



BOARD OF RETIREMENT

Staff Report

File #: 22-054.1

Agenda Date: 5/5/2022

Agenda #: 18.

FROM: Don Pierce, Chief Investment Officer

SUBJECT: SSGA MSCI World Ex-USA Strategy Allocation

RECOMMENDATION:

Approve the initial allocation of \$200 million to State Street Global Advisors for the MSCI World ex-USA Index strategy, subject to completion of legal document review.

BACKGROUND:

SBCERA's public equity portfolio has historically utilized a mix of three strategies to manage overall exposure to the asset class - active, passive and overlay strategies. However, the vast majority of SBCERA's international developed ex-USA exposure in recent years has been achieved through two of these strategies (specifically TOBAM AB World ex-USA and the Russell overlay). Staff is recommending the addition of SSGA's passive World ex-USA Index strategy to allow for the efficient use of all three strategies to achieve Board-established allocation targets.

The SSGA MSCI World ex-USA strategy focuses on equity investments in large-cap and mid-cap companies across 22 developed countries excluding the USA. SSGA builds its World ex-USA index strategy in a manner substantially similar to many of its passive index strategies - namely, the firm builds a portfolio focused on achieving benchmark returns by optimizing across two factors: tracking error and transaction costs. The firm constructs the portfolio, evaluates it constantly to assess deviation risk, and monitors performance daily. Transaction costs are minimized given the firm's scale and the ability to source trades via internal liquidity.

As compared to the use of futures in the overlay strategy, SBCERA will benefit from lower tracking error and an attractive fee rate by utilizing the passive SSGA World ex-USA Index strategy. Additionally, the overall addition of this strategy will allow for increased efficiency and manager diversification.

Staff and NEPC recommend the approval of an initial \$200 million allocation to SSGA's MSCI World ex-USA Index strategy.

COMMITTEE REVIEW:

This item was reviewed by the Investment Committee at its April 14, 2022 meeting, and recommends Board approval with a 4-0 vote.

BUDGET IMPACT:

Investment Costs are deducted from Net Asset Value.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Thomas Kim

ATTACHMENTS:

Exhibit A: NEPC Recommendation Memo

Exhibit B: SSGA Presentation