
JUNE 22, 2022

**AGENDA ITEM 10
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

Resolution to Approve the Placement of the T. Rowe Price Institutional Large Cap Growth Fund on Watch Status

Recommendation

ScholarShare Investment Board (SIB or Board) staff recommends the Board adopt Resolution No. 2022-14 approving the placement of the T. Rowe Price Institutional Large Cap Growth Fund on “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 first quarter 2022, Meketa has provided its memo (Exhibit A) analyzing the underlying funds that qualify for “watch” status.

As outlined in its memo,

- No funds are currently on “watch” status;
- One (1) fund, the T. Rowe Price Institutional Large Cap Growth Fund (“Fund”), qualifies for placement on “watch” status; and
- One (1) fund, the TIAA-CREF Emerging Markets Equity Index Fund, qualifies for “watch” status, however, Meketa is not recommending it be placed on “watch” status due to explanation discussed at the March 23, 2022 Board meeting.

Presenter

Eric White, Principal, Meketa Investment Group, Inc.

RESOLUTION NO. 2022-14

RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD APPROVING THE PLACEMENT OF THE T. ROWE PRICE INSTITUTIONAL LARGE CAP GROWTH FUND ON 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 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 first quarter 2022;

WHEREAS, the performance of the T. Rowe Price Institutional Large Cap Growth Fund (the “Fund”) has not met its respective investment performance criteria as outlined in the Procedures (the “Benchmarks”) and qualifies for placement on watch status; and

WHEREAS, pursuant to the Procedures, the Board may place underlying funds on watch status.

NOW, THEREFORE, BE IT RESOLVED, that the Board approves the placement of the T. Rowe Price Institutional Large Cap Growth Fund on watch status, as recommended by SIB staff and as outlined in the Consultant’s memo dated June 22, 2022.

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

Attest: _____
Chairperson

Date of Adoption: _____

MEMORANDUM

TO: ScholarShare Investment Board (SIB)
FROM: Eric White, CFA; Kay Ceserani; Inwoo Hwang;
Meketa Investment Group
DATE: June 22, 2022
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 January 1, 2022, through March 31, 2022.

At the end of the period, 1 fund continues to qualify for watch (TIAA-CREF Emerging Markets Equity Index) though we continue to recommend SIB forgo watch status, as the spike in tracking error was caused by a technical market anomaly discussed at the March 23, 2022 meeting. In addition, 1 new fund qualifies for "Watch" status (T.Rowe Large Cap Growth) and no funds remain on Watch. Meketa recommends SIB place the T. Rowe Price Large Cap Growth fund on Watch. Meketa will closely monitor the fund over coming quarters and will report any material findings to SIB.

Qualifying for Watch

1. TIAA-CREF Emerging Markets Equity Index
2. T. Rowe Large Cap Growth

Performance of Funds on Watch Status As of 3/31/2022

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
None						

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 1Q2022 ScholarShare 529 Plan Investment Performance Status Report) and determined that 1 new fund qualifies for “Watch” status (T. Rowe Large Cap Growth).

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

Discussion

T. Rowe Large Cap Growth

Investment Role in Program

The T. Rowe Large Cap Growth Fund is one of two actively managed US Large Cap Funds in the program. The fund holds a \$331.3M of fund assets.

The T. Rowe Large Cap Growth Fund seeks long-term capital appreciation by investing in common stock of large cap growth companies.

History and Organizational Structure

T. Rowe Price serves as the manager and advisor of the fund. Headquartered in Maryland, T. Rowe Price has over \$1 trillion in assets under management.

Investment Team

Taymour Tamaddon has served as the fund manager since 2017. Mr. Tamaddon has managed this fund since 2017 and has been with the firm for since 2004. He earned an MBA from Dartmouth College and is also a CFA charter holder.

