
OCTOBER 1, 2024

**AGENDA ITEM 7
INFORMATION ITEM**

CALIFORNIA ABLE ACT BOARD

Review of CalABLE Investment Performance and Evaluation for the Second Quarter 2024

Background

The CalABLE Act Board and its investment consultant, Meketa Investment Group, Inc. (Meketa) will review the “Performance and Evaluation Report” for Second Quarter 2024, 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

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

Attachments

- Attachment #1 – CalABLE Performance and Evaluation Report 2Q24
- Attachment #2 – Watch Review Memo

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CalABLE Plan

October 1, 2024

2Q24 Performance & Evaluation Report

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

Highlights

Economic and Market Update

- Softening economic data over the period, particularly the below-expectation US inflation measures, increased optimism around near-term interest rate cuts.
- Most equity markets (with exception to Developed International) continued to rally in Q2, while Fixed Income markets saw marginal gains, with High Yield and Treasury markets outgaining their broad market counterparts.

Plan Assets

- Total Plan assets increased by \$8 million over the quarter.
- 69% of the Plan assets are invested in the relatively conservative options (Balanced, Income and Growth, Conservative, Income and FDIC Insured portfolios.)
- The FDIC option continues to hold the most assets with \$51 million, representing 35% of the total Plan assets.

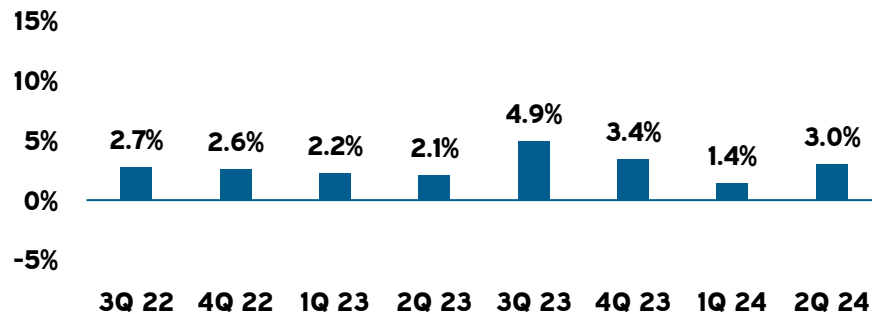
Portfolio and Underlying Fund Results

- Over the quarter, all seven Target Risk portfolios produced results in-line with their respective benchmarks.
- Over the quarter and longer-term periods, all eight passively managed underlying funds produced results in line with their benchmarks, while the three actively managed underlying funds had somewhat mixed results.
- As of quarter end, no underlying funds are on Watch status and no new funds qualify for Watch status, as all funds maintained their former quarter status.

Economic and Market Update

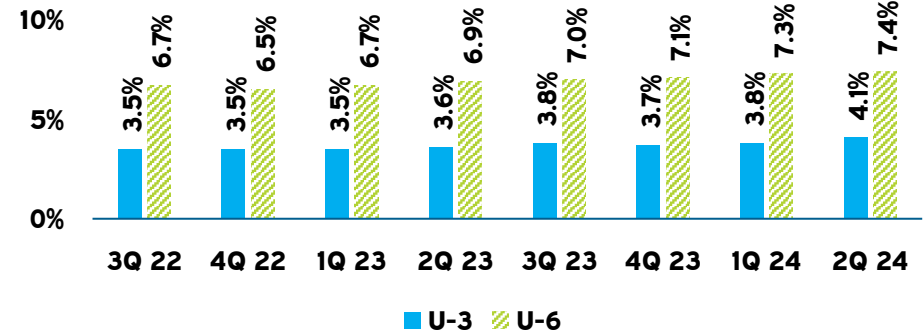
Economic and Market Update

Quarterly Real GDP (Annualized)



Source: Bureau of Economic Analysis. Data as of Q2 2024 represents the "second" estimate. The Q2 2024 "third estimate" will be released September 26, 2024.

