

# Timely Topics



June 25, 2014

## Optimum Large-Cap Growth Fund Update

This *Timely Topics* piece discusses LPL Financial Research's updated thoughts on the Optimum Large-Cap Growth fund.

LPL Financial Research removed the T. Rowe Price Growth Stock fund from the Strategic Asset Management (SAM) recommended list on March 18, 2014, due to a portfolio manager change. Because of that change, we have received a number of inquiries about Optimum Market Portfolios (OMP), where T. Rowe Price remains a sub-advisor to the Optimum Large-Cap Growth fund. In this *Timely Topics* piece, we highlight several reasons why the strategy remains a sub-advisor in the fund while providing an overview of our process as a consultant to Delaware and the Optimum Funds that make up the OMP portfolios.

### Pairing Versus a Single Fund

We continue to have confidence in the T. Rowe Price growth strategy as a complement to the Fred Alger Management within the Optimum Large-Cap Growth fund. Where we believed the decision to remove the standalone T. Rowe Price fund from the SAM recommended list was warranted (see our SAM update dated March 18, 2014 for details), evaluation of the combination of these two sub-advisors led us to the conclusion that the combination still made sense within the Optimum Large-Cap Growth fund. The goal is to find a blend of sub-advisors we feel has the potential to succeed in various market environments. We believe T. Rowe Price and Alger still provide a good combination for the OMP portfolios.

### Funds Versus Portfolios

Because SAM is advisor directed, LPL Financial Research views fund evaluation on a stand-alone basis. The many factors we evaluate—such as the management team, philosophy, process, and performance—are considered independently of a diversified portfolio. Because OMP is centrally managed (like Model Wealth Portfolios [MWP]), when making sub-advisor recommendations we evaluate not only how the managers interact and offset each other's biases, but also how the pairing fits within the broader portfolio. On this basis, we believe the Optimum Large-Cap Growth fund still provides a good representation of the large growth asset class for the broader OMP portfolios.

## Analyst-Driven Strategy Suggests Continuity

T. Rowe Price puts a lot of emphasis on its analyst pool in its security evaluation process. So while the portfolio manager has changed, the analyst-driven stock picking process at T. Rowe Price is firmly intact. Given the emphasis on the analysts at T. Rowe Price, turnover among the analyst team or a change in the analyst structure would likely be even more concerning than a portfolio manager change. With the group of stock pickers remaining intact, we expect continuity in terms of the diversification benefits of the T. Rowe Price strategy when paired with Alger.

While our analysis has led to our decision not to recommend a change in sub-advisors in the Optimum Large-Cap Growth fund after removing the T. Rowe Price Growth Stock fund from the SAM recommended list, it is important to note that we will continue to monitor the fund closely for any shifts in biases that could increase the correlation between the two sub-advisors. Should we observe changes in strategy behavior that could potentially diminish the diversification benefits of this pairing, we would look to change the sub-advisor to ensure a robust combination within the fund. ■

---

### IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for your clients.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Past performance is no guarantee of future results.

This research material has been prepared by LPL Financial.

To the extent you are receiving investment advice from a separately registered independent investment advisor, please note that LPL Financial is not an affiliate of and makes no representation with respect to such entity.

Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit