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Details on U.S. Executive Order to ban Investments in China

- The Biden administration recently announced they would be gearing up to enforce restrictions on investments within three distinct technology sectors operated by Chinese companies:
    - Semiconductors
    - Quantum Computing
    - Artificial Intelligence
- This move underscores Washington's ongoing efforts to impede Beijing's strides in advancing state-of-the-art technology with potential military applications
    - For example, in 2022, the Biden Administration restricted exports of advanced semiconductors and chip-manufacturing equipment to China
- The executive order would prohibit new investments and require Americans doing business in China to inform the U.S. government about investments. Investors that violate these rules may face fines and be forced to liquidate their holdings
    - U.S. investment into China has helped drive the country's economic development, but investment dollars began to retreat last year in anticipation of a more restrictive stance by Washington
        - Direct U.S. investment into China hit a 20 year low of $8B in 2022 according to the Rhodium Group
        - US VC investment also hit a 10 year low of $1.3B in 2022 according to the Rhodium Group
- Furthermore, the U.S. has been proactively urging its allies across Europe and Asia to adopt similar measures and restrict investment flows into China.
- **The executive order would not take effect for at least a year, and there will be a public feedback period so businesses and other groups can weigh in on the rules before finalized**

Private Market Thoughts/Comments

- From our approved managers and clients' standpoint, the vast majority (if not all) of existing exposure is through venture capital funds. Based on the guidance provided, existing investments are not impacted, and it is unlikely anybody would be forced to divest.
- However, the potential buyer universe becomes more limited if U.S.-based investors (and potentially European and Asian investors if they were to join) can no longer invest. As such, those companies may be sold at potentially lower valuations (given scarcity of capital) or may not be able to find future funding.
- The structure of funds should also be protective for clients and we do not believe that clients would have any liability for exposure through a fund (although no legal determination has been formally provided).
- We do not believe any approved funds will be significantly impacted by the proposed executive order but will continue to monitor the situation and keep our clients informed of any material developments
    - The three funds/firms most likely to have (albeit limited) exposure would be:
        - TrueBridge – has been about 10% into Asia VC in prior funds via Sequoia China and Gaurang
        - Cornell Capital – has a lot of experience and leverages supply chain and logistics; this has shifted more toward Korea and away from China in recent years
        - Harbourvest – globally diversified nature of their program will lead to some exposure

Disclosures