US Unemployment

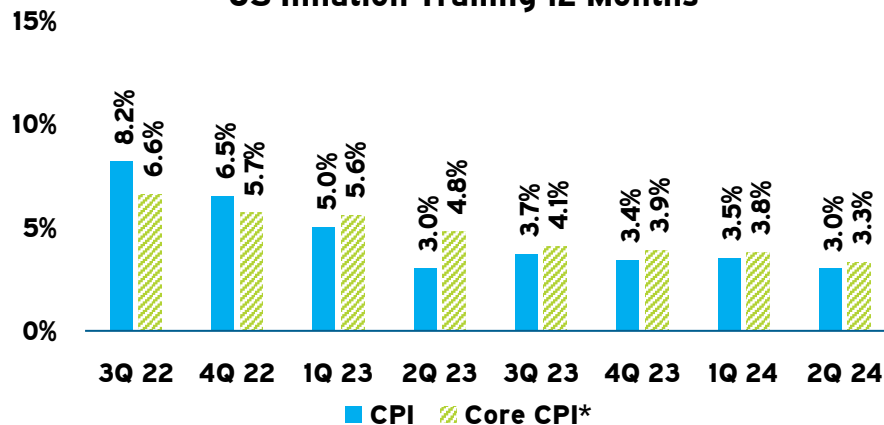


Source: Bureau of Labor Statistics. Data as of June 30, 2024. Seasonally adjusted.

U-3 = Total US unemployed, as a percent of the civilian labor forces (official unemployment rate).

U-6 = Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force

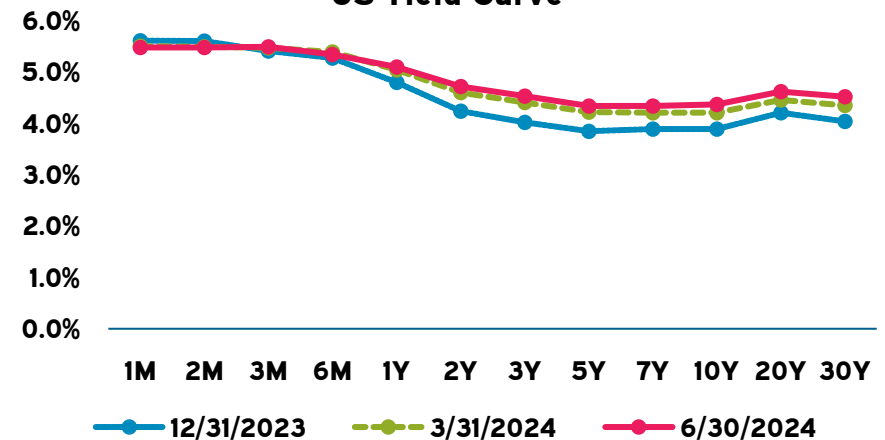
US Inflation Trailing 12 Months



Source: Bureau of Labor Statistics. Data is non-seasonally adjusted CPI, which may be volatile in the short-term. Data as June 30, 2024.

* Core CPI excludes Food and Energy.

US Yield Curve



Source: US Department of the Treasury.

Index Returns

	QTR (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
Domestic Equity					
S&P 500	4.3	24.6	10.0	15.1	12.9
Russell 3000	3.2	23.1	8.1	14.1	12.2
Russell 1000	3.6	23.9	8.7	14.6	12.5
Russell 1000 Growth	8.3	33.5	11.3	19.3	16.3
Russell 1000 Value	(2.2)	13.1	5.5	9.0	8.2
Russell MidCap	(3.4)	12.9	2.4	9.5	9.0
Russell MidCap Growth	(3.2)	15.1	(0.1)	9.9	10.5
Russell MidCap Value	(3.4)	12.0	3.7	8.5	7.6
Russell 2000	(3.3)	10.1	(2.6)	6.9	7.0
Russell 2000 Growth	(2.9)	9.1	(4.9)	6.2	7.4
Russell 2000 Value	(3.6)	10.9	(0.5)	7.1	6.2
Non-US Equity					
MSCI ACWI (ex. US)	1.0	11.6	0.5	5.6	3.8
MSCI EAFE	(0.4)	11.5	2.9	6.5	4.3
MSCI EAFE Growth	(0.8)	9.4	0.1	6.5	5.4
MSCI EAFE Value	0.0	13.8	5.6	6.1	3.0
MSCI EAFE (Local Currency)	1.0	15.1	8.1	9.0	7.4
MSCI EAFE Small Cap	(1.8)	7.8	(3.4)	4.2	4.3
MSCI Emerging Markets	5.0	12.6	(5.1)	3.1	2.8
MSCI Emg Mkts (Local Currency)	6.2	15.5	(1.6)	5.6	5.8
MSCI China	7.1	(1.6)	(17.7)	(4.3)	1.4
Fixed Income					
Bloomberg Universal	0.2	3.5	(2.7)	0.1	1.6
Bloomberg Aggregate	0.1	2.6	(3.0)	(0.2)	1.4
Bloomberg US TIPS	0.8	2.7	(1.3)	2.1	1.9
Bloomberg High Yield	1.1	10.4	1.6	3.9	4.3
JPM GBI-EM Global Diversified	(1.6)	0.7	(3.3)	(1.3)	(0.9)
Other					
FTSE NAREIT Equity	0.1	7.8	0.3	3.9	5.9
Bloomberg Commodity Index	2.9	5.0	5.7	7.3	(1.3)

