



*Investment Program*

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## PUBLIC EQUITY CHINA EXPOSURE

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### San Jose Federated City Employees' Retirement System

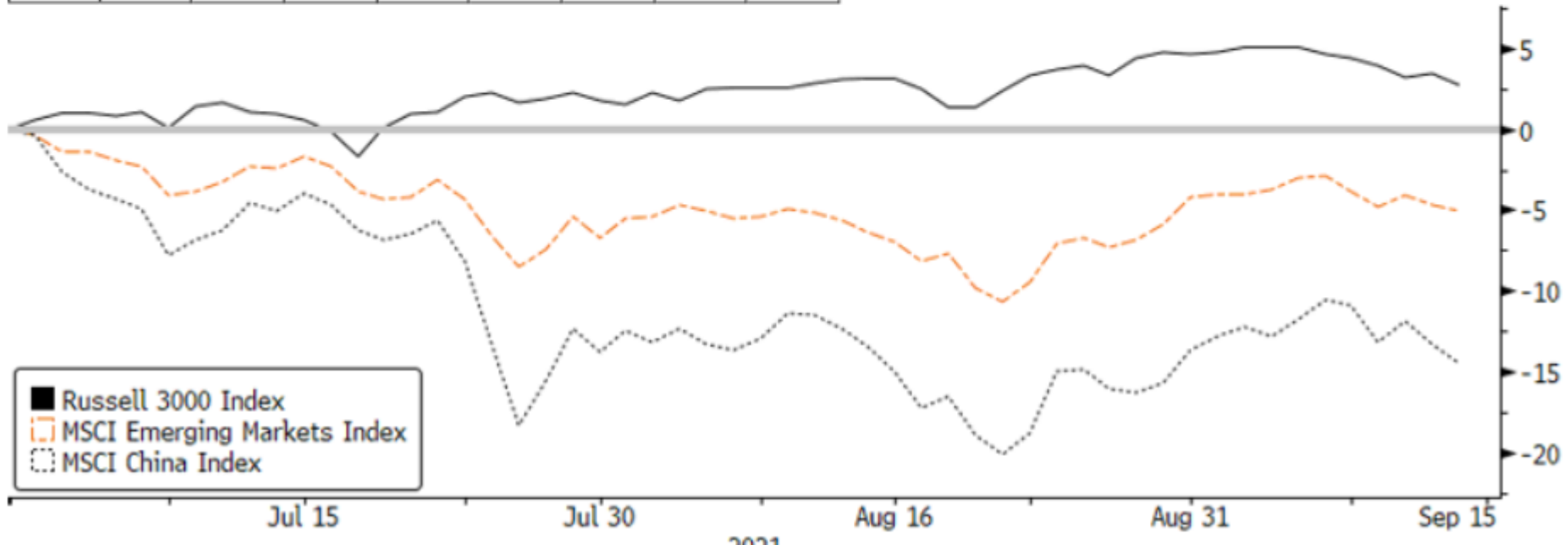
# China Exposure Implied by Asset Allocation Target

	Federated Retirement Plan (%)
<i>Split between Growth/Income &amp; Diversification</i>	75/25
<b>Growth</b>	<b>75</b>
US Equity	25
Dev. Market Equity (non-US)	12
Emerging Market Equity	12
China Equity	4.1
Buyouts	8
Venture Capital	4
Private Debt	3
Private Real Estate	3
Private Real Assets	3
Emerging Market Bonds	3
High Yield Bonds	2
<b>Low Beta</b>	<b>8</b>
Absolute Return	3
Cash Equivalents (Immunized CFs)	5
<b>Other</b>	<b>17</b>
Core Real Estate	5
Commodities	0
TIPS	2
Investment Grade Bonds	8
Long-term Govt Bonds	2
<i>Meketa Expected Return (10 years)</i>	6.3
<i>Meketa Expected Return (20 years)</i>	7.1
<i>Verus Standard Deviation</i>	12.7

# YTD Returns Dispersion

Range		06/30/2021 - 09/14/2021		Period	Daily		No. of Period		76 Day(s)		Table
Security	Currency	Price Change	Total Return	Difference	Annual Eq						
1) RAY Index	USD	2.45%	2.73%	7.78%	13.81%						
2) MXEF Index	USD	-5.71%	-5.05%	--	-22.04%						
3) MXCN Index	HKD	-15.04%	-14.57%	-9.51%	-53.05%						
4)											
5)											
6)											

