
SEPTEMBER 14, 2021

AGENDA ITEM 5
ACTION ITEM

SCHOLARSHARE INVESTMENT BOARD

Resolution to Approve the Removal of the DFA Emerging Markets Core Equity Portfolio (I) and TIAA-CREF Quant Small-Cap Equity Fund from Watch Status

Recommendation

ScholarShare Investment Board (SIB or Board) staff recommends the Board adopt Resolution No. 2021-04 approving the removal of the DFA Emerging Markets Core Equity Portfolio (I) and TIAA-CREF Quant Small-Cap Equity Fund from “watch” status.

Background

SIB and its investment consultant, Meketa Investment Group, Inc. (Meketa), monitor all portfolios in ScholarShare 529 (Plan) in accordance with the ScholarShare Monitoring Procedures and Criteria adopted by the Board. Following the review of the Plan’s investment performance for second quarter 2021, Meketa has provided its memo (Exhibit A) analyzing the underlying funds currently on “watch” status and the underlying funds that qualify for “watch” status.

As outlined in its memo, Meketa is recommending that:

- The DFA Emerging Markets Core Equity Portfolio (I) and TIAA-CREF Quant Small-Cap Equity Fund be removed from “watch” status.
- No new funds qualify for “watch” status.

Presenter

Eric White, Principal, Meketa Investment Group, Inc.

RESOLUTION NO. 2021-04

RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD APPROVING THE REMOVAL OF THE DFA EMERGING MARKETS CORE EQUITY PORTFOLIO (I) AND TIAA-CREF QUANT SMALL-CAP EQUITY FUND FROM WATCH STATUS

WHEREAS, the ScholarShare Investment Board (“SIB” or the “Board”) was created under Education Code section 69980 et seq. (the “Golden State ScholarShare Trust Act” or “Act”);

WHEREAS, the Board has a fiduciary responsibility on behalf of the ScholarShare 529 (“Plan”) participants and beneficiaries to monitor the investment manager’s mutual funds and investment performance;

WHEREAS, the Board adopted the Golden State ScholarShare College Savings Trust Monitoring Procedures and Criteria (the “Procedures”) to provide guidelines for monitoring the investment manager’s mutual funds and investment performance as part of its fiduciary responsibility on behalf of the Plan participants and beneficiaries;

WHEREAS, the Board approved the placement of the DFA Emerging Markets Core Equity Portfolio (I) and TIAA-CREF Quant Small-Cap Equity Fund (collectively, the “Funds”) on watch status at the December 10, 2020 SIB meeting due to the Funds not meeting their respective investment performance criteria as outlined in the Procedures (the “Benchmarks”);

WHEREAS, the SIB staff and Board’s investment consultant (the “Consultant”) have reviewed and analyzed the investment performance of the portfolios and funds in the Plan through the end of second quarter 2021;

WHEREAS, the performance of the Funds now meets their respective Benchmarks and qualifies for removal from watch status; and

WHEREAS, pursuant to the Procedures, the Board may remove underlying funds from watch status.

NOW, THEREFORE, BE IT RESOLVED, that the Board approves the removal of the DFA Emerging Markets Core Equity Portfolio (I) and TIAA-CREF Quant Small-Cap Equity Fund from watch status, as recommended by SIB staff and the Consultant as outlined in the Consultant’s memo dated September 14, 2021.

BE IT FURTHER RESOLVED, that this Resolution becomes effective upon its adoption by the Board.

Attest: _____
Chairperson

Date of Adoption: _____



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MEMORANDUM

TO: ScholarShare Investment Board (SIB)
FROM: Eric White, Kay Ceserani, Nick Buckley
Meketa Investment Group
DATE: September 14, 2021
RE: Review of Underlying Funds Qualifying for “Watch” Status

Summary

Meketa Investment Group (“Meketa”) has conducted a review of the underlying funds in the ScholarShare 529 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, 2021, through June 30, 2021.

At the end of the period, **no funds continue to qualify for “Watch” status and no new funds qualify**. The DFA Emerging Markets Core Equity fund and TIAA Quant Small Cap Equity fund no longer qualify and, therefore, we recommend removing them from “Watch” status.

