Retirement News Highlights

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State Pension System Divests of Many Assets in Russia, But $28 Million Remains

By Elizabeth Shwe
Maryland Matters
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The Joint Commission on Pensions met on Thursday afternoon to better understand the types of holdings the state has in Russia and to discuss next steps "to make sure that Maryland is not contributing to an international crisis," said Sen. Sarah Elfreth (D-Anne Arundel), co-chair of the committee. Screenshot.

Maryland's State Retirement and Pension System currently holds $28 million in Russian stocks and bonds, but state officials told the legislature's Joint Committee on Pensions on Thursday that they are working hard to divest from Russia entirely.

This is a significant decrease from the market value of $197 million that Maryland had invested in Russia at the start of February, which at the time represented about 0.33% of the state's portfolio, according to Martin Noven, executive director of the State Retirement Agency.

But through divestment and devaluation of investments, the investment value decreased to $32 million within the last month.

By the end of the 21-minute committee meeting, that value had dwindled to $28 million, according to the Department of Legislative Services.

"We've been working hard to divest from the entire portfolio," Noven said.

Since Russia launched a military invasion in Ukraine last week, numerous state governments, including California, Colorado, New York and Ohio, have started pulling investments from Russian companies to condemn the country for invading another sovereign nation.

Although divestments imposed by U.S. states pale in comparison to national sanctions, such actions from state leaders offer a signal of solidarity with Ukraine.

The Joint Committee on Pensions met briefly Thursday afternoon, before regularly scheduled committee meetings, to better understand the state's holdings in Russia and to discuss next steps "to make sure that Maryland is not contributing to an international crisis," said Sen. Sarah K. Elfreth (D-Anne Arundel), a co-chair of the committee.

"It's hard to remember or recall a time when the world's financial markets have acted so quickly…to condemn this unprovoked invasion," said Del. Brooke E. Lierman (D-Baltimore City), the other committee co-chair.

Before the meeting, Gov. Lawrence J. Hogan Jr. (R) and Comptroller Peter V.R. Franchot (D) had called on the state's pension system to divest from Russian entities. Franchot is one of 10 Democratic candidates for governor and is the chair of the pension system's board of trustees.

Of the $35 million of assets the state has in Russia, Maryland directly owns $7 million, according to Noven. This includes $600,000 in companies that have been sanctioned, which the pension system is trying to divest from, its spokesman Michael Golden said.

Maryland's pension system invests in companies that have relationships with companies in Russia, said Andrew C. Palmer, chief investment officer for the system. But the pension system is only divesting from companies that are headquartered or operating directly in Russia, as opposed to companies that are also engaging with Russia, he said.

Sen. James C. Rosapepe (D-Prince George's), a former U.S. ambassador to Romania, asked why the scope of companies targeted for divestment was so narrow.

Palmer said that taking wider action "might not be fiduciarily prudent" because "such a large part of our portfolio would be impacted by such a restriction." He also said that focusing only on companies operating in Russia aligns with the federal government, which has not precluded private companies from transacting with Russia.

Del. Kirill Reznik (D-Montgomery), who is Ukrainian-American, also said that not divesting from companies engaging with Russia is "a little problematic" because "that's where they're getting most of their revenue from."

This is not the first time the state has dumped its investments in foreign countries. In 2008, the Maryland General Assembly passed the Divestiture from Iran and Sudan Act, which required the state pension system to divest from companies doing business in Iran or Sudan.

Noven said legislation directing the state's pension system to divest from Russia would be helpful because "we want [our investors] to be colorblind when it comes to these types of policy issues and just focus on making returns" and instead have a clear directive. He said that the system invites legislation only during "exceptional situations," such as in 2008 and now.

Only the legislature can require the pension system to divest from assets in Russia, Elfreth said.

The U.S. government has already imposed several rounds of sanctions, including prohibiting Russia's central bank from making transactions in U.S. dollars. On Wednesday, the U.S. Justice Department announced a task force to target Russian oligarchs who have aided President Vladimir V. Putin in his invasion of Ukraine.

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Maryland pension system's holdings in Russia continue to decline

By Holden Wilen
Baltimore Business Journal
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The amount of Russian investments held by Maryland's pension fund has dwindled down to $32 million due to a combination of divestment and devaluation from sanctions levied by the U.S. and other countries on Russia following President Vladimir Putin's invasion of Ukraine.

Officials from the Maryland State Retirement and Pension System provided an update on the $69.3 billion fund's holdings during a briefing with the General Assembly's Joint Committee on Pensions on Thursday. The briefing came as the pension system faces calls from Comptroller Peter Franchot and Gov. Larry Hogan to divest completely from Russian entities.