1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y



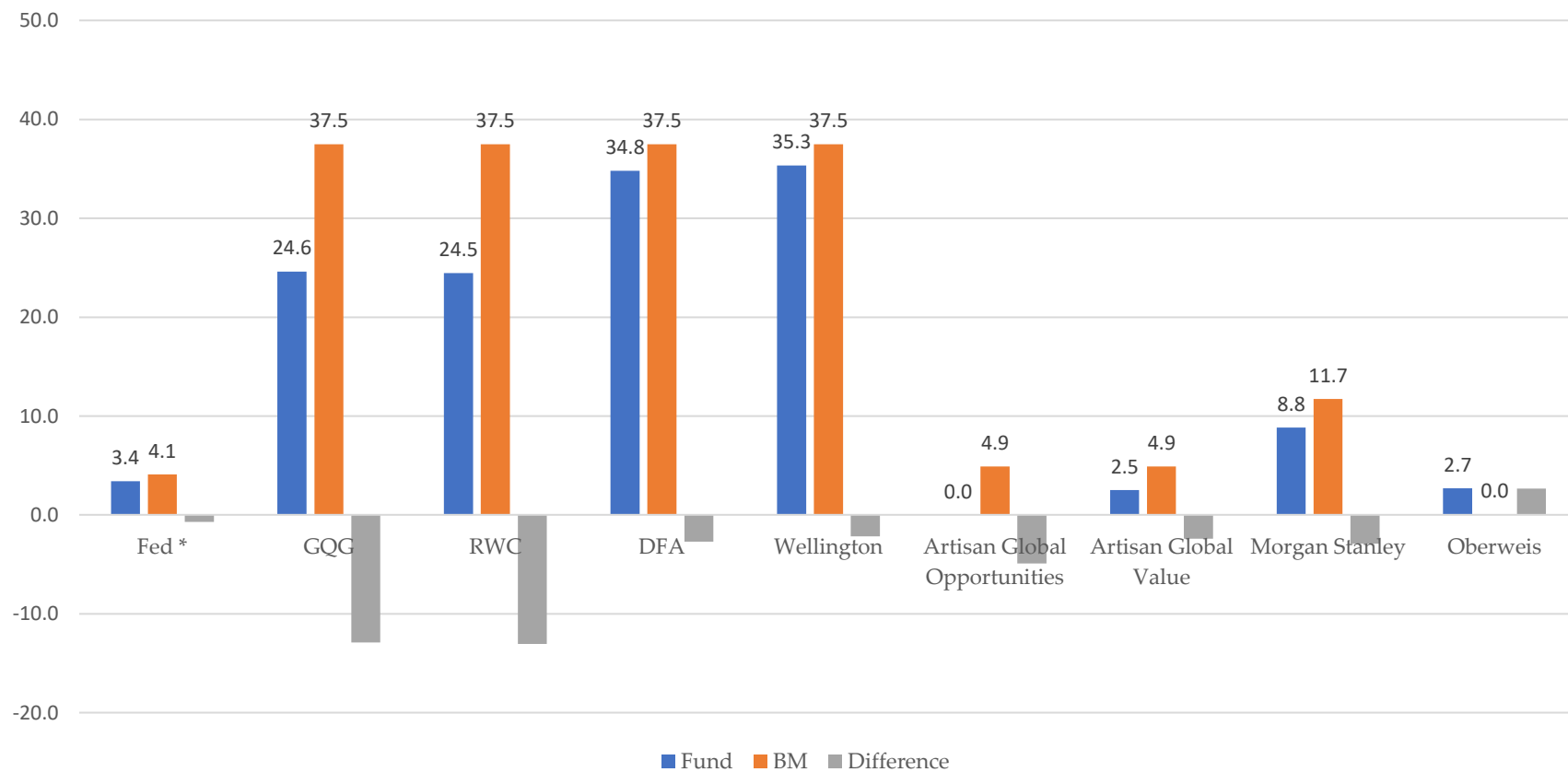
# A Series of Macro Events

Strong headwinds against Chinese companies especially US listed ADRs

- US issued Chinese Military Companies Sanctions which prohibits investments into US listed companies including large China Telecom and Utilities companies
- Suspension of Ant Financial dual listing in Hong Kong and Shanghai
- Beijing antitrust investigations into large Tech companies including Alibaba and Tencent
- Cybersecurity review and block of Didi apps after its low-profile US IPO
- Overhaul to the education sector which bans such firms from making profits, raising capital or going public
- Plans to regulate the property management sector
- “Common Prosperity”
- Regulatory overhaul to the casino business in Macau

