
JULY 29, 2024

**AGENDA ITEM 7
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

Resolution to Approve Removal of T. Rowe Price Large Cap Growth Fund from Watch Status and Placement of Nuveen Large Cap Responsible Equity Fund, Metropolitan West Total Return Bond Fund, Vanguard High-Yield Corporate Fund, and T. Rowe Price Floating Rate Fund on Watch Status

Recommendation

ScholarShare Investment Board (SIB or Board) staff recommends the Board adopt Resolution No. 2024-07 approving the removal of T. Rowe Price Large Cap Growth Fund from watch status and placement of Nuveen Large Cap Responsible Equity Fund, Metropolitan West Total Return Bond Fund, Vanguard High-Yield Corporate Fund, and T. Rowe Price Floating Rate 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 (Procedures) adopted by the Board. In April 2024, the Board approved changes to the Procedures, which consisted of modifications to the framework for monitoring the underlying investments (mutual funds) utilized within the Plan as well as the investment performance criteria.

Following the review of the Plan's investment performance for first quarter 2024, Meketa has provided its memo (Exhibit A) analyzing the underlying funds that qualify for watch status under the revised Procedures approved by the Board in April 2024.

As outlined in its memo,

- One (1) fund, T. Rowe Price Large Cap Growth Fund, is currently on watch status, however, no longer qualifies for watch status; and
- Four (4) funds, Nuveen Large Cap Responsible Equity Fund, Metropolitan West Total Return Bond Fund, Vanguard High-Yield Corporate Fund, and T. Rowe Price Floating Rate Fund, qualify for placement on watch status.

Presenters

Stanley Zeto, Deputy Executive Director, ScholarShare Investment Board
Kay Ceserani, Managing Principal / Consultant, Meketa Investment Group, Inc.
Aysun Kilic, Managing Principal / Consultant, Meketa Investment Group, Inc.

**SCHOLARSHARE INVESTMENT BOARD
RESOLUTION NO. 2024-07**

**RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD
APPROVING THE REMOVAL OF THE PLACEMENT OF THE
T. ROWE PRICE LARGE CAP GROWTH FUND FROM WATCH STATUS
AND PLACEMENT OF THE NUVEEN LARGE CAP RESPONSIBLE
EQUITY FUND, METROPOLITAN WEST TOTAL RETURN BOND FUND,
VANGUARD HIGH-YIELD CORPORATE FUND, AND
T. ROWE PRICE FLOATING RATE 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, at the April 16, 2024 SIB meeting, the Board approved changes to the Procedures reflecting revisions to the framework for monitoring underlying investments in the Plan;

WHEREAS, the SIB staff and the 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 2024;

WHEREAS, pursuant to the Procedures, the Board may place underlying funds on watch status, and SIB staff and the Consultant have provided their recommendations, as outlined in the Consultant’s memo dated July 29, 2024;

WHEREAS, under the Procedures, the T. Rowe Price Large Cap Growth Fund met at least three (3) of the four (4) performance evaluation criteria and therefore, it no longer qualifies for placement on watch status pursuant to the Procedures, and

WHEREAS, the Nuveen Large Cap Responsible Equity Fund, Metropolitan West Total Return Bond Fund, Vanguard High-Yield Corporate Fund, and T. Rowe Price Floating Rate Fund have not met two (2) or more of the four (4) performance evaluation criteria and therefore, qualify for placement on watch status pursuant to the Procedures.

NOW, THEREFORE, BE IT RESOLVED, that the Board approves the following actions:

- Removal of the T. Rowe Price Large Cap Growth Fund from watch status; and
- Placement of the Nuveen Large Cap Responsible Equity Fund, Metropolitan West Total Return Bond Fund, Vanguard High-Yield Corporate Fund, and T. Rowe Price Floating Rate Fund on watch status.

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: Kay Ceserani; Aysun Kilic; Inwoo Hwang;
 Meketa Investment Group (“Meketa”)
DATE: July 29, 2024
RE: ScholarShare 529 Plan Watch Status Update

Summary

Meketa has conducted a review of the underlying funds in the ScholarShare 529 Plan as of March 31, 2024. The underlying funds have been assessed using the new guidelines¹, applied retroactively – meaning a fund’s placement and tenure on the Watch list has been adjusted to align with the new guidelines.

As of the end of the period, four funds qualify for Watch status. We also note, the T. Rowe Large Cap Growth fund, which had qualified for Watch under the prior monitoring guidelines, no longer qualifies under the new guidelines resulting in it being removed from the discussion portion of this memorandum. All funds listed below are discussed in more detail on the following pages.

Meketa recommends the Board remove the T. Rowe price Large Cap Growth fund from Watch status and that the other four funds listed below be place on Watch per the new monitoring guidelines.

