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Does your public pension fund hold risky crypto-related investments? It can take a fight to find out.

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Robin Rayfield had three minutes to speak. That wasn't much time for the 66-year-old Delta, Ohio, retired educator to raise his long list of concerns about the defined-benefit pension plan he relies on for his retirement income.

It was December 2022, about a month after the collapse of cryptocurrency exchange FTX, and the roughly $90 billion State Teachers Retirement System of Ohio, one of the largest U.S. public pension funds, was holding a board meeting at its offices in Columbus. The shockwaves running through the digital-asset ecosystem added a fresh worry for retirees like Rayfield, who had long been concerned that they weren't getting enough details on the fees and performance of their pension fund's outside investment managers. A private equity trade publication, Buyouts Insider, had reported in early December that the Ohio teachers' pension plan had some FTX exposure within a private equity fund–whose holdings aren't publicly available–and STRS hadn't responded to questions about it, according to the publication.

"We still are waiting on information about alternative investments," Rayfield told the pension fund's board. "How much was invested, what are the fees and costs, and what is the value of that investment? Now we're worried about crypto," said Rayfield, who is also executive director of the Ohio Retirement for Teachers Association, which has about 18,000 members. "At this point, quit trying to beat the market," he added. "Take what the market gives." Some other retirees participating in the meeting echoed Rayfield's remarks, raising questions about potential losses tied to FTX and advocating for index funds over crypto-related holdings.

The board didn't respond to the retirees' questions at the meeting. But in fact, STRS had nearly $9.5 million in exposure to FTX, including about $6.6 million within a private-equity fund called Thoma Bravo Growth Fund and the rest "spread across various funds," STRS told MarketWatch. As for the pension fund's total exposure to crypto-related holdings, STRS had to do some research to arrive at a figure. Throughout November and December, the retirement system worked with its outside money managers to tally its total exposure to tokens, blockchain technology and other holdings that would feel the pain if crypto imploded, arriving at a total of nearly $125 million, STRS said. Thoma Bravo, which was also a source of FTX exposure for the $240 billion New York State Common Retirement Fund, declined to comment.

Bitcoin, the most popular cryptocurrency, has plunged 67% from its all-time high in late 2021, and since the collapse of FTX, research groups, taxpayers, and retirees have been digging for details on how the crypto contagion may impact public pension funds–with spotty results. Although public pension funds' crypto-related allocations are generally a small fraction of their total assets and derived in part from publicly traded holdings such as Riot Platforms RIOT, -0.65% and Marathon Digital Holdings MARA, -2.63%, much of it comes through private-equity and venture-capital funds that reveal little to the public. Researchers have struggled to compile a comprehensive list of public plans with FTX exposure. And some public plans questioned about their FTX or broader crypto-related exposure have provided only carefully conscribed details about those holdings–or none at all, MarketWatch found in interviews with taxpayers, plan participants and pension officials and review of plan communications.

The fog around these holdings is fueling broader concerns, pension experts say. State and local pension funds work on behalf of the public, are responsible for paying steady retirement benefits to roughly 12 million former teachers, police officers, firefighters and other retirees, and rely on taxpayer-funded contributions when their returns fall short. That means they should be held to higher transparency standards, ranging from fee disclosure to listings of every private-equity fund they hold and their portfolio companies–but “that level of transparency does not exist in every state,” said Anthony Randazzo, executive director of Equable Institute, a nonprofit focused on public retirement systems. Despite their market heft, managing about $5.6 trillion in assets, public plans don’t always drive a hard bargain when negotiating investment terms with private funds, researchers say, instead signing on to non-disclosure agreements that keep fund fees and performance under wraps.

Some pension officials and investment managers say there’s a tradeoff between transparency and access to the top private funds. “Transparency is great,” said Mark Yusko, CEO of Morgan Creek Capital Management, which manages blockchain-focused funds that are held by some public retirement systems. Yusko’s funds have made investments directly in crypto and related assets, including one that blew up spectacularly. “But we all want to be on the best team,” he said. “There are definitely public pension plans that have zero chance of ever getting into certain funds because they can’t sign the non-disclosure stuff.”

