



Date: January 12, 2022

To: The Retirement Board

Through: Jay Huish
Executive Director

Kurt Braitberg, CFA, CAIA
Interim Chief Investment Officer

From: Han Pham
Director, Public Equity

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Subject: DFA Emerging Markets Core Equity– Recommendation to Terminate

Overview

Investment Staff (“Staff”) is recommending the termination of the DFA (“the Firm”) Emerging Markets Core Equity (“the Strategy” or “EM Core”). Through September 30, 2021, the Strategy has underperformed its benchmark (MSCI EM IMI) for the 3- and 5-year periods (see Appendix A for details). SFERS’ estimated investment in the Strategy is approximately \$155.1 million as of November 30, 2021. DFA EM Core strategy has been “under review” due to performance issues since 2Q2020.

As detailed in the Public Equity Update presented at the April 2021 Retirement Board meeting, Staff shifted its focus several years ago to specialist strategies that can add meaningful alpha. Staff will continue to buildout a portfolio of concentrated high-active share, unconstrained fundamental strategies complemented with innovative diversified quantitative strategies. Staff favors smaller, more nimble firms that have specialty skills, a singular investment focus, and niche strategies. Staff believes that exceptional managers have a unique, significant, and sustainable edge, and a high degree of alignment with investors. DFA Emerging Markets Core Equity is not consistent with Staff’s current plan for the public equity portfolio.

Background

Firm – DFA was founded in 1981 by David Booth, Rex Sinquefield and Larry Klotz. Prior to founding DFA, Mr. Booth, Mr. Sinquefield, and Mr. Klotz had studied under Eugene Fama and Kenneth French, both renowned academics and pioneers in finance. As of September 2021, the Firm managed \$653 billion in over 31 strategies.

Assets – The DFA EM Core Equity Strategy had approximately \$32 billion in assets as of September 30, 2021. The Strategy is currently open to existing clients and strategic relationships.

Investment Team – DFA employs a staff of over 1,400, including 308 investment professionals as of September 30, 2021.

Strategy – The Strategy’s universe focuses on all market cap companies within Emerging Markets and consists of companies with market capitalizations down to \$50 million. Within small and micro-cap names, DFA quantitatively excludes stocks who exhibit low profitability and high relative prices. The Strategy seeks to overweight stocks with smaller market caps, lower relative prices, and higher profitability. The portfolios’ objectives are to capture the returns of the EM asset class while outperforming the benchmark through portfolio design and minimizing trading costs in addition to a consistent style tilt towards the small cap and value premium. The Investment Team targets a broad coverage of eligible securities to achieve diversification across countries and sectors which results in a relatively more diversified portfolio of over 5,500 names.

SFERS Investment in DFA

SFERS invested approximately \$75 million in the DFA Emerging Markets Core strategy in November 2011. Since inception and ending November 30, 2021, there have been \$236 million of additional inflows to the Fund and \$235 million of outflows from the Fund. SFERS’ assets in this Strategy peaked at approximately \$349 million in August 2014.

Performance

The Strategy has underperformed its benchmark (MSCI EM IMI) by 6 basis points on an annualized basis since SFERS’ investment in 2011. Although recent performance YTD has been positive, the Strategy underperformed the benchmark by 3, 50, and 9 basis points over the trailing 3-, 5-, and 7-year periods, respectively. Outperformance has been highly cyclical and more recently has been trending downwards. DFA’s value bias will underperform during periods of strong outperformance of growth, which has been the case for much of the last 10-plus years.

Role in SFERS Portfolio

As noted earlier, the Public Equity portfolio is focused on producing alpha. The portfolio has shifted towards smaller, more nimble firms with a singular or specialty investment focus. Staff believes that DFA does not meet these criteria given their sizeable assets (\$653 billion) and the plethora of strategies that they manage. Staff also believes that the best way to outperform the public equity market is to be different than the market rather than closely tracking a benchmark. The Strategy’s low tracking error (2.9%) since SFERS’ inception indicates that its return profile is quite similar to the benchmark.

Recommendation

Staff is recommending a termination of SFERS’ investment in the DFA Emerging Markets Core Equity Strategy.