Performance of Funds on Watch Status (As of 3/31/2024)

Funds on Watch Status	Plan Assets (\$M)	Qualifies for Watch - Return	Qualifies for Watch - Rank	Qualified for Watch Date	Watch Status Start Date	Number of Months Since Watch Began	Excess Perf. Since Watch Began (%)	Team Changes ²
Passive								
None	---	---	---	---	---	---	---	---
Active								
T. Rowe Price Large Cap Growth	\$349.1	N/A	N/A	N/A	---	---	---	✓
Nuveen Large Cap Responsible Equity	\$323.1	Short, Medium	Short, Medium	12/31/23	1/1/24	3	0.1	✓
Metropolitan West Total Return Bond	\$462.7	Medium	Medium	3/1/24	4/1/24	---	---	✓
Vanguard High-Yield Corporate Bond	\$248.5	Short, Medium	N/A	3/1/24	4/1/24	---	---	✓
T Rowe Price Floating Rate	\$130.3	Short, Medium	N/A	2/1/24	4/1/24	---	---	---

¹ Approved at the April 16, 2024, Board meeting.

² Indicates changes within the last 3-years.

Nuveen Large Cap Responsible Equity

Investment Role in Program

The Nuveen Large Cap Responsible Equity fund (previously known as the TIAA-CREF Social Choice Equity fund) is offered as a single fund option and is utilized in the ESG Enrollment Year portfolios along with four other ESG fund/ETFs. It is one of two actively managed ESG funds in the program. The fund holds \$323.1 million of ScholarShare assets.

Objective:

The fund seeks a favorable long-term total return that reflects the investment performance of the overall US stock market while giving special consideration to certain environmental, social and governance criteria ("ESG"). The fund's evaluation process favors companies with leadership in ESG performance relative to their peers. Under normal circumstances, the fund invests at least 80% of its assets in equity securities. The fund attempts to achieve the return of the US stock market as represented by its benchmark, the S&P 500 Index, while investing in companies whose activities are consistent with the fund's ESG criteria.

Management:

Team	Role	Investment Experience	Firm Tenure
Jim Campagna, CFA	PM since 2005	45 years	19 years
Lei Liao, CFA	PM since 2014	28 years	9 years
Darren Tran, CFA	PM Since 2022	28 years	1 year

Investment Philosophy and Process:

- Utilizes proprietary quantitative process, coupled with an industry recognized risk model, helps capture the long-term performance of the benchmark.
- Curated eligible universe includes industry-specific ESG criteria and incorporates companies' exposure to ESG-related controversies and involvement in certain controversial business activity.
- Leverages in-house expertise, independent third-party ESG research, and industry specific ESG criteria to build a portfolio with higher ESG performance quality vs the benchmark.

Performance:

The Nuveen Large Cap Responsible Equity fund qualifies for Watch as it has breached the performance and peer criteria over both the short (rolling 1-year) and medium-term (rolling 3-year) periods. As of March 1, 2024, the fund changed benchmarks from the Russell 3000 index to the S&P 500 index. Despite posting strong absolute results over the quarter, the fund performed in line with

the index and continues to be behind the benchmark over the trailing 1- and 3-year periods by (1.8%) and (0.4%), respectively. The fund also had mixed results from a peer perspective.

Over the quarter, the fund returned 10.1%, outperforming the new S&P 500 blended benchmark by 0.1%. Stock selection in the information technology and materials sectors were the largest contributors to the fund's outperformance. More specifically, not owning Apple or Boeing was among the largest contributors. An overweight to NVIDIA also contributed positively to performance.

Calendar year 2023 was a difficult one on a relative basis for the fund, as many of the mega cap funds that dominated performance of the overall markets the fund cannot hold based on its ESG mandate. More specifically, not owning Apple, Meta, or Alphabet were the largest detractors from performance over this period. At the sector level, stock selection within the communication services, financials, and consumer discretionary sectors hurt performance the most.

Performance Results, Net of Fees Ending March 31, 2024

Fund	Qtr	1 Year	3 Years	5 Years	2019	2020	2021	2022	2023
Nuveen Large Cap Responsible Eq	10.1	27.5	9.4	14.3	31.5	20.3	26.5	(17.8)	22.5
S&P 500 (blend) ³	10.0	29.3	9.8	14.3	31.0	20.9	25.7	(19.2)	26.0
Difference	0.1	(1.8)	(0.4)	0.0	0.5	(0.6)	0.8	1.4	(3.5)
MStar Rank	63	65	73	44	22	22	54	47	64

Recommendation:

The fund qualifies for Watch status as it has failed all four of the performance standards. As a result, **Meketa recommends that the Nuveen Large Cap Responsible Equity fund be placed on Watch status effective January 1, 2024.**

³ Russell 3000 Index prior to March 1, 2024.