State Del. Brooke Lierman and state Sen. Sarah Elfreth, who co-chair the committee, said the purpose of the hearing was so lawmakers could ensure they protect the sustainability of the pension system while also making sure Maryland is not contributing to an international crisis.

Maryland's pension fund had $197 million in assets in Russian securities as of Feb. 18. By Feb. 24, when Russia began its assault on Ukraine, the value of the Russian portfolio had declined to $96 million. At the current level of $32 million, the Russian portfolio has declined 84%.

About $7 million of the current assets invested in Russia are actively managed by Maryland in accounts the state controls, Executive Director Martin Novens said during the briefing. The remainder of the assets are in mutual funds. About $600,000 is invested in sanctioned companies, he said.

"We've been working hard to divest from the entire portfolio," Novens said. "As we're looking at our investments, we were able to get ahead of the market...by doing some investment activity before the invasion occurred."

The state previously divested assets from Sudan and Iran. Novens said legislation enacted by the General Assembly helped facilitate those divestments.

Novens said the pension system does not typically invite investment-related legislation but it could be helpful in this case because the agency wants its fund managers to be able to act objectively and solely focus on generating positive returns. He said fund managers should not be making investment decisions based on their feelings about certain countries, products or services.

"We don't want them to be making different decisions based on policy considerations, as a rule," Novens said. "When it came to Iran and Sudan, it was helpful, and it is helpful right now. We want [our managers] to be technicians. We want them to be color-blind when it comes to these types of policy issues and just focus on getting returns."

So far, pension system officials have only looked at how much the state has invested in Russian companies. State Sen. Jim Rosapepe questioned why the system has taken a narrow view and not considered its investments in companies like BP that do business in Russia, or in other entities like hedge funds that may invest in Russia and take advantage of opportunities to make money off of bad debt.

Chief Investment Officer Andy Palmer said the pension system followed the federal government's approach and noted that data is readily available about which companies are located in Russia. Making determinations about indirect investments in Russia is more complicated and "not fiduciarily [sic] prudent," he said.

"There's so many companies and such a large part of our portfolio would be impacted by such a restriction," Palmer said.

No decisions were made during the briefing. Lierman noted the pension system's desire for legislation and said it is the duty of lawmakers to "ensure retirees' pension investments are safe now and in the future."

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US Pensions Start Divesting from Russia Holdings

By Justin Mitchell
FUNDfire
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A growing list of U.S. pensions are taking active steps to divest from Russian assets in the wake of President Vladimir Putin's escalating invasion of neighboring Ukraine, but they face obstacles to offloading some investments.

More state leaders are urging pensions to shed the investments, and several fund boards have already held meetings to evaluate holdings and vote on divestment. A few funds have already started selling Russian holdings. But institutional investors also confront challenges getting rid of some Russian assets, ranging from steeply declining prices and a dearth of interested buyers, to operational barriers after Russian banks were cut off from the Swift payment network and several European settlement houses decided to stop settling Russian securities, as reported.

On Thursday, the Pennsylvania Public School Employees' Retirement System's board voted unanimously to divest from all of its investments in Russia as well as neighboring Belarus.

The resolution empowered interim Chief Investment Officer Bob Devine to divest from both countries "as expeditiously as possible." The resolution also called for no future investments in either country to be brought before the board.

"Divesting from Russian investments is important so that we demonstrate our support of Ukraine, and protect our Pennsylvania taxpayers," said State Treasurer Stacy Garrity, a Republican. Earlier Thursday, Governor Tom Wolf, a Democrat, sent letters to PSERS and the state employees' pension urging them to divest.

Missouri's state employees pension board also held a special meeting Thursday and decided to cease investments in Russian assets and divest from any it already holds. This came three days after State

Treasurer Scott Fitzpatrick sent a letter to the executive director requesting the meeting and calling for divestment.

As of March 1, the pension had about $9 million of exposure to Russian assets in its $13.3 billion portfolio, a spokesperson said.

Oregon Treasurer Tobias Read announced Thursday that his staff would work with federal authorities to dispose of any assets in sanctioned Russian companies or government entities “consistent with our legal and fiduciary responsibilities.”

Rhode Island’s State Investment Commission on Tuesday approved a proposal from Treasurer Seth Magaziner to “authorize liquidation” of the state’s Russian holdings. Those holdings made up about 0.3% of its total assets, according to a press release. As of Jan. 31, the state pension fund’s market value was about $10.5 billion, according to Magaziner’s website.

