Retirement News Highlights

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Table of Contents

Maryland comptroller calls on state's $68.5B pension fund to divest from Russian entities

By Holden Wilen
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State Comptroller Peter Franchot is calling on Maryland's $68.5 billion pension fund to divest from Russian entities due to the country's invasion of Ukraine and the negative impact from economic sanctions by the Biden administration.

"Given the justified sanctions that the United States and other nations have imposed on Russia in response to its unjustified violent invasion of Ukraine, it would not only be financially unwise to maintain any assets tied to Russian entities, but it would continue to embolden a brutal dictator and the legion of oligarchs who have turned a blind eye to a regime defined by fear, violence, and antidemocratic values," Franchot wrote in a letter to the Maryland State Retirement and Pension System on Monday.

Franchot, a Democrat running for governor in this year's election, serves as chairman of the pension system's board of trustees. He described the risks of investing in Russian entities as "untenable."

"So long as the current conflict exists, it is my hope that our fund managers would not make prospective investments in Russian entities," Franchot said. "Our pension system's continued investments in hundreds of millions of dollars in Russian assets are contrary to our values and — as previously noted — are not in the best interest of the financial health of our retirement funds."

Maryland's pension system held $197 million in market value in Russian entities mostly through stocks as of Feb. 18, according to an email by Chief Investment Officer Andy Palmer to the pension system board. The state had about $90 million of holdings in six companies directly impacted by sanctions, according to the Feb. 27 email.

The pension system's staff is in contact with fund managers to understand how they plan on proceeding, Palmer said. The agency is also working to understand how the sanctions will impact asset values for the affected companies. Some of the holdings are in passive accounts and the positions are determined by benchmark construction, Palmer said.

"Many of the sanctions are targeted to financial companies which, because of their leveraged nature, are very sensitive to potential credit losses and loss of liquidity," Palmer said.

Palmer also noted in his email the "small weight of Russia" in Maryland's investment portfolio and called it a "testament to the broad diversification strategy the board has adopted."

"We tend to focus on these instances of heightened risk in one portion of the portfolio but miss the positive impact other exposures bring. For example, the System's weight in Brazilian stocks is nearly double the size of Russia," Palmer said, adding that Brazilian stock market is up 18% year to date.

In Franchot's view, the state can do better by divesting from Russia altogether and investing its money elsewhere.

"Surely, our talented investment staff and fund managers can identify other investment opportunities that align with our values and yield better returns and dividends for the pension funds of our employees and retirees," he said. "I sincerely hope they do so immediately."

This isn't the first time Franchot has called on the state's pension system to divest from certain entities. In 2019 he called on the agency to divest from companies based in Alabama as a result of the state's "radical" new law that criminalized almost all abortions.

Back to top

U.S. Pensions' Russian Exposure Moves Into Spotlight As Sanctions Increase

By Gar Chung
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U.S. pension plans are being called on to review the Russian exposure within their investment portfolios as federal mandates sanctioning Russian financial institutions continue to expand.

President Biden's administration today announced sanctions against Russia's central bank after the U.S. and allies announced measures over the weekend that have resulted in a drop of the Russian ruble and a more than doubling of the county's benchmark interest rate.

"Much more of the world is economically linked. And so, the potential to have nonmilitary responses be effective is much higher. Whether they will be or not is not clear. What is clear is certainly holdings in Russian equities and fixed-income will be damaged not only because people will not be able to sell them or buy them, but there will be legislative action," said Allan Martin, partner at general investment consultant NEPC, during a discussion with the Ventura County (Calif.) Employees Retirement Association at today's board meeting, according to live video.

Legislative action has already been initiated in New York and Illinois, with New York State Gov. Kathy Hochul signing an executive order on Sunday forbidding state agencies from doing business with Russia and divesting money and assets from companies or institutions aiding Russia.

The New York State Teachers Retirement System had approximately $125 million in exposure to investments in Russia as of Feb. 25, or less than 0.1% of the system's total assets, according to a spokeswoman. The plan is closely monitoring its portfolio to ensure compliance with all Office of Foreign Assets Control sanctions and directives, she added.

The New York State Common Retirement Fund did not respond to an e-mail seeking comment on the executive order or its exposure to Russia by press time.

Rhode Island Treasurer Seth Magaziner said today that he has called for the Employees Retirement System of Rhode Island to "responsibly liquidate" all pension fund investments in Russian stocks and bonds." The plan will have a special meeting on Wednesday to discuss liquidating the funds, a spokesman said, in an e-mail.