# Manager Reaction to Recent Events

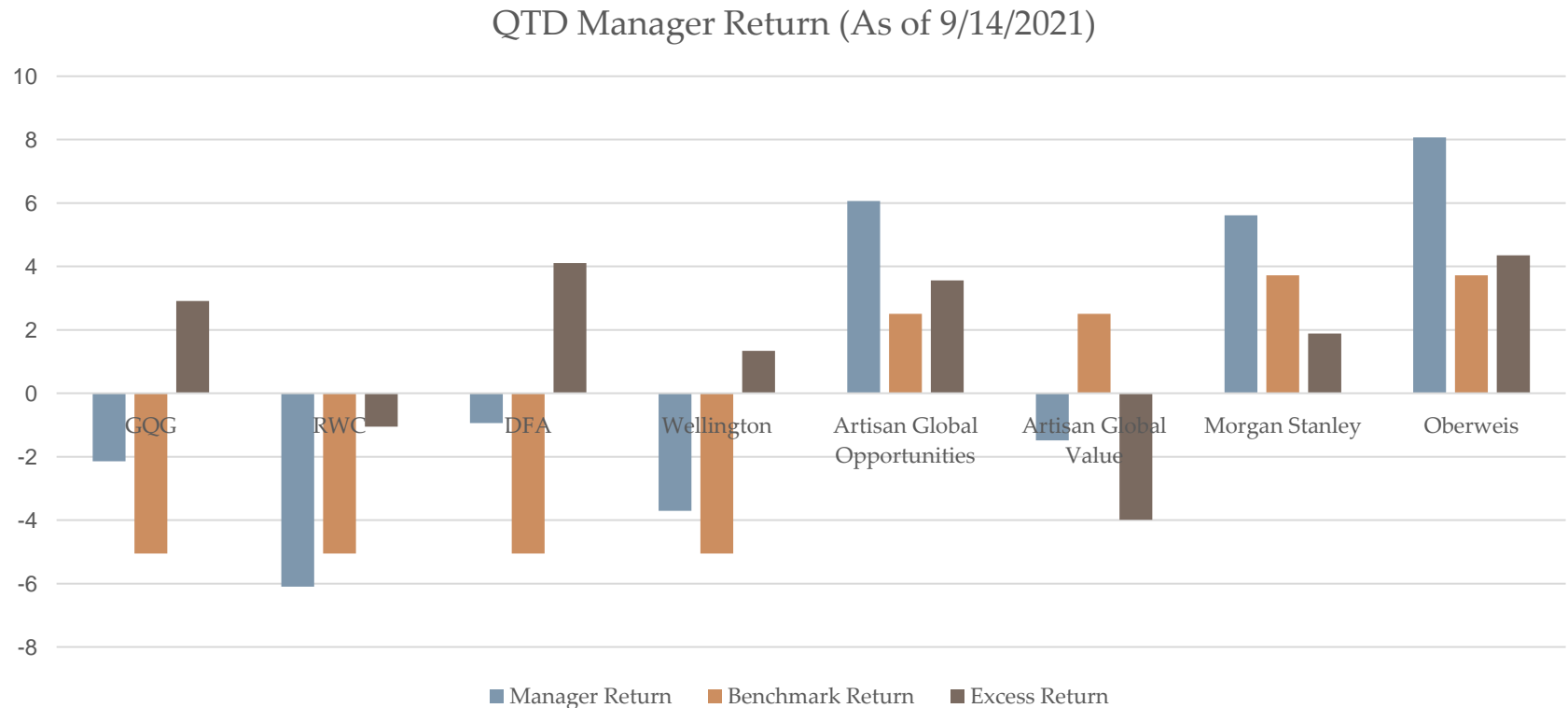
Exposure to China by Fund and Manager (6/30/2021)



# Manager Trading Activities

- Significant reduction in China: GQG, RWC, Artisan Global Opportunities
  - GQG exited education sector in May. Sold TAL and EDU. Maintain underweight in China and find opportunities elsewhere, such as in Brazil.
  - RWC significantly underweight in China, especially in sectors such as healthcare, property and education which are facing policy headwinds. Exited EDU in April.
  - Artisan Global Opportunities had no China exposure as of June 2021.
- Maintain underweight: Wellington, DFA
  - When facing policy headwinds or big changes in the industry, DFA will disable the financial inputs
- Evaluating the situation: Artisan Global Value
  - Artisan Global Value bought a large cap Tech name last quarter. They are evaluating the situation and believe this is an opportunity to own quality business at attractive valuation.

# QTD Manager Returns



- Majority of the managers outperformed their respective benchmark QTD
- Artisan Global Value and RWC underperformed its benchmarks

# Outlook and Plan of Action

Sectors that are negatively impacted	Sectors that may possibly benefit	Staff Recommendation
<p>Mega Cap and Large Cap companies that are not state owned</p> <p>Technology and platform companies</p> <p>Education sector</p> <p>Companies with significant foreign capital backing</p> <p>US listed ADRs</p>	<p>Small or mid cap companies</p> <p>Semi-conductor and AI</p> <p>Clean energy and EV</p>	<p>The paramount risk in China is not company specific, rather it is macro political risk beyond the capability of any financial model. It is unclear how far this regulatory clampdown will go. It is unlikely that the government will kill the large Tech platforms. Investor interest is never on the priority list of the government. Deterioration of the relationship between US and China will likely exacerbate the regulatory environment.</p> <p>In general, agree with managers' decision to underweight China.</p> <p>Continue to closely monitor managers' exposure to Chinese companies as well as companies with significant exposure to China</p>