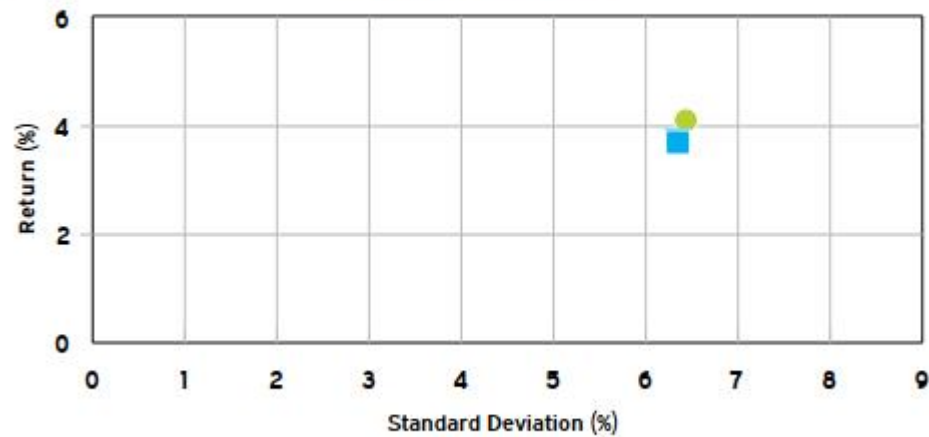
■ Moderate Growth Portfolio ● Moderate Growth Benchmark

Since Inception Standard Deviation vs Return
As of Dec 31, 2023



■ Balanced Portfolio ● Balanced Benchmark

Since Inception Standard Deviation vs Return
As of Dec 31, 2023



■ Conservative Portfolio ● Conservative Benchmark

Since inception statistics are inclusive of prior program manager returns and benchmarks. Vestwell program inception date is 8/1/2023.

Fee Schedule

Fee Schedule as of December 31, 2023

| Portfolio ¹ | Underlying Investment Fees and Expenses (bps) ² | Annual Program Management Fee (bps) | Annual State Administration Fee (bps) | Total Annual Asset-Based Fees and Expenses |
|-------------------------------------|--|-------------------------------------|---------------------------------------|--|
| Growth Portfolio | 3.1 | 10 | 28 | 41.1 |
| Moderate Growth Portfolio | 3.1 | 10 | 28 | 41.1 |
| Conservative Growth Portfolio | 3.2 | 10 | 28 | 41.2 |
| Balanced Portfolio | 3.6 | 10 | 28 | 41.6 |
| Income & Growth Portfolio | 4.1 | 10 | 28 | 42.1 |
| Conservative Portfolio | 6.0 | 10 | 28 | 44.0 |
| Income Portfolio | 7.4 | 10 | 28 | 45.4 |
| FDIC-Insured Portfolio ³ | 0.0 | 0 | 28 | 28.0 |

1. Source: California's 529A Qualified ABLE Program Disclosure Statement and Participation Agreement, August 19, 2023

2. Figures in column are derived from publicly available information for the underlying mutual funds as of January 1, 2023

3. To the extent the interest rate on the FDIC-Insured Portfolio is less during a particular period than the State Administrative Fee, the Board will waive the portion of the State Administrative Fee that exceeds such interest rate for the applicable period, and the Total Annual Asset-Based Fees for the FDIC-Insured Portfolio will be reduced accordingly for the applicable period

Fee Schedule as of December 31, 2023

| Underlying Funds ¹ | Prospectus Net Expense Ratio (bps) |
|---|------------------------------------|
| Fidelity Total Market Index Fund (FSKAX) | 1.5 |
| Schwab Total Stock Market Index Fund (SWTSX) | 3.0 |
| Fidelity International Index Fund (FSPSX) | 3.5 |
| Fidelity Emerging Markets Index Fund (FPADX) | 7.5 |
| Fidelity US Bond Index Fund (FXNAX) | 2.5 |
| Schwab US Aggregate Bond Index Fund (SWAGX) | 4.0 |
| Fidelity Long-Term Treasury Bond Index Fund (FNBGX) | 3.0 |
| Schwab Treasury Inflation Protected Securities Index Fund (SWRSX) | 5.0 |
| Vanguard Emerging Markets Bond Fund Admiral Shares (VEGBX) | 40.0 |
| Vanguard High-Yield Corporate Fund Admiral Shares (VWEAX) | 13.0 |
| Vanguard Cash Reserves Federal Money Market Fund Admiral Shares (VMRXX) | 10.0 |
| BNY Mellon Omnibus FDIC Account | 0 |

¹ Source: Morningstar, Inc.

WE HAVE PREPARED THIS REPORT (THIS "REPORT") FOR THE SOLE BENEFIT OF THE INTENDED RECIPIENT (THE "RECIPIENT").

SIGNIFICANT EVENTS MAY OCCUR (OR HAVE OCCURRED) AFTER THE DATE OF THIS REPORT AND THAT IT IS NOT OUR FUNCTION OR RESPONSIBILITY TO UPDATE THIS REPORT. ANY OPINIONS OR RECOMMENDATIONS PRESENTED HEREIN REPRESENT OUR GOOD FAITH VIEWS AS OF THE DATE OF THIS REPORT AND ARE SUBJECT TO CHANGE AT ANY TIME. ALL INVESTMENTS INVOLVE RISK. THERE CAN BE NO GUARANTEE THAT THE STRATEGIES, TACTICS, AND METHODS DISCUSSED HERE WILL BE SUCCESSFUL.