Metropolitan West Total Return Bond

Investment Role in Program

The Metropolitan West Total Return Bond fund is one of five fixed income funds utilized in the Active Enrollment Year and Active Multi-fund portfolios. The fund holds \$462.7 million of ScholarShare assets.

Objective:

The fund seeks a favorable long-term total return through investing primarily in investment grade fixed income securities. Under normal circumstances, the fund invests at least 80% of its assets in fixed income securities. Additionally, the fund’s portfolio duration typically ranges from two to eight years and the fund’s dollar-weighted average maturity ranges from two to fifteen years.

Management:

Team	Role	Investment Experience	Firm Tenure
Stephen Kane, CFA	PM since 1997	34 years	28 years
Bryan Whalen, CFA	PM since 2005	27 years	20 years
Jerry Cudzil	PM since 2023	27 years	12 years
Ruben Hovhannisyan, CFA	PM since 2023	18 years	17 years

Investment Philosophy and Process:

- Eligible universe spans across a broad range of security types (government issues, investment grade, high yield) as well as regions (US, international and emerging market debt) seeking for the most attractive value propositions.
- Long-term focused, disciplined approach of applying both top-down and bottom-up analyses to identify and construct a portfolio of the most attractive risk-adjusted value securities.

Performance:

The Metropolitan West Total Return Bond fund qualifies for Watch as its rolling 3-year performance and peer rankings are below the monitoring criteria. The fund posted negative results over the quarter on both absolute and relative to benchmark basis and continues to lag the benchmark over the 1- and 3-year periods by (0.2%) and (0.5%), respectively and ranked below median across all trailing periods.

Over the quarter, the fund returned (0.9%), trailing the Bloomberg US Aggregate Index by (0.1%). The fund’s duration positioning, which was longer than the Index, was the primary detractor for the period, as shifting expectations pushing out the first rate cut by the FOMC pushed yields higher.



The fund struggled in calendar year 2022, posting a (14.8%) return and lagging the index by (1.8%). Poor results over this period continues to weigh down the fund's overall results. The fund's longer duration positioning during a rising rate environment hurt performance, however the primary detractor over the period was security selection and a general overweight to non-agency MBS securities. The fund did rebound in calendar year 2023 where it saw strong performance on both an absolute and relative to benchmark basis, returning 6.0% and outpacing the index by 0.5%.

Performance Results, Net of Fees
Ending March 31, 2024

Fund	Qtr	1 Year	3 Years	5 Years	2019	2020	2021	2022	2023
Metropolitan West Total Return	(0.9)	1.5	(3.0)	0.4	9.1	9.1	(1.1)	(14.8)	6.0
Bloomberg US Agg	(0.8)	1.7	(2.5)	0.4	8.7	7.5	(1.5)	(13.0)	5.5
Difference	(0.1)	(0.2)	(0.5)	0.0	0.4	1.6	0.4	(1.8)	0.5
MStar Rank	87	81	73	64	56	29	63	77	58

Recommendation:

The fund qualifies for Watch status as it has failed both of the medium-term standards. As a result, **Meketa recommends that the Metropolitan West Total Return Bond fund be placed on Watch status, effective April 1, 2024.**

Vanguard High-Yield Corporate Bond

Investment Role in Program

The actively managed Vanguard High-Yield Corporate Bond fund is one of three fixed income funds utilized in the Passive Enrollment Year and Passive Multi-fund investment portfolios. The fund holds \$248.5 million of ScholarShare assets.

Objective:

The fund seeks a favorable long-term total return via investing in a below investment grade fixed income securities. Under normal circumstances, the fund invests at least 80% of its assets in corporate bonds rated below Baa by Moody's. In terms of maturities, the fund's high-yield securities are primarily short- and intermediate-term.

Management:

The fund is sub-advised by Wellington Management Company and Vanguard, where Vanguard oversees two-thirds of the assets and Vanguard the remainder. Wellington had been the sole sub-advisor up until August of 2022, when Vanguard was added. There have been several changes in leadership at Wellington for this fund. In August 2022 a co-Portfolio Manager was added, Elizabeth Shortsleeve, to join lead Portfolio Manager, Micheal Hong, who ultimately left the fund in August 2023.

Team	Role	Investment Experience	Firm Tenure
Elizabeth Shortsleeve	Wellington - PM since 2022	17 years	16 years
Michael Chang, CFA	Vanguard - PM since 2022	22 years	7 years

Investment Philosophy and Process:

- Emphasis on higher credit quality and lower risk within the high-yield space.
- Employs a long-term focused, fundamental value approach and seeks to identify high-yielding companies with improving prospects.