Performance of Funds on Watch Status As of 6/30/2021

Funds on Watch Status	Board Action Date	Watch Status Start Date	No. Months Since Watch Began	Excess Perf. Since Watch Began	Plan Assets (\$mil)	% of Plan Assets
TIAA-CREF Quant Small Cap Equity	12/10/20	10/1/20	9	7.6	\$112.0	0.9%
DFA Emerging Markets Core Equity	12/10/20	10/1/20	9	7.1	\$114.8	0.9%

Background

New Funds Qualifying for “Watch” Status: Meketa has conducted a review of the underlying funds in the ScholarShare College Savings Plan (see also the 2Q2021 ScholarShare 529 Plan Investment Performance Status Report) and determined that no new funds qualify for “Watch” status.

Funds Currently on “Watch” Status: The DFA Emerging Markets Core Equity and TIAA Quant Small Cap Equity funds no longer qualify for “Watch” status.



Dimensional Fund Advisors Emerging Markets Core Equity Fund

Investment Role in Program

The fund is one of two emerging markets equity funds in the Program. The investment objective of the fund is to achieve long-term capital appreciation. The fund purchases a broad and diverse group of securities associated with emerging markets with an emphasis on small capitalization, value, and/or high profitability companies., which may include frontier markets (emerging market countries in an earlier stage of development) authorized by DFA's Investment Committee.

History and Organizational Structure

Dimensional Fund Advisors LP is a private investment firm founded in 1981 with 82 funds. DFA is headquartered in Austin, TX and has 13 global offices in North America, Europe, Asia, and Australia. The Firm offers its clients broadly diversified funds for a range of equity and fixed income strategies.

Investment Team

DFA LP serves as the investment advisor for the Emerging Market (EM) Core Equity fund while DFA Ltd. and DFA Australia Ltd. serve as sub-advisors for the fund. The following five individuals are responsible for coordinating the day-to-day management of the EM Core Equity fund:

Jed S. Fogdall is a Co-Head of Portfolio Management and Vice President of Dimensional and a member of Dimensional's Investment Committee. Mr. Fogdall has an MBA from the University of California, Los Angeles and a BS from Purdue University. Mr. Fogdall joined Dimensional as a Portfolio Manager in 2004 and has been responsible for international portfolios since 2010 and domestic portfolios since 2012.

Mr. Pu is a Senior Portfolio Manager and Vice President of Dimensional Fund Advisors LP. Mr. Pu has an MBA from the University of California, Los Angeles, an MS and PhD from Caltech, and a BS from Cooper Union for the Advancement of Science and Art. Mr. Pu joined Dimensional Fund Advisors LP as a portfolio manager in 2006 and has been responsible for the World Core Equity Portfolio since 2015.

Bhanu P. Singh is a Portfolio Manager and Vice President of Dimensional. Mr. Singh received his MBA from the University of Chicago and his BA from the University of California, Los Angeles. Mr. Singh joined Dimensional originally in 2003, has been a portfolio manager since 2012 and has been responsible for domestic portfolios since 2014.

Mary T. Phillips, CFA, Deputy Head of Portfolio Management, North America, Senior Portfolio Manager and Vice President of Dimensional, joined Dimensional in 2012 and has been a portfolio manager since 2014. Ms. Phillips began managing Dimensional's allocated portion of the Fund's portfolio in March 2018. Ms. Phillips earned an MBA with concentration in analytic finance, statistics and econometrics, and managerial and organizational behavior from the University of Chicago and a BA from the University of Puget Sound.

Will Collins-Dean is a Portfolio Manager and Vice President of the Sub-Adviser. Mr. Collins-Dean received his MBA from the University of Chicago and is bachelor's degree from Wake Forest University. Mr. Collins-Dean joined the Sub-Adviser in 2014 and has been a portfolio manager since 2016.

Investment Philosophy and Approach

DFA's EM Core Equity Portfolio pursues size, value, and profitability premiums within emerging markets all cap stocks with broad diversification and low turnover. The fund focuses on multiple premiums to outperform over a full market cycle as the premiums targeted generally don't move in lockstep. Additionally, the portfolio excludes real estate investment trusts (REITs) from purchase to allow investors to customize their real estate exposure.