INFORMATION USED TO PREPARE THIS REPORT WAS OBTAINED FROM INVESTMENT MANAGERS, CUSTODIANS, AND OTHER EXTERNAL SOURCES. WHILE WE HAVE EXERCISED REASONABLE CARE IN PREPARING THIS REPORT, WE CANNOT GUARANTEE THE ACCURACY OF ALL SOURCE INFORMATION CONTAINED HEREIN.

CERTAIN INFORMATION CONTAINED IN THIS REPORT MAY CONSTITUTE "FORWARD - LOOKING STATEMENTS," WHICH CAN BE IDENTIFIED BY THE USE OF TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "AIM," "ANTICIPATE," "TARGET," "PROJECT," "ESTIMATE," "INTEND," "CONTINUE" OR "BELIEVE," OR THE NEGATIVES THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. ANY FORWARD - LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION ARE BASED UPON CURRENT ASSUMPTIONS. CHANGES TO ANY ASSUMPTIONS MAY HAVE A MATERIAL IMPACT ON FORWARD LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS. ACTUAL RESULTS MAY THEREFORE BE MATERIALLY DIFFERENT FROM ANY FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION.

PERFORMANCE DATA CONTAINED HEREIN REPRESENT PAST PERFORMANCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

MEMORANDUM

TO: California ABLE Board
FROM: Kay Ceserani; Aysun Kilic; Inwoo Hwang;
Meketa Investment Group
DATE: April 24, 2024
RE: Review of Underlying Funds Qualifying for “Watch” Status

Summary

Meketa Investment Group (“Meketa”) has conducted a review of the underlying funds in the CalABLE Plan. The review included a quantitative analysis of the underlying funds based on specific performance criteria (as per the *Monitoring Procedures and Criteria*) as well as a qualitative analysis, including a review of organizational concerns, stability of personnel, changes in investment objectives, etc.

This memo summarizes the period from October 1, 2023, through December 31, 2023. CalABLE Plan assets were recently transferred to Vestwell, the new program manager, and invested in their offered investment options. As a result, our review for “Watch” status considers the new underlying investments’ performance history beyond the new Vestwell program’s inception date for monitoring/review purposes. At the end of the period, three passively managed funds qualify for “Watch” status (Fidelity International Index, Fidelity Emerging Markets Index, Fidelity Long-Term Treasury Bond Index).

Meketa does not recommend placing the three qualifying funds on “Watch” status as all have elevated tracking error resulting from operational causes. However, we do recommend the funds be placed on “Monitor” status. We will continue to review these funds and report any material findings to the Board. All funds listed below are discussed in more detail on the following pages.

Performance of Funds on Watch Status
As of 12/31/2023

| Funds on Watch Status | Board Action Date | Watch Status Start Date | No. Months Since Watch Began | Excess Perf. Since Watch Began | Plan Assets (\$M) | % of Plan Assets |
|-----------------------|-------------------------|----------------------------------|------------------------------------|--------------------------------------|----------------------|---------------------|
|-----------------------|-------------------------|----------------------------------|------------------------------------|--------------------------------------|----------------------|---------------------|

None

Background

New Funds Qualifying for “Watch” Status: Meketa has conducted a review of the underlying fund in the CalABLE Plan (see also the 4Q2023 CalABLE Plan Investment Performance Status Report) and determined that no new funds should be placed on “Watch” status.

Funds Currently on “Watch” Status: No funds are currently on “Watch” status.

Funds Currently on “Monitor” Status

Funds are placed on “Monitor” status when there is a quantifiable reason not to place them on “Watch” status, even though they may qualify.

At the end of the period, the Fidelity International Index fund and the Fidelity Emerging Markets Index fund, both passively managed, qualify for “Monitor” status. The two international equity index funds fall into the Caution range primarily due to “Fair Value” adjustment procedures, which increases tracking error. The Fidelity Long-Term Treasury Bond Index falls into caution range primarily due to the statistical sampling methodology used to mirror the index in portfolio composition.

Fair Value Pricing:

Some ETFs or mutual funds will use Fair Value pricing if the value of their underlying securities has been materially affected by events occurring before the US market closes, but after the close of the markets or exchanges on which the security is traded. This situation most commonly occurs with foreign securities, which may trade on foreign exchanges that close many hours before the ETF or mutual fund is priced in the US. Fair Value pricing addresses the price discrepancies in such scenarios. As a result, a divergence in a Fair Value priced asset and the index may be observed temporarily.

Sampling:

When an ETF or mutual fund invests by sampling the index, it means that the fund holds a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. For the Fidelity Long-Term Treasury Bond Index, the fund’s prospectus states that investments are selected through the sampling process, and under normal circumstances at least 80% of the fund’s assets are invested in bonds included in the Index. The fund also maintains a dollar-weighted average maturity that generally is consistent with that of the index. The result is that while trailing period returns are closely tracking the index, intra-period deviations can result in higher tracking errors.

Recommendation:

Although these funds qualify for “Watch,” Meketa does not recommend placing them on “Watch” given the root cause for them qualifying is operational versus a fundamental flaw with the funds’ investment processes. However, we do recommend these funds remain on “Monitor” status.

KRC/AK/IH/mp

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