

# SBCERS

Santa Barbara County Employees' Retirement System

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**DATE:** September 27, 2023

**TO:** SBCERS BOARD OF RETIREMENT

**FROM:** SBCERS Investment Staff

**RE:** **China Equity Discussion with Insights on Divestment**

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## **Recommendation**

That the Board of Retirement receive and file the educational presentation on China Equity Discussion with insights on divestment by Principals and Co-Lead Consultants Marcia Beard and Matthias Bauer, CFA of RVK, Inc.

## **Summary**

The presentation will summarize the Public Equity in China review conducted by RVK. The review includes a summary of merits and risk associated with Public Equity in China. The presentation will also cover forward-looking assumptions and the potential returns of this subset of the investable universe.

Public Equity in China represents less than 4% of MSCI ACWI Index, which is where constituents are weighted based on total market value of their outstanding equity investments. Compared to China representing 20% of MSCI ACWI GDP-weighted.

China is 30% of MSCI Emerging Market Index, which has fluctuated in recent years, increasing with the introduction of A-shares, but decreasing with market declines. By comparison, the next largest Emerging Market economies with investable equities would be Taiwan and India, both representing 15% of total market.

Unlike some other Emerging Market Equities, Chinese equities face additional headwinds of business prohibitions, investment restrictions and tariffs based on the geo-political landscape. The most notable business prohibition, Huawei Technologies has been banned from doing business with the U.S. in response to a warning issued by the Director of the FBI that was based on national security concerns.

Compared to both the market cap and GDP representation of China, SBCERS has low exposure to Chinese Equities at 1.78%. All of SBCERS current exposure to China comes through active managers: RBC, DFA, Acadian, Artisan and PanAgora (listed in descending order).

## **Attachments**

- 2023-09 China Equity Discussion (Final)