The fund starts with a broad universe of stocks from more than 20 emerging markets with market caps under \$50 million, not including REITs. The managers then sort the remaining stocks into various zones based on market cap, valuation, and profitability. They scale the market cap of stocks in each zone by a multiplier to determine final weights which allows each stock's weighting to change in proportion with its market cap, helping mitigate turnover. Lastly, managers use these multipliers to tilt the portfolio toward stocks with smaller market caps, lower valuations, and higher profitability.

DFA removed the country cap from this strategy in October 2019, which restricted the weight of stocks from a given country to 17.5% of the portfolio. The managers have allowed country weights to align with those in the MSCI EM Index to help curb the trading costs associated with maintaining the cap.

Traders play an important role in this strategy and managers provide them with more trades than needed to accommodate the fund's cash flow needs. Traders then pick the best deals from this eligible pool, which can also help lower execution costs.

The portfolio includes approximately 5,900 stocks of various sizes, with the 10 largest names accounting for roughly 20% of its assets. It modestly tilts toward stocks with lower valuations and higher profitability. The fund's price/book ratio and return on invested capital run lower than the MSCI EM Index, but the disparities are not significant. Its emphasis on small-cap stocks is more pronounced, with an average market cap roughly one quarter that of the Diversified EM category index.

Performance

The DFA EM Core Equity fund originally qualified for "Watch" status by exhibiting a rolling 60-month VRR of less than (0.97) for six or more consecutive months. And despite the fund underperforming its MSCI EM benchmark by (1.1%) over the previous 60-month period, it no longer qualifies for "Watch" due to more recent performance. The fund has outperformed its benchmark over the quarter and one-year periods by 1.3% and 6.3%, respectively. The factor tilts present in the portfolio, most notably toward value, have come back into favor over the trailing one-year period and drove recent outperformance.

The fund's underperformance of (0.7%) and (2.4%) in 2018 and 2019, respectively, have driven the negative trailing 3-year results. The fund's underperformance over the longer trailing periods is consistent with the broader industry trend of value-oriented managers generally underperforming growth managers going back to the Great Financial Crisis. More recently, growth outperformed value as measured by the MSCI Ex USA Growth vs. MSCI Ex USA Value in 2017, 2018, and 2019 by 3.5%, 2.3%, and 9.5%, respectively. DFA's negative performance in 2018 was further compounded by its tilt toward small cap and the relative outperformance of large cap stocks as measured by MSCI EAFE Small Cap vs. MSCI EAFE Large Cap. For 2018, large cap outperformed small cap by 5.2%. As shown in Morningstar's Factor Profile, the fund's overweight vs. its benchmark exposure to value and small cap both worked against the fund in 2018.

Trailing Performance Results, Net of Fees Ending June 30, 2021

Fund	Quarter	1 Year	3 Years	5 Years	Since Addition (12/2011)
DFA Emerging Markets Core Fund	6.3	47.2	11.0	11.9	8.5
<i>MSCI Emerging Markets (Net) Index</i>	5.0	40.9	11.3	13.0	8.3
Difference	1.3	6.3	(0.3)	(1.1)	0.2
Percentile Rank*	33	21	55	59	49

*IM Emerging Markets Equity (MF) Universe. 1 = Best, 100 = Worst.



**Calendar Year Performance Results, Net of Fees
Ending December 31, 2020**

Fund	2015	2016	2017	2018	2019	2020
DFA Emerging Markets Core Fund	(14.9)	12.4	36.6	(15.2)	16.0	13.9
<i>MSCI Emerging Markets (Net) Index</i>	(14.9)	11.2	37.3	(14.6)	18.4	18.3
Difference	0.0	1.2	(0.7)	(0.6)	(2.4)	(4.4)
Percentile Rank*	63	21	45	40	77	68

*IM Multi-Sector General Bond Universe. 1 = Best, 100 = Worst.

Recommendation

Given the fund's outperformance over the previous year, Meketa recommends that the DFA Emerging Markets Core Equity fund be removed from "Watch" status.