Performance:

The Vanguard High Yield Corporate Bond fund qualifies for Watch due to performance results being below the benchmark relative standards over both the short (rolling 1-year) and medium (rolling 3-year) periods. The fund produced positive absolute returns at 0.8% but lagged the index by (0.7%) and placed in the bottom decile of its peer group. Over the trailing 1-, 3- and 5-year periods longer the fund had mixed peer rankings and underperformed its index by (2.1%), (0.1%) and (0.4%), respectively.

Poor results over the quarter, were due to security selection in the energy, packaging and health care. On a calendar year basis, the fund has lagged three of the last five years, trailing in 2020, 2021, and 2023.

Over calendar year 2023, the fund trailed the index by (1.7%) as well as ranking below the median. Underperformance was attributable to security selection in financial institutions.

Performance Results, Net of Fees
Ending March 31, 2024

Fund	Qtr	1 Year	3 Years	5 Years	2019	2020	2021	2022	2023
Vanguard High-Yield Corporate	0.8	9.1	2.1	3.8	15.9	5.4	3.8	(9.0)	11.7
Bloomberg US Corp High Yield	1.5	11.2	2.2	4.2	14.3	7.1	5.3	(11.2)	13.4
Difference	(0.7)	(2.1)	(0.1)	(0.4)	0.4	(1.7)	(1.5)	2.2	(1.7)
MStar Rank	96	79	44	41	8	49	78	23	61

Recommendation:

The fund qualifies for Watch status as it has failed both short-term standards. As a result, **Meketa recommends that the Vanguard High-Yield Corporate Bond be placed on Watch status effective April 1, 2024.**

T Rowe Price Floating Rate Bond

Investment Role in Program

The T Rowe Price Floating Rate Bond fund is one of five fixed income funds utilized in the Active Enrollment Year and Active Multi-fund investment portfolios . The fund holds \$130.3 million of ScholarShare assets.

Objective:

The fund primarily seeks for high current income and secondarily capital appreciate via investing in floating rate securities. Under normal circumstances, the fund invests at least 80% of its assets in floating rate loans and are typically US dollar-denominated, though the fund may invest up to 20% of total assets in non-US dollar-denominated assets. Floating rate loans have interest rates that adjust periodically and generally the loans the fund invests in are rated below investment grade.

Management:

Team	Role	Investment Experience	Firm Tenure
Paul Massaro, CFA	PM since 2011	23 years	20 years

Investment Philosophy and Process:

- Disciplined, fundamental research centric approach to identifying attractive valuation opportunities.
- Leverage firm’s equity and fixed income research groups to create a complete picture regarding the borrower’s capital structure/prospects
- Incorporate Environmental, Social and Governance (ESG) factors in evaluation process as an additive filter.

Performance:

The T. Rowe Price Floating Rate fund qualifies for Watch due to performance results being below the benchmark relative standards over both the short (rolling 1-year) and medium (rolling 3-year) periods. Despite posting positive absolute results over the quarter, it trailed in line with the index and continues to be behind the benchmark over the 1- and 3-year periods by (1.3%) and (0.6%), respectively. On a peer comparison basis, the fund ranks in the 45th and 18th quartile over the trailing 1- and 3-year periods, respectively.

Over the quarter, the fund returned 2.2%, trailing the Morningstar LSTA US Performing Loans index by (0.3%). Security selection in the cable operators segment was the hurt results the most. Specifically, Altice International’s securities was the primary detractor as investors reacted poorly to the company’s debt management decisions.

Over the last five calendar years the fund has underperformed in three (2020, 2021 and 2023). Despite posting strong double-digit results, in calendar year 2023 the fund lagged the index by (1.2%), as Credit Selection in Information Technology, Entertainment and Financial industries were the primary detractors over the period.

Performance Results, Net of Fees
Ending March 31, 2024

Fund	Qtr	1 Year	3 Years	5 Years	2019	2020	2021	2022	2023
T. Rowe Price Floating Rate	2.2	11.5	5.6	5.1	8.8	2.4	4.7	(0.6)	12.5
Morningstar LSTA US Perf Loans	2.5	12.8	6.2	5.7	8.7	3.5	5.4	(0.8)	13.7
Difference	(0.3)	(1.3)	(0.6)	(0.6)	0.1	(1.1)	(0.7)	0.2	(1.2)
MStar Rank	57	45	18	9	15	26	40	10	32

Recommendation:

The fund qualifies for Watch status as it has failed both of the short- and medium- term performance standards. As a result, **Meketa recommends that the T. Rowe Price Floating Rate fund be placed on Watch status effective April 1, 2024.**

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