Appendix A – Performance Analysis

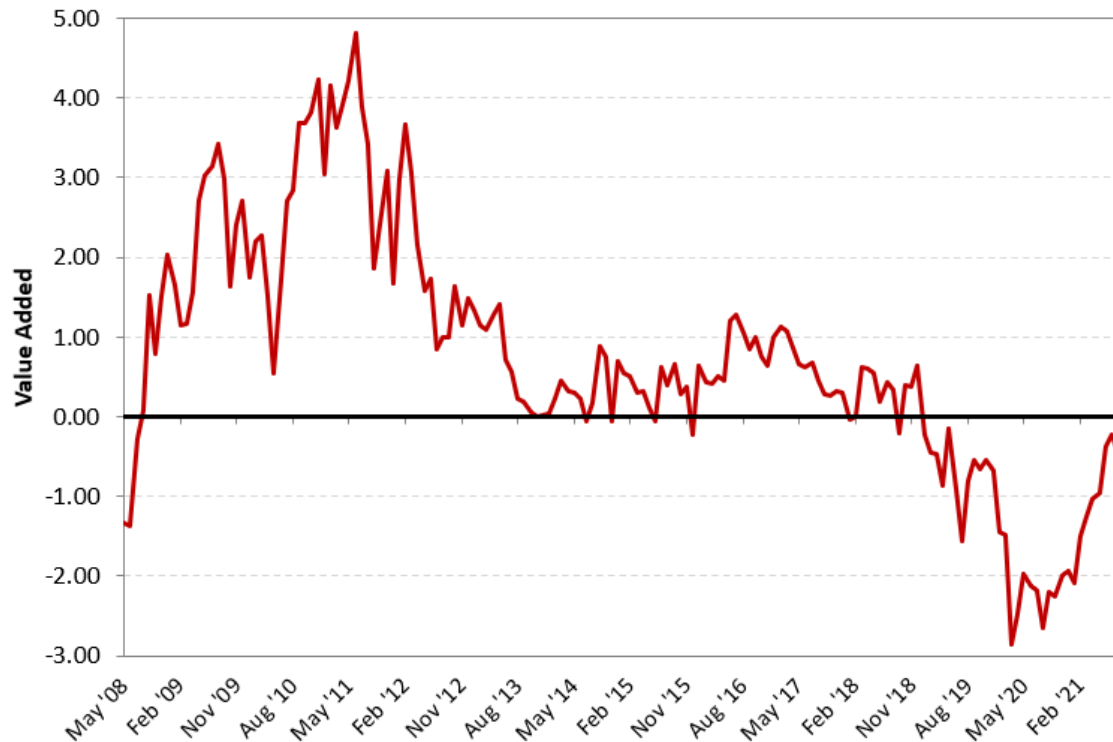
Annual Returns

	9 mos									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
DFA EM Core	4.9	13.9	16.0	-15.3	36.6	12.4	-14.9	-0.9	-2.6	20.5
MSCI EM IMI	0.7	18.4	17.7	-15.0	36.8	9.9	-13.9	-1.8	-2.2	18.7
MSCI ACWI	11.1	16.3	26.6	-9.4	24.0	7.9	-2.4	4.2	22.8	16.1
	2011	2010	2009	2008	2007	2006				
DFA EM Core	-20.3	24.5	85.0	-50.3	38.4	31.9				
MSCI EM IMI	-19.5	19.9	82.4	-53.8	39.8	31.7				
MSCI ACWI	-7.4	12.7	34.6	-42.2	11.7	21.0				

Annualized Returns

	1 Yr	3 Yr	5 Yr	7 Yr	10 Yr	15 Yr
DFA EM Core	27.2	9.1	8.8	5.6	6.4	6.8
MSCI EM IMI	20.8	9.1	9.3	5.7	6.2	5.9
MSCI ACWI	27.5	12.6	13.2	10.0	11.9	7.2
Value Added vs MSCI EM IMI	6.4	0.0	-0.5	-0.1	0.2	0.9
Value Added vs MSCI ACWI	-0.2	-3.5	-4.4	-4.4	-5.5	-0.4

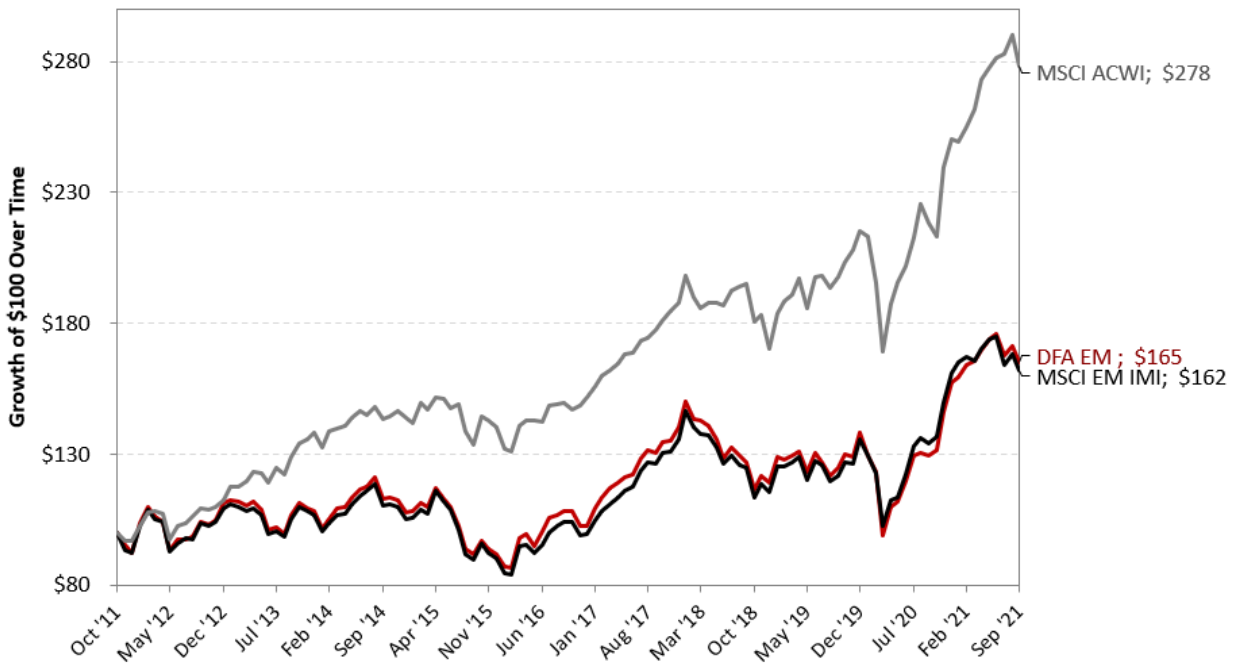
Rolling 3-Year Value Added vs MSCI EM IMI (Since DFA Incept: May 2005 – Sep 2021)