TIAA Quant Small Cap Equity

Investment Role in Program

The fund is the only small cap fund and represents 0.89% of Program assets. The fund seeks a favorable long-term total return, mainly through capital appreciation, primarily from equity securities of smaller domestic companies. It normally invests at least 80% of its assets in small-cap equity securities across a wide range of sectors, growth rates and valuations that management believes appear to have favorable prospects for significant long-term capital appreciation. Management employs proprietary quantitative models that typically weigh many different variables, including the valuation of a stock versus the market or its peers, future earnings and sustainable growth prospects, and the price and volume trends of the stock. The fund seeks to generate a favorable long-term return while also managing its relative risk versus the index.

History and Organizational Structure

Nuveen, the investment manager of TIAA, brings a legacy of service to the responsibility of managing \$1.2 trillion in assets as of 30 June 2021. Operating in 16 countries across the globe, Nuveen's 2,900 professionals serve institutional and individual investors through award-winning capabilities spanning public and private asset classes.

Nuveen has been providing investment solutions and strategies to a wide range of clients worldwide, including institutional investors, intermediaries, plan sponsors, investment and pension consultants, financial advisors, and individual investors for the better part of a century. Nuveen also helped build America's infrastructure from the time it was founded 100+ years ago by providing financing for the construction of schools, roads, hospitals and public utilities. The company was acquired by TIAA in 2014.

TIAA, the parent company of Nuveen, serves 5 million participants and more than 16,000 institutions, making it one of the world's largest retirement managers. Since its founding 100 years ago by Andrew Carnegie, who wanted to ensure that teachers retired with dignity, TIAA has paid out almost \$400 billion in benefits and helped millions of people achieve lifetime income in retirement.

Investment Team

The fund is managed by Pei Chen and Max Kozlov, CFA. Pei Chen is a managing director and quantitative portfolio manager with TIAA Investments. Ms. Chen manages quantitative US equity investments. She joined TIAA Investments in 2004. Ms. Chen has 27 years of investment experience. Prior to joining TIAA Investments, she was a manager of special project research at MSCI Barra. In this position, she evaluated the Barra Integrated Model and various research projects. Ms. Chen holds a B.S./B.A. in Computer Science and Math from San Francisco University and an M.A. in Math from Stanford University.

Max Kozlov is a senior director for Nuveen's Quantitative Strategies. Mr. Kozlov manages quantitative U.S. Global Equities Strategies. He joined the firm in 2015. Mr. Kozlov has 21 years of industry experience including positions at BlackRock, Inc. an asset management firm, and McKinsey & Company, a management consulting firm. Mr. Kozlov earned a bachelor's degree in economics from Lomonosov Moscow State University, a master's degree in development economics and international development from Williams College and an M.B.A. from MIT, Sloan School of Management. He is a member of the CFA Institute

Adam Cao was a Portfolio Manager on the fund from October 2006 through October 2020.

Investment Philosophy and Approach

The Small-Cap Equity strategy focuses on companies across a wide range of sectors, growth rates and valuations that it believes have favorable prospects for significant long-term capital appreciation. The



strategy uses a variety of proprietary quantitative models based on financial and investment theories to build a portfolio of stocks that seeks to outperform its benchmark, the Russell 2000 Index, while also managing its relative risks. The strategy invests in securities within the capitalization range of companies included in the Russell 2000 Index at the time of purchase.

The team's scoring model generates the ideas that drive the process. The model is the outcome of years of experience analyzing factors that drive stock returns both from a risk and return perspective. The factors should have strong fundamental or economic rationale and persist over the medium- to long-term horizon. The final outcome of the scoring model is to differentiate stocks that should outperform the benchmark.

Rather than simply using the model to screen the universe, the team combines the scoring model along with a risk and trading model through an optimization process to construct the portfolio. Combining different components allows the team to maximize the ideas from the team's scoring model while simultaneously controlling for risk and potential trading cost. It also makes the investment process very repeatable and consistent.

Evaluation of ideas is critical to the process. To that end, the team spends considerable time focusing on attribution of performance to understand the factors that drive performance and leverage that information to improve and evolve the process.

The investment process follows three primary steps:

1. Score the universe of stocks;
2. Construct a portfolio that maximizes the team's best ideas that minimizes trading cost and any unintended risk; and
3. Analyze the outcome through attribution and gain key insights into enhancing the process.