The heightened scrutiny of public plans’ private holdings coincides with a Securities and Exchange Commission proposal that would require private funds to give their investors details on the full cost and performance of the funds. The SEC “has a critical role in improving the inefficient and dysfunctional way that investors currently negotiate investment terms in private funds, a process which often leaves them without the basic information necessary to evaluate their investments,” a group of more than two dozen consumer-advocacy, labor and research groups wrote to the SEC last month. “Such an antiquated process has unfairly allowed for the transfer of billions of dollars in wealth from public pensions” and other institutional investors to private fund advisers, the groups wrote.

Public pensions’ crypto-related holdings are also “a canary in a coal mine,” Randazzo said. “They’re an example of the kinds of bets public sector pension funds are taking to try and meet some fairly unrealistic investment return targets.” Between 2001 and 2022, virtually all public plans have fallen short of their return assumptions, according to the Center for Retirement Research at Boston College. Currently, the plans’ average return assumption is close to 7%. They maintain lofty return targets because “it costs less,” said Jean-Pierre Aubry, the center’s associate director of state and local research. “Pension fund contributions are based on their expected returns, regardless of how much risk is baked into that return.”

Pension funds’ public meetings leave some key questions unanswered

The well-heeled taxpayers of McLean, Va., had questions–about five single-spaced pages worth of questions–about the crypto-related holdings in two of their county’s public pension plans. Over the past few years, Fairfax County Police Officers Retirement System and Employees' Retirement System officials had been talking on podcasts, industry panels and in the media about their pioneering move into blockchain and other crypto-related holdings–but since the collapse of FTX, they'd been talking a lot less. The retirement system posted a note on its website early this year explaining the thesis behind its blockchain investments and showing that the police officers' fund had a 7.2% weighting in blockchain funds as of year-end 2022, while the Employees' fund had a 4% weighting. But it didn't list specific fund holdings, saying that state public-information law gives public pensions exemptions from disclosing details that could adversely impact the value of their investments.

McLean, known for its sprawling mansions and Potomac River views, has a more than century-old, politically well-connected citizens' association. Through a connection on the county board of supervisors, the McLean Citizens Association was able to arrange a mid-January meeting with the two pension funds' investment chiefs to talk about their crypto-related holdings. The virtual meeting, which the citizens' group posted on its Facebook page, lasted two hours. Some of the group's questions got little response.

'We are under a number of different restrictions in terms of some of the things we can discuss," the Fairfax Employees' Retirement System investment chief Andrew Spellar said near the outset of the meeting. But the managers did divulge specific fund holdings that hadn't been listed in the retirement system's online blockchain post.

It wasn't until a month later, in February, that the retirement system hosted a blockchain-focused public meeting that was advertised to members on its website. During that 90-minute meeting, the pension officials, who declined to comment for this article, emphasized that they had never invested in FTX, directly or indirectly, and had overall turned a profit on their blockchain-related holdings.

After all that talking, much remained unsaid. EJF Silvergate Ventures Fund, which Fairfax Police Officers Retirement System investment chief Katherine Molnar cited as a holding during the January meeting, is a joint investment vehicle of EJF Capital and Silvergate Capital Corp., which operates a crypto-friendly California bank and has been questioned by members of Congress about its potential role in the loss of FTX customer funds. In early February, Bloomberg and Reuters reported that U.S. Justice Department prosecutors were probing Silvergate's dealings with FTX and Alameda Research. On March 1, Silvergate said in a regulatory filing that it would delay filing its annual report, saying that it is "currently analyzing certain regulatory and other inquiries and investigations that are pending with respect to the company" and evaluating its ability to continue as a going concern. Silvergate and EJF declined to comment.

Silvergate's troubles weren't mentioned during the pension funds' public meetings. Nor was BlockFi, a crypto lender that had received a financial rescue from FTX and filed for bankruptcy protection in late November. BlockFi was a major holding in the Morgan Creek Blockchain Opportunities Fund I and II, Morgan Creek's Yusko told MarketWatch, accounting for about 10% of assets in the first fund and about 20% in the second fund at the time of investment. Molnar cited the Morgan Creek funds as a Fairfax pension-fund holding during the January meeting, but did not mention BlockFi. The Morgan Creek funds have completely written off their BlockFi holdings, Yusko said. But "the great thing about venture capital is the winners more than offset the losers," he said, adding that Fairfax has already received more than $1 back for every $1 it put into the first fund.