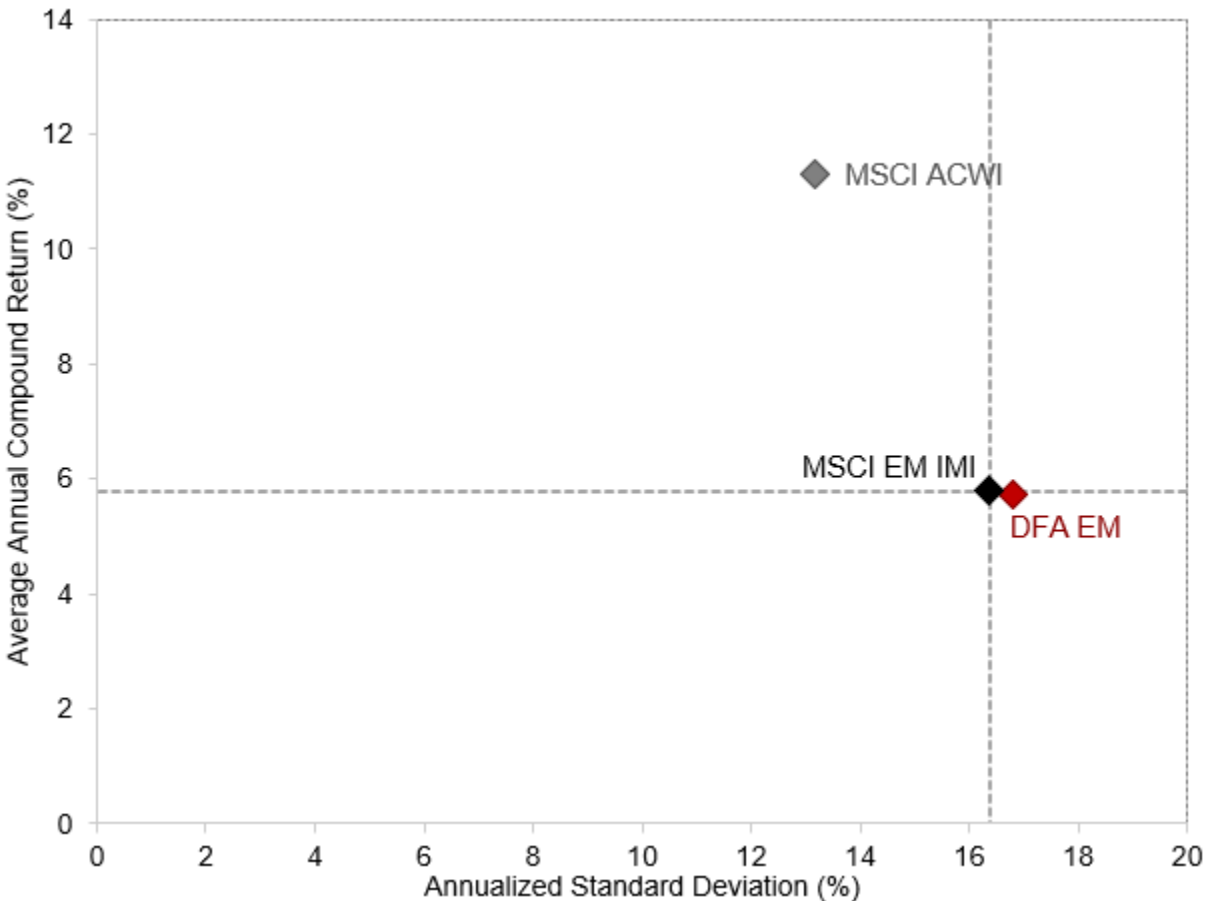
Notes: Prior to SFERS' investment, gross composite level returns are used. All other performance is net of fees.

DFA Emerging Markets Core Equity
Recommendation to Terminate

Cumulative Growth of \$100 (Since SFERS Investment in DFA ending September 2021)



Risk-Return Tradeoff (Since SFERS Investment in DFA ending September 2021)



Notes: Prior to SFERS' investment, gross composite level returns are used. All other performance is net of fees.