



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 10

MEETING DATE: February 21, 2018

SUBJECT: Proposed Revision to the International Equity Policy Index Benchmark

SUBMITTED FOR: X Consent **Deliberation and Action** **Receive and File**

RECOMMENDATION

Verus and Staff recommend that the Board approve a revised policy index benchmark for the International Equity asset class, the MSCI ACWI ex-US Investable Market Index ('IMI'), replacing the prior policy index benchmark, the MSCI ACWI ex-US Index ('non-IMI').

PURPOSE

To approve a revision to the policy index benchmark for the International Equity asset class structure. The revised policy index benchmark better aligns with the recently approved structure for the International Equity asset class.

DISCUSSION

The SCERS Board approved a revised International Equity structure during the January Board meeting, which is shown below:

Current Structure					Proposed Structure				
	Policy	Benchmark	Allocation	Manager		Policy	Benchmark	Allocation	Manager
ACWI ex US	100.0%	20.0%	21.5%		ACWI ex US IMI	100.0%	20.0%	20.0%	
Lazard				21.5%	Active Manager				20.0%
Dev Growth (EAFE G)		23.0%	21.6%		Dev Growth (EAFE G)		25.0%	25.0%	
Walter scott				21.6%	Active Manager				25.0%
Dev Value (EAFE V)		23.0%	24.4%		Dev Value (EAFE V)		25.0%	25.0%	
LSV				24.4%	Active Manager				25.0%
Dev SC Growth (EAFE SC G)		5.0%	5.8%		Dev SC Growth (EAFE SC G)		5.0%	5.0%	
William Blair Developed SC				5.8%	Active Manager				5.0%
Dev SC Value (EAFE SC V)		5.0%	4.9%		Dev SC Value (EAFE SC V)		5.0%	5.0%	
Mondrian developed SC				4.9%	Active Manager				5.0%
EM (MSCI EM)		19.0%	17.9%		EM (MSCI EM)		20.0%	20.0%	
Baillie Gifford EM				8.4%	Active Managers				20.0%
Modrian EM				6.9%					
Mondrian EM SC				1.2%					
William Blaire EM SC				1.4%					
Intl Reit (FTSE NAREIT dev ex US)		5.0%	3.9%						
CBRE Clarion				3.9%					

With the revised International Equity structure in place, Verus and Staff also recommend a revision to the policy index benchmark for the International Equity asset class to the MSCI ACWI ex-US IMI. SCERS' International Equity asset class has been using the MSCI ACWI ex-US Index as the policy index benchmark since 2008. This index is a good representative benchmark as it captures the global opportunity set outside of the United States, including developed market countries and emerging market countries. It covers companies across 22 of 23 developed markets countries (excluding the United States), and it covers companies across 24 emerging markets countries.

However, the MSCI ACWI ex-US Index only covers 85% of the investable universe, whereas the MSCI ACWI ex-US IMI provides broader coverage across 99% of the investable universe. Therefore, the IMI better represents the investable opportunity set than the non-IMI. Another factor for the change is that the IMI has a lower weighting to emerging markets stocks than the non-IMI, and is closer to the target weight of SCERS' emerging markets equity exposure within the approved International Equity structure. In addition, while both indexes have similar exposure to large capitalization stocks, the IMI goes farther down the small capitalization spectrum than the non-IMI. Outside of these noted differences, the two indexes are very similar across most metrics, including returns, risk, and index characteristics. A comparison of the two indexes is shown within the attachment for this memo.

ATTACHMENTS

MSCI ACWI ex-US Index description fact sheet

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/S/

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Reviewed by:

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Chief Executive Officer

MSCI ACWI EX USA INDEXES (USD)

The MSCI ACWI ex USA Investable Market Index (IMI) includes large, mid and small cap companies and targets coverage of approximately 99% of the global equity opportunity set outside the US. The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States) and 24 Emerging Markets (EM) countries*. The index targets coverage of approximately 85% of the global equity opportunity set outside the US.