The $319 billion California State Teachers’ Retirement System had $171.5 million in Russia exposure on Feb. 28, down from $468 million on Feb. 23. The decrease came from both selling assets and the decreasing prices of those assets broadly, a spokesperson said.

The pension is “following developments” and working closely with Governor Gavin Newsom, the system said in an email, who earlier this week called for the state’s pension funds to sell more than $1.5 billion in Russia holdings, according to the Sacramento Bee.

In a presentation to the board, Chief Investment Officer Scott Anderson stressed that the situation was constantly changing.

“This event is driving a very fluid, illiquid, uncertain market,” he said.

North Dakota had an estimated $10 million in exposure to Russian entities, out of about $19 billion in total assets, Anderson said, making up about 0.05% of its portfolio. In a press release earlier this week, the office of North Dakota Governor Doug Burgum said the pension’s Russian assets included a $500,000 bond originally issued by Russia but purchased on the secondaries market and a $914,000 investment in Gaz Capital, which is half-owned by the Russian government.

North Dakota also had Russian exposure through several of its third-party managers, including ArrowStreet, Dimensional Fund Advisors, Vanguard, LSV Asset Management, Prudential Global Investment Management and Western Asset Management Company. Its exposure included commingled equity funds, as well as equity and fixed income separately managed accounts.

“Most institutional pension plans or even endowments have some exposure to emerging markets, and as a result likely some exposure to Russian entities,” Anderson said.

But, factors like MSCI’s decision to cut Russia from its emerging markets indices as of March 9 are likely to change that, he said, because it will mean that most passive managers will no longer have Russian securities in their portfolios.

Co-mingled funds are more difficult to exit from, but so far staff has shown “phenomenal speed to identify and reduce” holdings, Lieutenant Governor Brent Sanford, who is also the board chairman of the North Dakota investment board, later said. “I hope that people are seeing that the answer is … no more new investments in Russia, and an absolute plan for exiting the investments with Russian connection," he said. "I know we end up getting bogged down in the semantics of how we actually do this, and it's a long, orderly process… but that is the intent."

New York State Comptroller Thomas DiNapoli, who oversees the $279.7 billion New York State Common Retirement Fund, the country's third-largest pension, earlier this week directed his staff to prohibit further investments in Russian companies and review its current investments. He urged the pension's managers to do the same. As of Tuesday, the fund estimated it had $110.8 million in public equity investments in Russian companies, which includes direct investments and co-mingled funds.

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Vulture Investors Are Sizing Up Sanctioned Russian Assets

By Joe Morris
FUNDfire
March 4, 2022

Opportunistic investors including private equity firm HIG Capital are shopping for Russian assets at deep discounts from international sanctions, Bloomberg reports.

Miami-based HIG as well as London's Optimus Capital, which advises for wealthy individuals and family offices, are among the firms to have expressed interest in such assets, according to an unnamed Bloomberg source said to have knowledge of the matter.

Sanctions enacted by the U.S. and Europe, as well as Moscow's own stock market closure and ban on securities sales owned by foreign investors, have rendered Russian securities effectively untradable. Now, rapidly escalating restrictions by Western governments are threatening the less-liquid assets of superrich Russians, including real estate holdings, jets and yachts.

"We're coming for your yacht. We're coming for your jet. We're coming for your ledger. That's the key message," said Deputy Attorney General Lisa Monaco in a Wednesday interview with Bloomberg.

French customs officials this week blocked a superyacht owned by Igor Sechin, CEO of Russian energy company Rosneft, from leaving port. The U.S. Justice Department, meanwhile, announced the formation of a "KleptoCapture" interagency task force to enforce sanctions against "corrupt Russian oligarchs."

On Thursday, the White House announced yet another round of sanctions targeting individual Russian oligarchs and government officials.

The intensifying pressure is quickly rippling through a market long favored by Russia's superrich: premium London real estate, Bloomberg reports.

Some Russian owners of such properties are encountering difficulty refinancing mortgages, forcing them to consider selling off the assets, according to a Bloomberg source said to be familiar with the matter.

Among the highest-profile Russian-held assets, the U.K.'s Chelsea Football Club, is also headed for the block, Bloomberg reports. Billionaire owner Roman Abramovich confirmed this week that he would sell the team and direct the proceeds to a charitable foundation to benefit victims of the Ukraine war.

“This has been an incredibly difficult decision to make, and it pains me to part with the club in this manner,” Abramovich said in a statement.

