

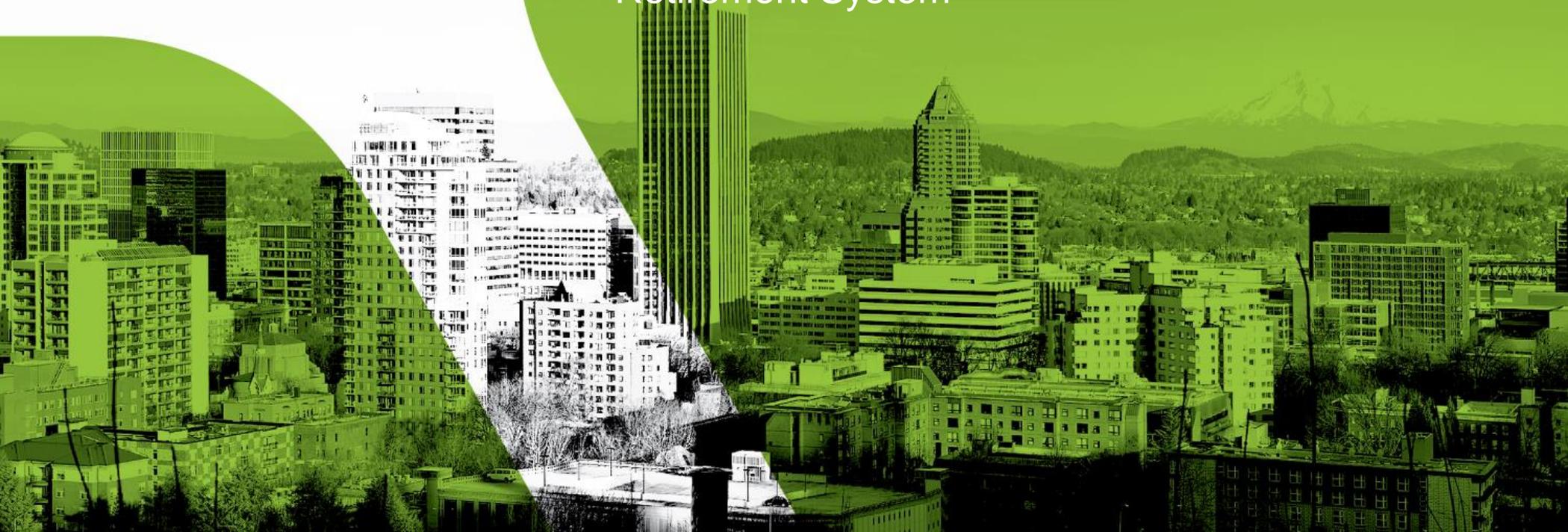
October 25, 2023



Investments in China Discussion

Part 2

Santa Barbara County Employees'
Retirement System



Introduction

- At the September 2023 meeting, a panel provided education on investing in China.
 - The panel was moderated by Wellington (current emerging market debt manager) with representation from SBCERS' two active emerging market equity managers (DFA and RBC).
- Following the education, SBCERS' Staff and RVK initiated a discussion including insights on China divestment.
- SBCERS exposure to China as of 06/30/2023:
 - Portfolio exposure within the Developed Non-US Equity and Emerging Markets Equity Composites was only 1.78% of the Total Fund.
 - SBCERS does not have any passively managed Developed Non-US Equity or Emerging Markets Equity managers.
 - SBCERS has exposure to China both in public markets (Emerging Markets Debt, Real Return), and private markets (Private Debt, Private Real Return, Private Real Estate and Private Equity).

Further Discussion on China Divestment

- As a follow-up to the discussion in September, Staff and RVK were directed to prepare a summary of the steps necessary should the Board decide to divest the SBCERS portfolio from Chinese investments.
- The following slides summarize the high-level steps that would be required, in line with Fiduciary best practices, to divest the SBCERS portfolio from China.
- An estimated timeline for implementation has also been included.
 - It is important to note that should the Board vote to divest from China and this sample implementation plan is initiated, all other current work plan items would need to be reevaluated and likely placed on hold.

Steps Required to Divest

- 1. Define the Degree of Divestment. This would require further education and conversations between Board, Staff and RVK. (January – March 2024)**
 - All Chinese investments (mainland China, Hong Kong?)
 - Only companies controlled by the Chinese government
 - Companies that derive a substantial portion of their revenue and/or supply chain from China (e.g., Apple)
 - Only companies that do military or intelligence work for the Chinese government
 - Debt securities issued by corporate and government entities from China
 - All emerging market equity and or/ emerging market debt
 - Other?
- 2. Define process to address the possibility other countries, sectors, or securities are suggested for divestment from the portfolio.**
- 3. Review the Investment Policy Statement to determine necessary changes. (April – May 2024)**
 - Governance
 - Role and responsibilities
 - Public market investment guidelines
 - Private market investment guidelines

Steps Required to Divest

4. Revise Capital Market Assumptions where necessary. (June 2024)

- Standard RVK assumptions would need to be customized to reflect the omission of China from the available investment universe.

5. Complete an Asset Allocation Study. (June 2024)

- An asset allocation study would need to be conducted, incorporating the updated custom capital market assumptions and any IPS edits that reflect the Board's decisions to evaluate potential options for re-allocating based on the Board's decision to divest.
- Would also need to determine the impact on the expected return and ability to meet the 7% actuarial target.

6. Complete Asset Class Structure Studies for the following affected asset classes. (July – December 2024)

- Developed Market Non-U.S. Equity
- Emerging Market Equity
- Non-Core Fixed Income (public & private)
- Real Return (public & private)
- Real Estate
- Private Equity

7. Address any potential contract changes and guideline changes with Hamilton Lane for discretionary management, if necessary. (July – December 2024)

Steps Required to Divest

8. **Manager search and selection where necessary, based on Board decision regarding Asset Allocation and Manager Structure Studies. (January – June 2025)**
9. **Contract review and execution as necessary based on Manager Search and Selection Process. (July – December 2025)**
10. **Build out work plan to prioritize steps necessary for implementation. (July – December 2025)**
11. **Complete a transition manager bid and selection process. (July – December 2025)**
 - A consideration in this process would be whether SBCERS would need to implement custom “ex-China” benchmarks or stick with standard benchmarks and be comfortable with higher levels of tracking error.
12. **Begin implementation based on mutually agreed upon work plan. (January 2026)**

Current Equity Portfolio Exposure

	Market Value	% of Exposure to China
Total Fund	\$4,094,805,534.96	1.78%
Developed Non-US Equity Composite	\$411,572,165.42	1.01%
PanAgora Dynamic International Equity (SA)	\$212,818,724.57	0.09%
Artisan Non-US Growth (SA)	\$141,560,053.59	1.96%
Acadian Non-US Small Cap Equity (CF)	\$56,422,345.69	2.16%
Emerging Markets Equity Composite	\$259,499,710.45	26.48%
DFA Emg Mkts Value;I (DFEVX)	\$128,941,579.45	25.86%
RBC Emerging Markets Equity (CF)	\$130,558,131.00	27.08%

- **SBCERS also has exposure to China in:**
 - Public markets (Non-Core Fixed Income, Public Real Return), and
 - Private markets (Private Debt, Private Real Return, Private Real Estate and Private Equity).

Data shown is as of 06/30/2023. The % shown are estimated based on a review of the underlying fund holdings and/or data provided by the investment managers. Composite market values include residual assets from terminated managers.

PORTLAND

BOISE

CHICAGO

NEW YORK

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