

6 OCT 2023 Muskan Arora

## Santa Barbara mulls removal of China exposure

- Currently \$73m in China equity across five managers
- Most exposure is in emerging markets
- May switch from commingled to separate accounts

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The \$4.1bn Santa Barbara County Employees Retirement System could remove exposure to China across its international equity portfolio, which may open the door for new managers.

The system currently has \$73m of exposure to China in public equities, through five funds.

Consultant RVK will present the board with recommendations on the divestment of Chinese equity at the December board meeting.

RVK advised focusing on the two funds with the most exposure first: Emerging markets managers DFA and RBC, who manage \$68m combined.

The DFA fund is a mutual fund, and the RBC fund is commingled, which would necessitate finding replacement funds or moving to separate accounts.

“If it’s a commingled fund, we cannot dictate the strategy and our only choice would be to exit the fund,” said a board member at the September meeting.

The total developed non-US equity portfolio sits at 10% or \$411m, against a target of 11% or \$453m, as of August 31. The EM equity sleeve sits at 6.2% or \$257m against a target of 7% or \$289m.

## SBCERA's Chinese exposure through public equity portfolio

Source: With Intelligence | data as of June 30

The board is eager to divest from China, while RVK is more open to maintaining exposure.

“The FBI is labelling investments in the region as an existential threat to the United States,” said board member Ted Sten, at the meeting.

Meanwhile, RVK highlighted that the Chinese equity divestment would reduce the opportunity set, impacting the reliability outcome, and believes that exposure should include as many countries possible.

Traditionally the largest bucket of investment in the emerging markets space, China’s ongoing geo-political tensions and changes in the legislation have other investors monitoring the space as well.

The eliminated it \$1.2bn EM portfolio in August due to these risks, with RVK again consulting.

The system next meets on October 10.