During the Fairfax pension funds' February public meeting, a participant dropped a question in the Q&A chat, asking about any crypto and blockchain-related bankruptcies affecting the retirement system. Jeff Weiler, the retirement systems' executive director, responded directly in the chat: "Only Genesis, which is being worked out and we expect to get most if not all of [our] money out." VanEck New Finance Income Fund, which Molnar identified as a pension fund holding during the January meeting, is one of the largest creditors of Genesis Global Holdco, another crypto lender roiled by the FTX collapse that filed for bankruptcy in January, court filings show. But when Spellar, the Fairfax Employees' Retirement System investment chief, addressed the participant's question verbally later in the meeting, he didn't mention Genesis or the VanEck fund, saying FTX "did not affect us directly. We never invested in FTX." The FTX situation, he added later, "is human nature. It has nothing to do with crypto."

"VanEck is aware of the Genesis bankruptcy filing, and we hope and expect that DCG is stepping up to support Genesis creditors," VanEck said in a statement, referring to Genesis's parent company, Digital Currency Group.

Proposed rule could shed more light on private funds

Amid all the questions about public plans' holdings, researchers are working to compile more definitive data–with mixed results. Equable Institute, Randazzo's organization, by early December had compiled a list of 15 public pension funds with FTX exposure–including several of the country's largest retirement systems. But a couple of months later, it was still adding names to that list, including STRS Ohio.

A public plan that doesn't appear on Equable's list is New Mexico Educational Retirement Board, a $15 billion pension plan for New Mexico teachers. NMERB Sierra Blanca Fund, a private equity fund managed by BlackRock, appears on the creditor list filed in FTX bankruptcy proceedings. NMERB board member Matias Fontenla told MarketWatch that the pension fund had some exposure to FTX through the Sierra Blanca fund, adding that the size of that exposure is "negligible" for NMERB. "I personally just don't believe in crypto or anything related to it," Fontenla said. As a relatively new board member, he said, he'll be closely examining the pension fund's investments for any crypto-related holdings. NMERB investment chief Bob Jacksha said in an email, "we do not comment on the holdings of any of our private equity funds" and declined to comment further. BlackRock declined to comment.

"Pension funds are the retirement savings of working people, and they stand to lose big when invested in firms or products that lack robust federal oversight," the American Federation of Teachers said in a statement. "Pensions wishing to invest in crypto should demand the highest level of transparency" from firms and advocate for more federal regulation, the group said.

Some wild year-to-year swings in public pension funds' performance recently raised questions for Sheila Weinberg, CEO of Truth in Accounting, a nonprofit focused on government transparency. Digging into the results, she found that some of the plans had crypto-related holdings, although the word "crypto" wasn't always mentioned in their annual reports. Given that the exposure may come through the pension funds' investments in other funds, "how much control did the trustees have" over such holdings, she asks. And "are they sophisticated enough to understand all this?"

More broadly, Ballotpedia, a nonprofit focused on political data and public policy, is aggregating data on each state-run pension fund across the country, including the asset managers used by each fund and investment policies, said Josh Altic, the group's research director. The aim is to make details on public plans' investment strategies more accessible to voters, Altic said. "We think there's an information gap there, for sure," he said.

As for the fees and performance of the private funds often held by public pensions, many transparency advocates are hoping the SEC will help clear the air. The proposed SEC private-fund rule's minimum standards for cost disclosure would take the current wrangling over fee transparency "off the negotiating table," allowing public pension funds and other institutional investors who are limited partners in private funds to spend their bargaining chips elsewhere, said Neal Prunier, senior director of industry affairs at the Institutional Limited Partners Association, a trade group for institutional investors in private equity. Although the group since 2016 has offered a fee-reporting template that's designed to clarify private-equity funds' total fees and expenses, as of 2021 more than 40% of ILPA members were receiving that data less than half the time–"and in some cases never," Prunier said. And most of the investors asking to receive the template, Prunier said, are negotiating that disclosure in "side letters"–which private fund managers use to grant special rights to certain investors–"so it's a very inefficient process."

STRS Ohio said it "encourages" the firms it does business with to use the ILPA fee-reporting template and is trying to address the fee transparency issue in other ways, including recently retaining a consultant to help with private market fee validation services.

Retirees like Rayfield say they're still looking for more clarity. "We're the people who put the money in," Rayfield said, "but we can't know what Wall Street takes out of it."

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