During the Quarter:

- Global markets were mixed during the second quarter of 2024 with US stocks and bonds rising while developed international markets were slightly down. Within the US, strong economic growth and corporate earnings paired with declining inflation provided a tailwind for equities and fixed income despite tighter monetary policy that has kept interest rates higher for longer. As inflation continues its descent from the peak in June 2022, the probability of interest rates cuts in the second half of 2024 has increased.
- Looking forward, the paths of inflation and monetary policy, the many looming global elections, 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.
- A majority of the markets continued to rally in Q2 2024 with several major asset classes producing positive returns.
- The FOMC maintained the federal funds rate target range of 5.25% to 5.50% during the quarter. They are likely to remain restrictive for the near future as inflation remains elevated and has not reached their 2% target. As inflation continues to fall and employment figures soften, however, the Fed could potentially turn more dovish in the coming months.
- Equities were mixed across the market capitalization spectrum in Q2 2024.
 - US equities (+3.2%) continued to outpace non-US equities (-0.4%).
 - US Small Caps lagged US Large Caps during the quarter.
 - Large Cap Growth continued its dominance over value driven by technology and more specifically on-going optimism surrounding alternative intelligence.
 - Within Non-US, Emerging Markets outperformed Developed Markets driven by a 7.1% gain in China.
- Broad fixed income returns were slightly positive during the quarter with the exception of emerging market debt.
 - US Treasury yields reversed course in Q2 mainly due to more dovish policy expectations.
- Diversifying asset classes were positive.
 - Commodities were up (+2.9%).
 - REITs slightly increased (+0.1%).

Summary of Monitoring Status

Portfolio Assets Summary

Portfolios	As of March 31, 2024		As of June 30, 2024	
	Total Option Assets (\$K)	% of Total	Total Option Assets (\$K)	% of Total
Growth Portfolio	7,714	5%	9,982	7%
Moderate Growth Portfolio*	33,647	24%	35,413	24%
Conservative Growth Portfolio	973	1%	1,452	1%
Balanced Portfolio*	25,981	18%	26,782	18%
Income & Growth Portfolio	857	1%	1,143	1%
Conservative Portfolio*	21,396	15%	21,561	14%
Income Portfolio	962	1%	1,170	1%
FDIC-Insured Portfolio*	49,433	35%	51,567	35%
Total	140,963	100%	149,070	100%

* Legacy portfolios previously managed by TIAA-CREF.

Summary of Monitoring Status
**Monitoring Summary
As of June 30, 2024**

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	19,083	13%	Positive	Positive	No	No
Schwab Total Stock Market Index Fund	18,486	12%	Positive	Positive	No	No
Fidelity International Index Fund	14,182	10%	Caution	Caution	No	No
Fidelity Emerging Markets Index Fund	5,787	4%	Caution	Caution	No	No
Fidelity US Bond Index Fund	16,380	11%	Positive	Positive	No	No
Schwab US Aggregate Bond Index Fund	15,468	10%	Positive	Positive	No	No
Fidelity Long-Term Treasury Bond Index Fund	3,325	2%	Caution	Caution	No	No
Schwab Treasury Inflation Protected Securities Index Fund	1,258	1%	Positive	Positive	No	No
Vanguard Emerging Markets Bond Fund Admiral Shares	1,648	1%	Positive	Positive	No	No
Vanguard High-Yield Corporate Fund Admiral Shares	1,652	1%	Acceptable	Acceptable	No	No
Vanguard Cash Reserves Federal Money Market Fund Admiral Shares	235	0%	---	---		
FDIC-Insured TIAA Bank Account	51,567	35%	---	---		
Total	149,070	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 June 30, 2024

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 June 30, 2024
Underlying Investment Trailing Performance

