



Dale R. Folwell, CPA

INVESTMENT MANAGEMENT

To: North Carolina Supplemental Retirement Board of Trustees

From: Kris Byrd, Portfolio Manager

Date: December 06, 2024

Subject: Discussion / Action: 401k and 457b Plans: Sands Capital Watch List Recommendation

Recommendation

When assessing managers for potential inclusion on the watch list, three critical criteria are considered: significant organizational changes, substantial changes in investment philosophy and/or process, and persistent underperformance relative to benchmarks and peers.

Staff and Callan have been monitoring Sands Capital's underperformance closely. At this time, we recommend placing Sands on watch due to persistent underperformance of both their benchmark and peers that is out of line with expectations. We have also noted asset outflows from the strategy that exceed an expected amount of annual attrition.

While the team and process have remained stable over the years, the magnitude of recent underperformance, specifically 2021-2022, and YTD 2024, is greater than expected for this particular strategy. Staff and Callan will work closely with Sands to continue evaluating whether this performance pattern is likely an anomaly or an indicator of future changes. In addition, we will closely monitor assets in the strategy and look for significant inflows or outflows from other investors.

Portfolio Positioning

As of September 30, 2024, Sands Capital manages \$451.6 million, or 18.75% of the NCSRP Active Large Cap Core Equity Fund. Sands maintains a single growth-oriented investment philosophy rooted in the belief that over time common stock price appreciation follows the earnings power and growth of the underlying business. They seek to identify high-quality, wealth-creating growth businesses using a fundamental, business-focused research approach. Sands maintains a long-term investment horizon, constructing concentrated and conviction-weighted portfolios consisting of 25-30 of what they believe are the highest quality, longest duration growth companies they have identified. This is expected to result in a portfolio with higher growth and greater volatility than their large cap growth peers.

Over long-term periods, we expect Sands to have low turnover, (around 30%), higher tracking error (between 5-10%), greater growth exposure than the index and peers, and lower market capitalization than the index and peers. Sands has maintained consistent portfolio characteristics and growth style exposure in line with expectations for the strategy.

Within the large cap growth portion of the Large Cap Core Equity Fund, Sands is balanced by Loomis Sayles. The investment approaches, style exposure, and risk profiles have been complementary over the years



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People

The Sands team focuses exclusively on growth investing, leveraging a globally-integrated research platform of 19 analysts. The strategy is led by four portfolio managers. The investment team has remained relatively stable overall, with only one meaningful change in the last five years. One of the four portfolio managers on the strategy elected to not return from a medical leave that was initiated in July 2022 and officially retired from the firm in December 2022. Their tenure at the firm and impact on both Select and Focus Growth strategies were notable and warranted continued due diligence around the impact of his absence on the portfolio management approach going forward.

Product Assets Under Management

The stability of asset base continues to be monitored as the strategy has experienced significant outflows. Product AUM has declined, with strategy assets at \$12.8 billion as of 9/30/2024, down from approximately \$34 billion at the end of 2018. Outflows in 2023 totaled nearly \$1 billion, particularly within the strategy's endowment and foundation client base, and YTD 2024 outflows have already totaled over \$1 billion.



Performance

Sands' focused high-growth strategy leads to portfolios with high tracking error, resulting in returns that can significantly differ from the Russell 1000 Growth benchmark on both a quarterly and annual basis. After exceptional performance from 2017 to 2020—particularly in 2020, when returns were nearly double the benchmark—a decline in relative returns was anticipated. However, the level of underperformance in 2021, 2022, and year-to-date 2024 has been greater than expected for Sands' strategy.

