

2015 Update on HB 2287 Cost Estimates

March 11, 2015

Iran Divestment:

- Additional administrative costs for subscriptions to third party research services are estimated at \$7,500 for MSCI and \$12,500 for IW Financial (first year; quarterly screening in subsequent years \$8,000) = \$20,000/year
- Investment staff time will increase to 0.25 FTE Investment Analyst and 0.25 FTE Investment Officer
- Annual transactions costs for sale of “scrutinized companies” and reinvestment in other holdings is estimated at 5 to 6 basis points for the international equity portfolio. (On a current market value of \$4.3 billion, this translates to \$2.2 to \$2.6 million per year.)
- Annual tracking error costs are estimated at an *additional* 5 basis points of the market value of the international equity portfolio. (On a current market value of \$4.3 billion, this translates to \$2.2 million per year.) This is in addition to the tracking error costs already created by the statutory Sudan divestment requirements.
- An initial review of the Retirement System’s investment holdings that would be subject to divestment under HB 2278 indicates that companies subject to divestment under HB 2278 would include (but not be limited to): Royal Dutch Shell PLC; Total SA; and Toyota Corp. As of January 31, 2015, the System’s investments in these three companies had a market value of \$68.588 million. Royal Dutch and Toyota are two of the largest holdings in the MSCI ACWI ex USA Index, with weightings of 0.98% and 0.75% (as of 12/31/14). Requirements to divest some of the largest holdings in the benchmark results in significant investment opportunity costs for the Retirement System.

Sudan Divestment:

- Projected administrative costs for subscriptions to third party research services are \$2,500 for EIRIS/CRN and \$20,915 for MSCI = \$23,415/year
- Investment staff time currently estimated at 0.25 FTE Investment Analyst
- Annual transactions costs for sale of “scrutinized companies” and reinvestment in other holdings is estimated at 5 to 6 basis points of the market value of the international equity portfolio. (On a current market value of \$4.3 billion, this translates to \$2.2 to \$2.6 million per year.)
- Annual tracking error costs are estimated at 30 to 50 basis points of the market value of the international equity portfolio. (On a current market value of \$4.3 billion, this translates to \$12.9 to \$21.5 million per year.)



Combined Iran and Sudan Divestment

- Total administrative costs for subscriptions to third party research services are estimated at \$43,415 per year (EIRIS/CRN and MSCI for Sudan; MSCI and IW Financial for Iran).
- Total investment staff time is estimated at 0.25 FTE Investment Analyst and 0.25 FTE Investment Officer (does not include review time by CIO/ED/Board members).
- Transactions costs for sale of “scrutinized companies” and reinvestment in other holdings are estimated at 10 to 12 basis points of the market value of the international equity portfolio. (On a current market value of \$4.3 billion, this translates to \$4.3 million to \$5.2 million per year.)
- Total tracking error costs are estimated at 35 to 55 basis points of the market value of the international equity portfolio. (On a current market value of \$4.3 billion, this translates to \$15.1 million to \$23.7 million per year.)
- The combined estimated transactions costs and tracking error costs for the international equity portfolio alone related to Iran and Sudan divestment requirements are \$19.4 to \$28.9 million per year.