Investment Philosophy and Approach

The fund uses a growth style of investing. The fund invests utilizes a bottom-up investment approach on companies that fall in the large-cap U.S. investment universe, defined as companies in the Russel 1000 Growth Index. The team seeks companies with an above-average rate of earnings and cash flow growth, as well as lucrative strategic positioning to drive future earnings growth. The fund is non-diversified as the fund may invest a larger percentage of assets in a smaller number of securities than a diversified fund. The fund looks for companies with one of more of the following characteristics:

- Above average growth rate: seek companies with superior growth in earnings and cash flow.
- Operations in “fertile fields”: seeks companies with ability to sustain earnings momentum even in economic slowdowns by operating in industries or services where earnings and dividends can outpace inflation and the overall economy.
- Durability of earnings growth: seeks companies that operate in a lucrative niche in the economy that enables the company to expand even during slow growth periods.



Performance

The fund qualified for “Watch” based on the medium-term monitoring criteria. Due to recent underperformance, the fund now trails its benchmark over all trailing measurement periods.

Trailing Performance Results, Net of Fees Ending March 31, 2022

Fund	Quarter	1 Year	3 Years	5 Years	Since Addition (11/20/2011)
T. Rowe Price Large Cap Growth Fund	-13.2	3.1	18.7	20.0	-17.9
<i>Russell 1000 Growth</i>	-9.0	15.0	23.6	20.9	-17.8
Difference	-4.2	-11.9	-4.9	-0.9	-0.1
Percentile Rank*	80	70	57	21	76

*Morningstar Large-Cap Growth Universe. 1 = Best, 100 = Worst.

The fund has outperformed the benchmark in the three of the last five calendar years, though it underperformed in the most recent calendar year. Stock selection especially in Information Technology, Consumer Discretionary, and Communications services sectors detracted from performance in 2021.

Calendar Year Performance Results, Net of Fees Ending March 31, 2022

Fund	2017	2018	2019	2020	2021
T. Rowe Price Large Cap Growth Fund	37.8	4.3	28.5	39.6	23.2
<i>Russell 1000 Growth</i>	30.2	-1.5	36.4	38.5	27.6
Difference	7.6	5.8	-7.9	1.1	-4.4
Percentile Rank*	4	9	88	32	45

* Morningstar Large-Cap Growth Universe. 1 = Best, 100 = Worst.

Over time, the large cap growth segment of the US stock market has proven itself to be an area where active investment managers have particularly struggled. Illustrating this fact is the top quartile performance of the Russell 1000 Growth index over longer trailing time periods. In fact, as of the end of 2021, the index ranked in the 14th percentile over the trailing 10-year period, indicating it has outperformed over 85% of the funds with similar capital market exposure. This compares to other asset classes where the index tends to produce near-median results. The exceptional peer performance of the index can be attributed to multiple factors with the dominant factors being the high concentration in the index top holdings.

The Russell 1000 Growth index is highly concentrated in its top holdings. In fact, just the top 10 holdings constitute approximately 50% of the index, while the top 5 holdings comprise roughly 40%. Of those,

two stocks, Apple and Microsoft, each account for more than 10% of the index. This high concentration results in the price movement of 5 or 10 stocks dominating the performance of the index. As a result, a manager's weighting to those 5 to 10 stocks largely defines their relative performance to the index. As such, their view on just 10 or so holdings often overwhelms their view on the other 490 or so stocks in the index. Compounding this is the fact that, in practice, it is difficult for an active manager to express positive conviction in the top 5 stocks of the index given their enormous weight and the fact that the manager would have to hold them at an even larger weight.

As such, it is likely that the T. Rowe Large Cap Growth fund will exhibit volatile relative performance over time. We would expect that this volatility should be materially positive in some periods and materially negative in others. Prior to recent materially negative relative performance, the Fund had a sizeable relative outperformance over a considerable period of time. Over time, this Fund has demonstrated strong absolute and peer results though with periods of dramatic underperformance relative to the benchmark. Overall, Meketa has a favorable opinion of the fund and views it as one of the better options in its peer universe.

Recommendation

Due to relative underperformance in the trailing 1-year and 3-year periods versus its benchmark, Meketa recommends that the T. Rowe Large Cap Growth Fund be placed on "Watch" status to be closely monitored over future periods.

EDW/KRC/IH/mp



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