New York City Comptroller Brad Lander will bring specific assets to the trustees of New York City Retirement Systems' five pension funds to consider for divestment, according to a statement issued today.

"The White House is beginning the process of identifying the assets of sanctioned individuals and companies that support and enable Putin's actions. Following an analysis of the funds' holdings against that list and legal review, I plan to bring specific assets to the trustees of the five boards of the New York City Retirement Systems to consider for divestment," he said, in a statement, noting that all decisions, including potential divestment of Russian assets, are made separately by each of the five pension plan boards.

Pennsylvania State Senator Sharif Street said last week he would introduce legislation to require the Pennsylvania Public School Employees Retirement System, Pennsylvania State Employees Retirement System, Pennsylvania Municipal Retirement System and Pennsylvania Treasury to divest investments in companies doing business with Russia and House Majority Leader Kerry Benninghoff said today he will be introducing legislation todivest state holdings.

"The Commonwealth's public funds represent a substantial amount of investment power. We have a moral obligation to ensure that our public fund investments are not inadvertently supporting those who are engaging in an unprovoked invasion of their democratically elected neighbors," he said, in a statement.

The treasury has begun divesting its holdings in all Russian-backed companies, State Treasurer Stacy Garrity said, in a statement.

A spokesman for the $70.8 billion public school employees plan said the "Investment Office has been examining the System's portfolio holdings as it relates to exposure to Russia and Ukraine. There is no further comment at this time."

The two other state pension funds did not respond to e-mails seeking comment by press time.

Illinois legislators are also planning to file legislation requiring the state to divest from Russian companies, according to reports.

“We must send a strong signal to these people that we stand with them and support their sovereignty – that the State of Illinois is prepared to do what we can to help. Soon, I will introduce legislation to divest Illinois of any pension funds in Russian Companies and prohibit the state’s treasury from holding any Russian assets,” Illinois House Republican Leader Jim Durkin announced last week.

The State Universities Retirement System of Illinois is currently working to compile information on its exposure to Russian holdings, according to a plan spokeswoman, who said in an e-mail that the plan has no information regarding potential divestment.

The Teachers’ Retirement System of Illinois, Illinois State Board of Investment and Illinois Municipal Retirement Fund did not immediately respond to e-mails seeking comment on any internal discussions regarding divestment or their current exposure to Russia.

The Maryland State Retirement & Pension System had a total Russian position of $96 million as of the close of business on Feb. 24, down from $197 million earlier in the month.

“Staff is in contact with the managers holding the largest positions to understand how they plan on proceeding. We are also working to understand the sanction mechanisms and how they are likely to impact asset values for affected companies. Some of the holdings are in passive accounts and the positions are determined by benchmark construction,” CIO Andrew Palmer wrote in an update to trustees over the weekend. “Many of the sanctions are targeted to financial companies which, because of their leveraged nature, are very sensitive to potential credit losses and loss of liquidity. As of January 31, Russia comprised approximately 3.3% of the MSCI Emerging Markets Index and about 0.35% of the System’s benchmark. Staff is engaged with MSCI to learn how index inclusion will adapt to these changing conditions.”

The $195 billion Florida State Board of Administration has approximately $300 million in Russian domiciled investments, Spokesman Dennis MacKee said, in an e-mail.

“As a matter of policy, we don’t make forward looking statements regarding investment decisions of any kind. However, we do comply with applicable laws and any sanctions required by the U.S. government. We are in discussions with our managers and in the process of evaluating the ever-evolving regulatory and economic landscape regarding any holdings in Russia and will adjust our holdings accordingly,” he said.

The California Public Employees’ Retirement System has approximately $900 million in exposure to Russian companies, a spokeswoman told FIN News last week, in an e-mail.

Some pensions have already begun to take divestment action.

The $61 billion Colorado Public Employees Retirement Association is divesting its $7.2million exposure in Sberbank, a spokesman said. The move came aft er a request from Gov. Polis on Feb. 24.

“U.S. sanctions remain fluid and include a combination of freezing assets, divesting of assets and not investing additional funds in Russian assets. PERA is reviewing and preparing to implement the federal mandates within the required time specifications. As of February 24,PERA has $8 million in total invested in Sberbank, OGK-2, Gazprom, Mosenergo, and Rosneft Oil. As of 2/21/2022 PERA’s portfolio (preliminary and unaudited) is $61,004,000,000,” the spokesman said, in an e-mail.

Back to top