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MSCI, FTSE Russell to drop Russian equities from indexes

By Douglas Appell
Pensions & Investments
March 3, 2022

Benchmark index providers MSCI and FTSE Russell said they'll drop Russian stocks from their equity indexes next week, after Western sanctions in the wake of Russia's Feb. 24 invasion of Ukraine and recent moves by the country's central bank have made trading in that market prohibitively difficult.

In addition, trading in 28 depositary receipts for Russian companies has been suspended on the London Stock Exchange, Chief Executive Officer David Schwimmer said in an interview with Bloomberg Television on Thursday.

MSCI, following consultations with institutional investors, said access to Russia's market no longer meets the minimum requirements needed for the country to retain its emerging markets status in MSCI's indexes.

As of the close of trading on March 9, MSCI Russia indexes will be "reclassified from emerging markets to stand-alone markets status," according to an MSCI news release. Likewise, FTSE Russell announced that effective March 7, "Russia will be deleted from all FTSE Russell Equity Indexes."

The FTSE Russell decision followed meetings with its policy advisory board and equity country classification advisory committee about the impact of escalating sanctions as well as "the decision by the Central Bank of Russia to temporarily suspend trading on the Moscow Exchange and prohibit non-resident investors from executing security sales."

See more of P&I’s coverage of the war in Ukraine

Those moves effectively simplified the way forward for asset owners — such as New Zealand Superannuation Fund, the NZ$58.5 billion ($39.4 billion), Auckland-based sovereign wealth fund — that were looking to respond in nuanced fashion, dropping exposure to stocks and bonds of government-controlled Russian entities while retaining exposure to private firms.

In a joint statement early Thursday, NZ Super, together with the NZ$50 billion Accident Compensation Corp., the NZ$5 billion Government Superannuation Fund and the NZ$1.9 billion National Provident Fund, all in Wellington, announced that they would sell "Russian Federation sovereign debt and the securities of majority Russian state-owned enterprises from their respective funds … as market conditions permit."

A NZ Super spokesman said that would have left his fund with modest exposure of NZ$6 million or NZ$7 million to privately owned Russian companies but MSCI's announcement made that an academic question: exposures to both government-owned and privately owned Russian entities will be sold, he said.

Others have been less nuanced.

Future Fund, the Melbourne, Australia-based, A$203.6 billion ($147 billion) sovereign wealth fund, meanwhile, announced Feb. 28 that it will be looking for opportunities to sell down its portfolio's A$200 million in holdings of Russian equities "as market conditions permit."

Likewise, Ian Patrick, chief investment office of Australian Retirement Trust, a A$230 billion, Brisbane-based super fund, in a news release Thursday said he instructed the fund's investment managers this week "to sell any remaining debt and equity investments" in Russia, Ukraine and Belarus, and not make any new investments in those countries.

Changes in benchmark index weightings could have a bigger impact on Japan's ¥199.3 trillion ($1.72 trillion) Government Pension Investment Fund, Tokyo, with Russian stock holdings of roughly ¥170 billion, or 36 basis points of GPIF's overseas stock portfolio, and ¥50 billion of Russian bonds, or 11 basis points of its overseas bond portfolio.

GPIF, in a statement, said while it is not permitted to allow political considerations to influence stock selection, it is continuing to monitor the situation and will strive to act in the best interests of members.

A subsequent statement, responding to a query about the latest moves by MSCI and FTSE removing Russian stocks from their indexes, said simply that when changes to indexes are made, GPIF's external managers adjust their portfolios based on those changes.

Bloomberg contributed to this story.

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BlackRock suspends passive, active investment in Russian securities

By Christine Williamson
Pensions & Investments
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BlackRock announced Thursday that it suspended the purchase of all Russian securities in its active and indexed strategies on Feb. 28 because of the Russian invasion of Ukraine.

BlackRock also "proactively advocated with our index providers to remove Russian securities from broad-based indices," said Richard Kushel, senior managing director and head of BlackRock's portfolio management group, and Salim Ramji, senior managing director and global head of iShares and index investments, in a joint statement.

Some of BlackRock's major index providers said they will remove Russian securities from their indexes effective next week, said Messrs. Kushel and Ramji in the statement.

Russian securities currently account for less than 0.01% of BlackRock client assets, mostly in the company's index portfolios, the two officers said.

"We will continue actively consulting with regulators, index providers and other market participants to help ensure our clients can exit their positions in Russian securities, whenever and wherever regulatory and market conditions allow," said Messrs. Kushel and Ramji.

BlackRock managed a total of $10.01 trillion as of Dec. 31.

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