CUMULATIVE INDEX PERFORMANCE - NET RETURNS (USD) (MAY 2007 – JAN 2018)



ANNUAL PERFORMANCE (%)

Year	MSCI ACWI ex USA IMI	MSCI ACWI ex USA
2017	27.81	27.19
2016	4.41	4.50
2015	-4.60	-5.66
2014	-3.89	-3.87
2013	15.82	15.29
2012	17.04	16.83
2011	-14.31	-13.71
2010	12.73	11.15
2009	43.60	41.45
2008	-45.99	-45.53

INDEX PERFORMANCE — NET RETURNS (%) (JAN 31, 2018)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED				Since May 31, 2007
					3 Yr	5 Yr	10 Yr		
MSCI ACWI ex USA IMI	5.48	8.94	30.15	5.48	10.39	7.50	3.81	2.94	
MSCI ACWI ex USA	5.57	8.81	29.68	5.57	9.85	7.11	3.44	2.69	

FUNDAMENTALS (JAN 31, 2018)

Div Yld (%)	P/E	P/E Fwd	P/BV
2.62	18.38	14.69	1.80
2.70	17.96	14.46	1.82

INDEX RISK AND RETURN CHARACTERISTICS (MAY 31, 2007 – JAN 31, 2018)

	Beta	Tracking Error (%)	Turnover (%) ¹	ANNUALIZED STD DEV (%) ²			SHARPE RATIO ^{2,3}			Since May 31, 2007	MAXIMUM DRAWDOWN (%)	Period YYYY-MM-DD
				3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr			
MSCI ACWI ex USA IMI	1.00	0.56	2.82	12.23	11.52	18.83	0.82	0.65	0.26	0.20	61.03	2007-10-31—2009-03-09
MSCI ACWI ex USA	1.00	0.00	2.65	12.35	11.61	18.74	0.78	0.61	0.24	0.19	60.83	2007-10-31—2009-03-09

¹ Last 12 months

² Based on monthly net returns data

³ Based on ICE LIBOR 1M

* DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK. EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The MSCI ACWI ex USA Indexes was launched on Jun 05, 2007. Data prior to the launch date is back-tested data (i.e. calculations of how the index might have performed over that time period had the index existed). There are frequently material differences between back-tested performance and actual results. Past performance -- whether actual or back-tested -- is no indication or guarantee of future performance.

INDEX CHARACTERISTICS

	MSCI ACWI ex USA IMI	MSCI ACWI ex USA
Number of Constituents	6,216	1,863
Mkt Cap (USD Millions)		
Index	27,006,071.66	23,132,574.56
Largest	337,784.05	337,784.05
Smallest	10.17	557.56
Average	4,344.61	12,416.84
Median	945.57	5,321.63

TOP 10 CONSTITUENTS

	Country	ACWI ex USA IMI Wt. (%)	ACWI ex USA Wt. (%)	Sector
TENCENT HOLDINGS LI (CN)	CN	1.25	1.46	Info Tech
NESTLE	CH	1.00	1.16	Cons Staples
ALIBABA GROUP HLDG ADR	CN	0.87	1.02	Info Tech
SAMSUNG ELECTRONICS CO	KR	0.84	0.98	Info Tech
TAIWAN SEMICONDUCTOR MFG	TW	0.80	0.93	Info Tech
HSBC HOLDINGS (GB)	GB	0.79	0.93	Financials
NOVARTIS	CH	0.75	0.87	Health Care
TOYOTA MOTOR CORP	JP	0.66	0.77	Cons Discr
ROCHE HOLDING GENUSS	CH	0.64	0.75	Health Care
ROYAL DUTCH SHELL A	GB	0.58	0.68	Energy
Total		8.19	9.56	

SECTOR WEIGHTS (%)

	MSCI ACWI ex USA IMI	MSCI ACWI ex USA
Financials	21.79	23.64
Industrials	12.97	11.90
Consumer Discretionary	11.90	11.29
Information Technology	11.72	11.64
Consumer Staples	8.86	9.25
Materials	8.58	8.19
Health Care	7.51	7.53
Energy	6.21	6.68
Real Estate	4.13	3.15
Telecommunication Services	3.53	3.93
Utilities	2.79	2.80

COUNTRY WEIGHTS (%)

	MSCI ACWI ex USA IMI	MSCI ACWI ex USA
Japan	17.11	16.36
United Kingdom	12.05	11.88
China	7.37	7.85
France	6.76	7.43
Germany	6.44	6.79
Other	50.27	49.69

INDEX METHODOLOGY

The index is based on the [MSCI Global Investable Market Indexes \(GIMI\) Methodology](#)—a comprehensive and consistent approach to index construction that allows for meaningful global views and cross regional comparisons across all market capitalization size, sector and style segments and combinations. This methodology aims to provide exhaustive coverage of the relevant investment opportunity set with a strong emphasis on index liquidity, investability and replicability. The index is reviewed quarterly—in February, May, August and November—with the objective of reflecting change in the underlying equity markets in a timely manner, while limiting undue index turnover. During the May and November semi-annual index reviews, the index is rebalanced and the large, mid and small capitalization cutoff points are recalculated.

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