Scoring Model

The primary universe of stocks is all the companies in the Russell 2000 Index and also may include stocks of companies in the Russell Midcap Index. In defining the universe, we may exclude companies that could lack sufficient liquidity. The model ranks the attractiveness of each stock in the universe on an industry neutral basis after a thorough research into factor efficacy. The team has developed a multi-factor scoring model that evaluates stocks across several factors.

The model is unique for each sector. Research has shown that factors behave differently across sectors. The sector framework also allows the team to incorporate information that is unique and only available for a particular sector or industry. For example, in the banking industry, loan information (losses, reserves, etc.) is important to characterizing the companies.

Portfolio Construction

The portfolio construction integrates the scoring model, risk model and expected trading to derive the portfolio's positions. A portfolio optimizer process is used to determine the weights of individual securities that will produce a portfolio that has risk characteristics within acceptable limits to the benchmark (Russell 2000 index). While many view risk control as a secondary (outside) control, the team views it as critical to integrate insight from the risk model in determining the positions. Utilizing the team's experience in building risk models, the team is able to customize their view on risk to better integrate the risk model with the scoring model. Typically, these key factors are kept in check:

Sector/Industry – The fund seeks to primarily drive performance through individual stock selection and keep sector/industry allocation close to the benchmark



Beta – The fund seeks to be beta neutral with respect to the benchmark.

Trading can be very costly in smaller capitalization stocks. In addition to traditional tools to capture market impact cost, we also employ higher frequency passive rebalancing to facilitate trades that take advantage of available liquidity.

Attribution

The team reviews standard (typically Brinson) attribution reports but also generates custom internal attribution. While traditional attribution allows the team to view factor performance in the overall portfolio, custom attribution allows them to drill down performance to a specific industry and also in the presence (or absence) of other factors. Custom attribution may come from more sophisticated regression models or may simply be 2-dimensional sorting of data.

The philosophy is that most attribution provides only a bit of the story and only taken together can they provide a complete picture. Both the traditional and customized views are important. Attribution is not solely focused on the scoring model but may indicate a change in the portfolio construction. While we have up to the minute reports, we do take a longer-term perspective whether the attribution feedback suggests a change is needed.

Performance

The fund has outperformed its benchmark over the most recent quarter and 1-year periods but lagged its benchmark over longer time periods. Over the trailing quarter and 1-year periods, the fund outperformed by 1.3% and 5.2%, respectively. On a sector basis, consumer discretionary and information technology contributed most to the fund's relative results, reflecting strong stock selection within those sectors. Stocks with positive hedge fund-related sentiment outperformed, particularly in May.



**Trailing Performance Results, Net of Fees
Ending June 30, 2021**

Fund	Quarter	1 Year	3 Years	5 Years	Since Addition (12/2011)
TIAA-CREF Quant Small Cap	5.6	67.2	13.0	16.1	14.2
Russell 2000	4.3	62.0	13.5	16.5	14.2
Difference	1.3	5.2	(0.5)	(0.4)	0.0
Percentile Rank*	23	14	32	14	20

*IM US SMID Cap Core Equity (MF) Universe. 1 = Best, 100 = Worst.

On a calendar year basis, the fund has underperformed its benchmark over four of the past six years. As described above, this fund is managed quantitatively, which means the fund's portfolio construction is heavily dependent on various stock ranking computer models that tend to focus on value, momentum and market value factors to screen and select the portfolio's underlying stock holdings. We point this out, as quantitative funds can fall out of favor and experience an extended period of underperformance due to biases imbedded in the model, as they have over the last several years.

**Calendar Year Performance Results, Net of Fees
Ending December 31, 2020**

Fund	2015	2016	2017	2018	2019	2020
TIAA-CREF Quant Small Cap	0.1	20.0	15.0	(12.0)	23.9	12.8
Russell 2000	(4.4)	21.3	14.6	(11.0)	25.5	20.0
Difference	4.5	(1.3)	0.4	(1.0)	(1.6)	(7.2)
Percentile Rank*	2	34	57	50	68	50

*IM US SMID Cap Core Equity (MF) Universe. 1 = Best, 100 = Worst.

Recommendation

Given the fund's outperformance over the previous year, Meketa recommends that the TIAA-CREF Quant Small Cap fund be removed from "Watch" status.



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