	Market Value (\$)	QTR (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Since Inception	Inception Date
CalABLE Total Plan	149,070,592							
Fidelity Total Market Index	19,083,105	3.2 (50)	13.6 (57)	23.2 (52)	7.9 (63)	14.1 (46)	8.8 (24)	Dec-97
<i>Dow Jones U.S. Total Stock Market Index</i>		3.2 (50)	13.6 (57)	23.2 (52)	7.9 (64)	14.0 (47)	8.8 (22)	
<i>Large Blend Median</i>		3.2	14.3	23.4	8.7	13.9	8.3	
Schwab Total Stock Market Index	18,486,300	3.2 (50)	13.6 (57)	23.2 (52)	7.9 (65)	14.0 (47)	8.1 (26)	Jun-99
<i>Dow Jones U.S. Total Stock Market Index</i>		3.2 (50)	13.6 (57)	23.2 (52)	7.9 (64)	14.0 (47)	8.1 (26)	
<i>Large Blend Median</i>		3.2	14.3	23.4	8.7	13.9	7.6	
Fidelity International Index Fund	14,182,177	-0.3 (64)	5.5 (47)	11.4 (35)	3.1 (16)	6.7 (29)	5.2 (50)	Dec-97
<i>MSCI EAFE (Net)</i>		-0.4 (71)	5.3 (52)	11.5 (32)	2.9 (20)	6.5 (36)	5.1 (57)	
<i>Foreign Large Blend Median</i>		0.1	5.4	10.8	1.3	6.1	5.2	
Fidelity Emerging Markets Index Fund	5,787,001	4.8 (40)	7.1 (52)	11.3 (52)	-5.4 (48)	2.7 (57)	4.0 (58)	Oct-11
<i>MSCI Emerging Markets (Net)</i>		5.0 (36)	7.5 (48)	12.5 (44)	-5.1 (45)	3.1 (52)	4.2 (52)	
<i>Diversified Emerging Mkts Median</i>		4.2	7.3	11.7	-5.6	3.2	4.2	
Fidelity US Bond Index Fund	16,379,619	0.2 (48)	-0.6 (58)	2.7 (62)	-3.0 (40)	-0.2 (54)	5.0 (28)	Apr-90
<i>Blmbg. U.S. Aggregate Index</i>		0.1 (78)	-0.7 (76)	2.6 (65)	-3.0 (40)	-0.2 (54)	5.1 (22)	
<i>Intermediate Core Bond Median</i>		0.2	-0.5	2.9	-3.1	-0.2	4.9	
Schwab US Aggregate Bond Index	15,468,043	0.2 (53)	-0.6 (63)	2.5 (71)	-3.1 (45)	-0.3 (64)	0.9 (59)	Mar-17
<i>Blmbg. U.S. Aggregate Index</i>		0.1 (78)	-0.7 (76)	2.6 (65)	-3.0 (40)	-0.2 (54)	1.0 (48)	
<i>Intermediate Core Bond Median</i>		0.2	-0.5	2.9	-3.1	-0.2	1.0	
Fidelity Long-Term Treasury Bond Index	3,324,746	-1.7 (51)	-4.6 (43)	-5.6 (59)	-10.5 (52)	-4.3 (43)	3.3 (31)	Jan-06
<i>Blmbg. U.S. Treasury: Long</i>		-1.8 (66)	-5.0 (64)	-5.6 (54)	-10.5 (40)	-4.3 (39)	3.4 (22)	
<i>Long Government Median</i>		-1.6	-4.8	-5.6	-10.5	-4.3	3.1	

Asset Allocation & Performance | As of June 30, 2024

	Market Value (\$)	QTR (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Since Inception	Inception Date
Schwab Treasury Infl-Prot Securities Index	1,258,093	0.9 (31)	0.9 (35)	2.7 (44)	-1.4 (35)	2.0 (35)	3.2 (45)	Apr-06
<i>Bloomberg U.S. TIPS Index</i>		0.8 (47)	0.7 (52)	2.7 (43)	-1.3 (31)	2.1 (28)	3.5 (16)	
<i>Inflation-Protected Bond Median</i>		0.8	0.7	2.6	-1.6	1.8	3.1	
Vanguard Emerging Markets Bond	1,647,582	0.2 (56)	2.7 (38)	11.2 (17)	0.1 (6)	3.7 (4)	6.3 (2)	Apr-16
<i>JPM EMBI Global Diversified</i>		0.3 (47)	2.3 (52)	9.2 (46)	-2.6 (75)	-0.0 (67)	2.5 (56)	
<i>Emerging Markets Bond Median</i>		0.3	2.4	8.9	-1.8	0.5	2.7	
Vanguard High-Yield Corporate Fund	1,652,245	1.4 (27)	2.2 (82)	9.4 (65)	1.8 (39)	3.5 (45)	7.9 (33)	Jan-80
<i>Vanguard High Yield Benchmark</i>		1.1 (65)	2.5 (65)	10.1 (38)	1.5 (46)	3.8 (33)	--	
<i>High Yield Bond Median</i>		1.2	2.7	9.8	1.5	3.4	7.7	
Vanguard Cash Reserves Federal Money Market	234,790	1.3 (3)	2.7 (3)	5.4 (3)	3.1 (3)	2.2 (2)	3.0 (1)	Nov-89
<i>Lipper Inst US Gov MM IX</i>		1.3 (18)	2.6 (25)	5.3 (28)	3.0 (21)	2.1 (19)	2.7 (25)	
<i>Money Market-Taxable Median</i>		1.3	2.5	5.2	2.9	2.0	2.6	
BNY Mellon FDIC Account	51,566,891							

