



# Retirement News Highlights

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## Public Pension Systems Join Those Stung by Crypto Crash

*Some find buying opportunities in low prices, cryptocurrency technology*

By Heather Gillers

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Among the investors who bet on cryptocurrency over the past year are pension funds that manage public workers' retirement savings. Now those funds are navigating the crash.

A Quebec pension fund made a \$150 million equity investment in Celsius Network LLC last fall. In July, the cryptocurrency lender filed for bankruptcy protection.

A \$5 billion retirement fund serving Houston firefighters said last October it had put \$25 million into bitcoin and ether. Since that announcement, both cryptocurrencies have fallen by more than 50%.

"Of course we would have preferred otherwise," Houston Firefighters' Relief and Retirement Fund investment chief Ajit Singh said in an email. But "volatility and large swings are expected."

Public pension funds have increasingly ventured into less-traditional assets during the past two decades in response to low fixed-income yields. Unable to rely on bond returns to hit aggressive 7% investment return targets and pay trillions of dollars in promised benefits, retirement officials have invested in private equity, real estate and even forestland.

Over the past few years, as crypto investments boomed alongside stocks during the stimulus-fueled economic recovery, some retirement-fund managers and advisers saw opportunity.

At two conferences last year, the Texas Association of Public Employee Retirement Systems held a series of panels on crypto, including one titled "Cryptocurrency in Your Portfolio: Are Pension Systems Ready to Dive In?"

VanEck, one of the investment firms featured on the panel, has received inquiries about crypto investing from more than a dozen public pension funds around the country in the past few years, said Kyle DaCruz, director, digital assets product.

The association's executive director, Art Alfaro, called cryptocurrency "an asset class which should not be ignored."

“Our including them in our educational forums may someday be considered like including educational sessions on the internet in the mid-90s, or the iPhone introduction in 2007, or electricity in the early 1900s,” Mr. Alfaro wrote in an email.

Federal regulators are less enthusiastic. The Labor Department in March told 401(k) plans to exercise extreme care in allowing participants to invest in cryptocurrency, and a senior labor official said in April the crypto market isn’t ready for people’s retirement savings.

“Both the returns and the risk are at a different order of magnitude than traditional well-regulated assets,” said Gil Luria, a strategist at D.A. Davidson who has been studying cryptocurrency for years.

Still, Mr. Luria said, “yield chasing has been the sport of pension funds for a while and technology crypto assets overall have had such spectacular returns over the past 12 years that it’s not surprising that yield chasers would at least dip their toes into the water.”

The prices of bitcoin and other cryptocurrencies have plunged repeatedly from their November peak as stocks have fallen and investors have pulled back on risk. Individual investors have lost their savings, major crypto firms are laying off workers, and roughly \$2 trillion in cryptocurrency value has disappeared.

The Caisse de dépôt et placement du Québec, which serves more than six million workers and retirees, backed away from Celsius after the crypto lender paused withdrawals in June.

CDPQ has hired a lawyer to represent it in the bankruptcy filing, according to court documents. As an equity investor, it would typically fall in line behind the crypto lender’s creditors in recouping any lost money.

The roughly \$330 billion Canadian pension fund viewed the original investment as a way of getting familiar with a potential new wave in finance while risking little investment capital, according to a person familiar with the matter. The total investment was \$150 million, the person said.

Mr. Singh said the Houston firefighters’ fund views its cryptocurrency holdings—made through bitcoin company NYDIG, a subsidiary of alternative asset manager Stone Ridge—as a long-term investment, and intends to hold them for three to five years.

The pension fund, which serves more than 7,000 current and retired firefighters, remains interested in crypto, he said, but it isn’t making any additional investments at the moment.

Some pension officials looked at crashing crypto prices and saw an attractive entry point, however.

In May, a pair of Virginia pension systems approved a three-year, \$70 million commitment to two funds that provide short-term loans to crypto-related financial firms offering services like crypto trading. The funds are managed by VanEck and Parataxis Capital.

“The yields are more attractive right now given that some people are less willing to do this given the crypto winter that we’ve endured,” said Katherine Molnar, investment chief of the Fairfax County Police Officers Retirement System.

The Fairfax police fund and its sister fund, the Fairfax County Employees’ Retirement System, have a total of \$6.6 billion under management and about 30,000 beneficiaries. They have about 4.5% and 2.5% of assets, respectively, committed to crypto-related holdings, after rapid gains on a 2018 investment.

That holding, a stake in a venture-capital fund invested mostly in crypto technology, has already paid out more cash than the Virginia funds put in, according to the manager, Morgan Creek Capital Management, and its book value has quadrupled as of June 30.

Still, many are steering clear, like the \$300 billion California State Teachers’ Retirement System.

“The risk is fairly high,” a spokeswoman said, “so we would set a high bar to invest in these opportunities.”

—*Vipal Monga contributed to this article.*

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