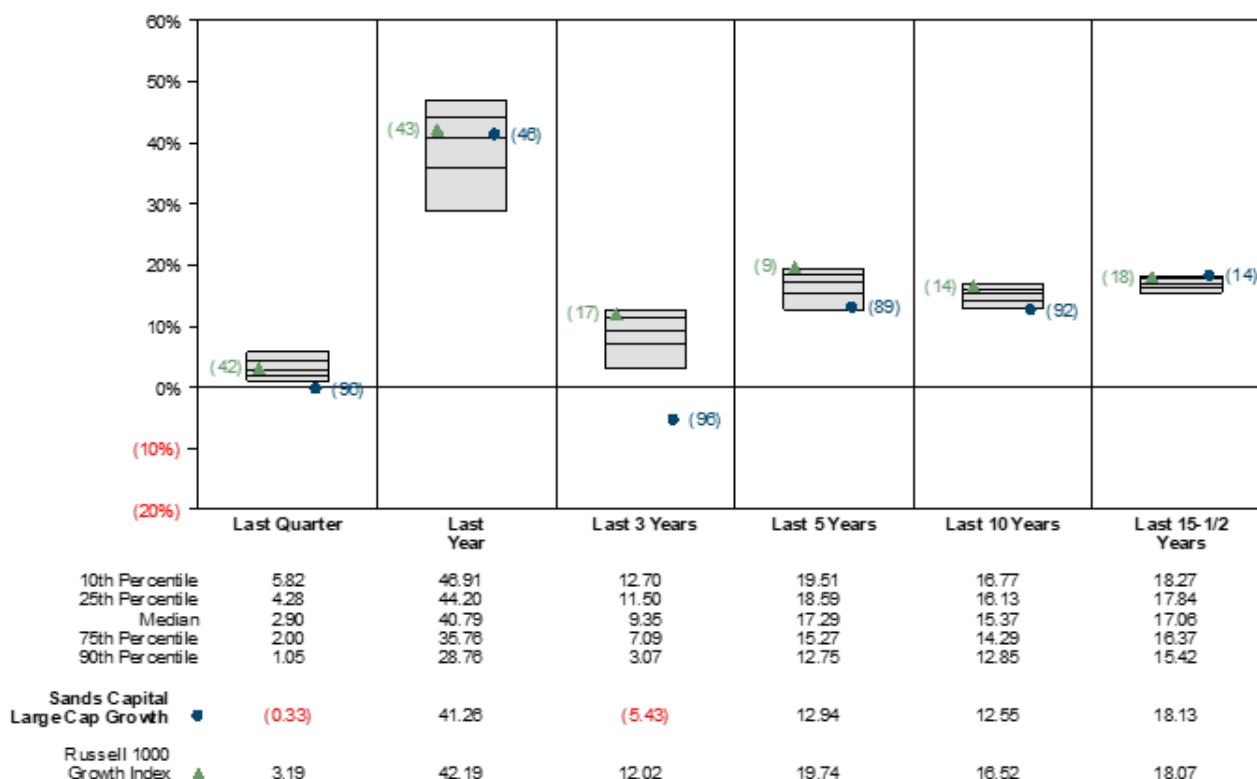


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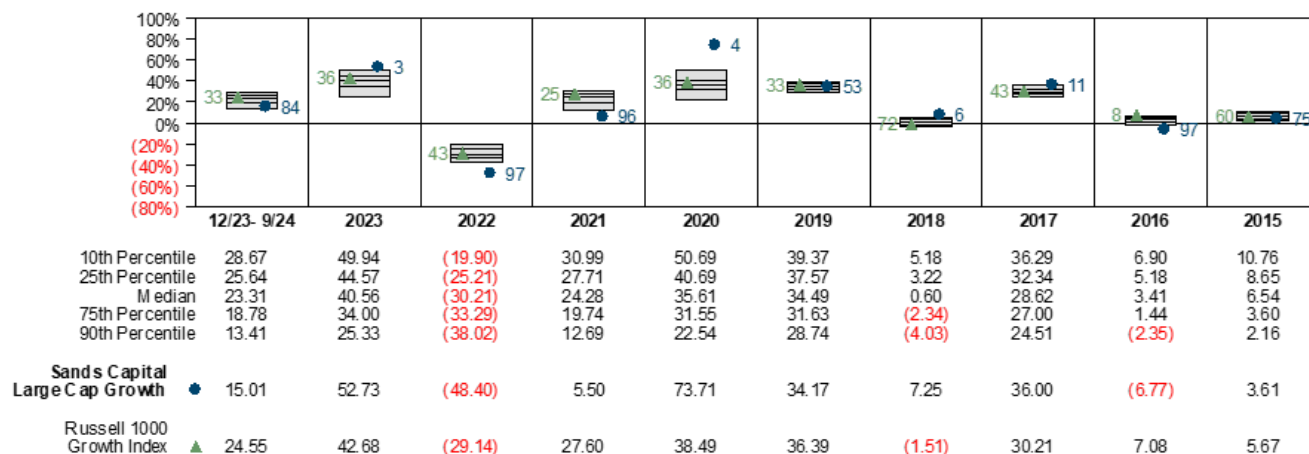
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Performance and Portfolio Characteristics as of 09/30/24

Performance vs Callan Large Cap Growth (Gross)



Performance vs Callan Large Cap Growth (Gross)

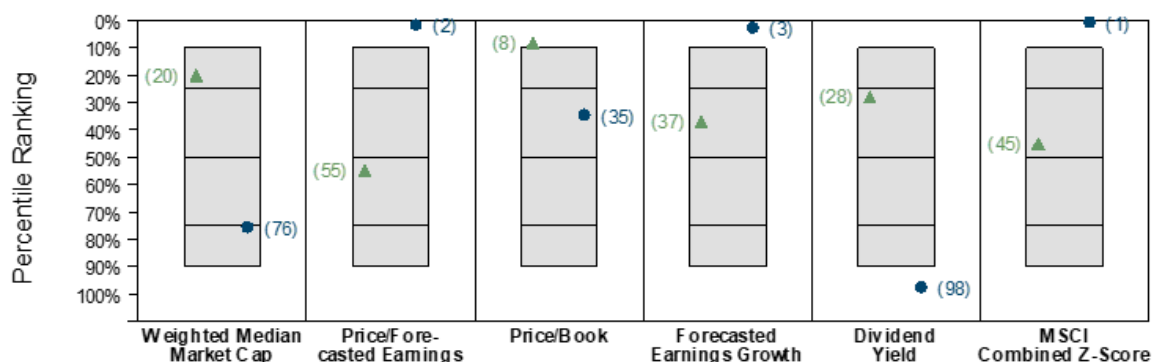




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Portfolio Characteristics Percentile Rankings Rankings Against Callan Large Cap Growth as of September 30, 2024



Sands Capital Large Cap Growth	●	229.79	38.92	8.29	28.76	0.21	1.33
Russell 1000 Growth Index	▲	953.81	28.67	9.57	22.97	0.62	0.91

Style Exposure Matrix Holdings as of September 30, 2024

Large	0.0% (0)	7.1% (3)	75.4% (18)	82.4% (21)
	1.4% (9)	9.8% (55)	82.7% (86)	93.9% (150)
Mid	0.0% (0)	0.0% (0)	15.3% (8)	15.3% (8)
	0.0% (4)	1.4% (58)	4.3% (130)	5.7% (192)
Small	0.0% (0)	0.0% (0)	2.3% (1)	2.3% (1)
	0.0% (3)	0.1% (19)	0.2% (25)	0.3% (47)
Micro	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)
	0.0% (0)	0.0% (0)	0.0% (0)	0.0% (0)
Total	0.0% (0)	7.1% (3)	92.9% (27)	100.0% (30)
	1.5% (16)	11.3% (132)	87.2% (241)	100.0% (389)
	Value	Core	Growth	Total