Underlying Fund Allocation by Portfolio

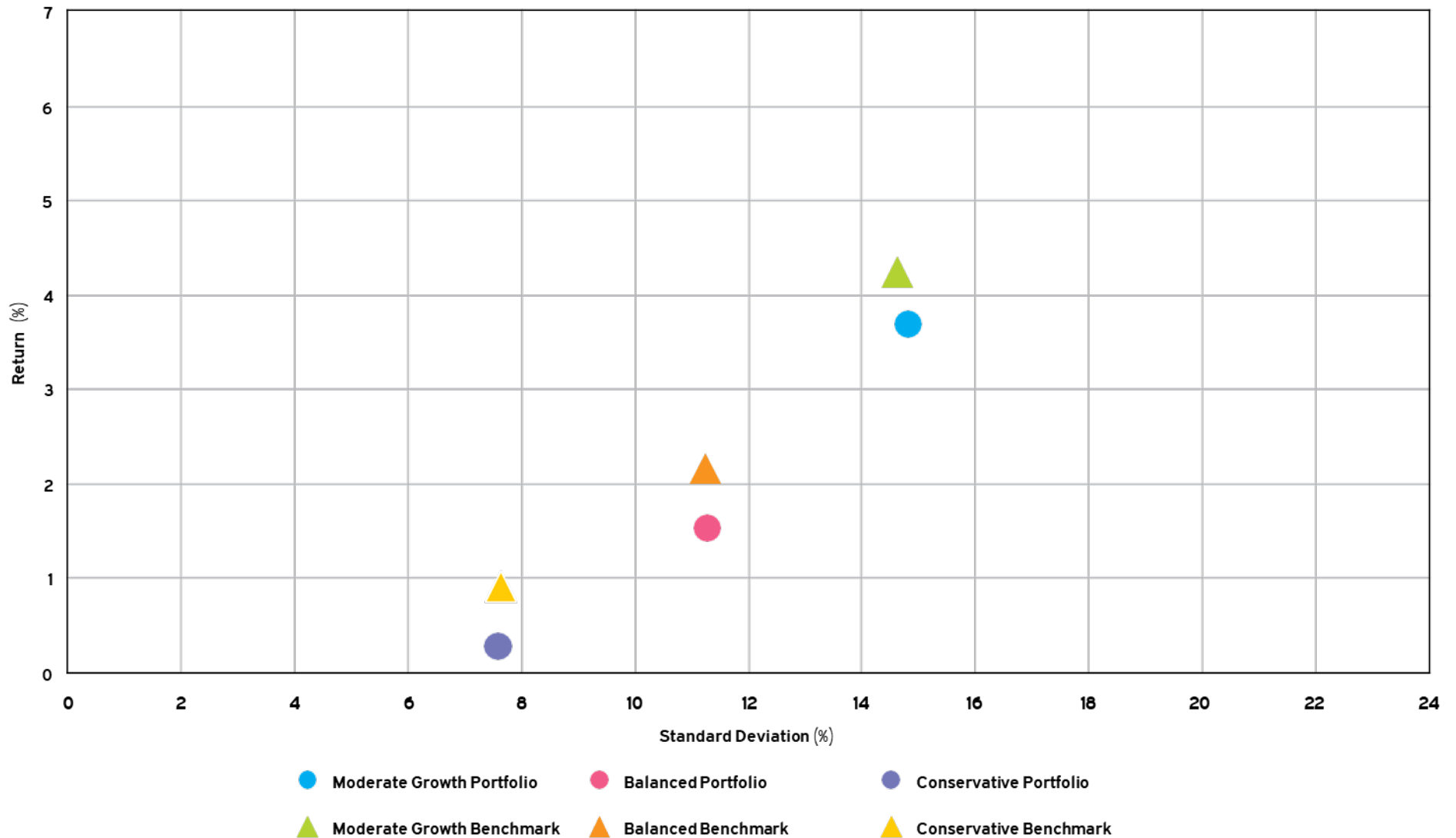
		Income	Conservative	Income and Growth	Balanced	Conservative Growth	Moderate Growth	Growth
Fidelity Total Market Index	FSKAX	0	7	13	17	20	26	33
Schwab Total Stock Market Index	SWTSX	0	6	13	16	19	26	32
Fidelity International Index	FSPSX	0	5	10	12	15	20	25
Fidelity Emerging Markets Index	FPADX	0	2	4	5	6	8	10
Fidelity US Bond Index Fund	FXNAX	30	30	25	22	17	9	0
Schwab US Agg Bond Index	SWAGX	30	30	25	20	17	8	0
Fidelity Long-Term Treasury Bond Index	FNBGX	5	5	4	4	4	3	0
Schwab Treasury Infl-Prot Secs Index	SWRSX	3	3	2	2	2	0	0
Vanguard Em Mkts Bond	VEGBX	6	6	2	1	0	0	0
Vanguard High-Yield Corp	VWEAX	6	6	2	1	0	0	0
Vanguard Cash Reserves Fed MM	VMRXX	20	0	0	0	0	0	0

Portfolio Trailing Performance							
	QTR (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	Since Inception	Inception Date
CalABLE Total Plan							
Income Portfolio	0.3	0.1	—	—	—	3.8	Sep-23
<i>Income Benchmark</i>	<i>0.3</i>	<i>0.2</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>4.1</i>	
Conservative Portfolio	0.6	1.7	6.8	0.3	2.8	3.7	Jan-19
<i>Conservative Benchmark</i>	<i>0.6</i>	<i>1.8</i>	<i>7.2</i>	<i>0.9</i>	<i>3.3</i>	<i>4.3</i>	
Income & Growth Portfolio	1.0	3.7	—	—	—	8.7	Sep-23
<i>Income and Growth Benchmark</i>	<i>1.0</i>	<i>3.8</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>9.2</i>	
Balanced Portfolio	1.2	4.8	10.5	1.5	5.6	7.1	Jan-19
<i>Balanced Benchmark</i>	<i>1.3</i>	<i>5.0</i>	<i>11.1</i>	<i>2.2</i>	<i>6.2</i>	<i>7.7</i>	
Conservative Growth Portfolio	1.4	5.8	—	—	—	11.6	Sep-23
<i>Conservative Growth Benchmark</i>	<i>1.5</i>	<i>6.0</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>12.0</i>	
Moderate Growth Portfolio	1.9	8.2	15.2	3.7	8.9	10.8	Jan-19
<i>Moderate Growth Benchmark</i>	<i>2.0</i>	<i>8.4</i>	<i>15.8</i>	<i>4.3</i>	<i>9.4</i>	<i>11.3</i>	
Growth Portfolio	2.4	10.7	—	—	—	17.9	Sep-23
<i>Growth Benchmark</i>	<i>2.5</i>	<i>10.9</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>18.2</i>	

For the three funds with returns linked to the previous program manager (Conservative Portfolio, Balanced Portfolio & Moderate Growth Portfolio), the August 2023 benchmark returns are calculated as to reflect each program's portfolio benchmark proportionate to when the transition occurred

Risk/Return Comparison | 3 Year Ending June 30, 2024

3 Years Standard Deviation vs Return
As of Jun 30, 2024



Fee Schedule

Fee Schedule as of June 30, 2024

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 June 30, 2024

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)	12.0
Vanguard Cash Reserves Federal Money Market Fund Admiral Shares (VMRXX)	10.0
BNY Mellon Omnibus FDIC Account	0

¹ Source: Morningstar, Inc.

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MEMORANDUM

TO: California ABLE Board
FROM: Kay Ceserani; Aysun Kilic; Inwoo Hwang;
Meketa Investment Group (“Meketa”)
DATE: October 1, 2024
RE: Review of Underlying Funds Qualifying for Watch Status

Summary

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 April 1, 2024, through June 30, 2024. 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 6/30/2024

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

None

Background

New Funds Qualifying for Watch Status: Meketa has conducted a review of the underlying funds in the CalABLE Plan (see also the 2Q2024 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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