Retirement News Highlights

Wednesday, March 2, 2022

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U.S. Pensions Face Demands to Exit Hard-to-Unwind Russia Assets

By Fola Akinnibi
Bloomberg
March 1, 2022

U.S. politicians from New York to California are calling for public pensions to shed hundreds of millions of dollars in investments tied to Russia. So far, the retirement funds aren't moving quickly to divest. In many cases, they can't.

The funds have relatively small exposure, but unwinding such assets is complex and could mean losses as they are trading at deep discounts and liquidity is scarce. Many of the largest retirement systems, which invest billions for teachers and other public servants, are adopting a patient approach.

"Considering that Russia amounts to about 2% of the global economy, whether a pension fund or other institutional investor would want to get out of an entire index fund in order to divest Russia holdings would be a questionable approach," said Keith Brainard, research director of the National Association of State Retirement Administrators.

The California Public Employees' Retirement System, the largest U.S. public pension, "supports the people of Ukraine who are suffering," Chief Executive Officer Marcie Frost said in an statement.

But less than 1% of its $473.6 billion portfolio is in Russian-linked assets. It includes mostly stocks or index funds, as well as real-estate investments and private equity, worth in total about $900 million to $1.1 billion. The system isn't taking precipitous action. Instead, it's merely "monitoring current events and will take action as appropriate to protect the interests of our members," Frost said.

The California State Teachers' Retirement System, the second-biggest U.S. public pension, said it too is closely following developments and will abide by relevant sanctions. Calstrs, as the plan is known, said less than $500 million of its $319.8 billion portfolio is invested in Russia.

Even if pensions did quickly dump Russia-linked investments, sanctions and illiquid markets have made selling a fraught exercise. Finding buyers or even a venue in which to trade has become difficult. And securities that do change hands do so at steep discounts. A $1.5 billion bond issued by Russian oil producer Lukoil PJSC -- held by many of the biggest U.S. and European investment houses -- plunged Monday to 39 cents on the dollar from more than 90 cents less than two weeks ago.

Still, Russia-linked assets aren't a major part of most U.S. pension portfolios, and funds are unlikely to take immediate action, said Orray Taft, a managing principal at Meketa Investment Group, which advises them on investments. "The sanctions right now are going to be what's driving actions," Taft said.

Colorado Fund

Despite stirring statements from officials, only a few pensions have exited Russian-linked holdings. The $61 billion Colorado Public Employees' Retirement Association divested $7.2 million investment in Sberbank, according to Governor Jared Polis. That's 0.01% of the fund.

"We cannot continue to provide financial support to a regime that so brazenly disregarded international law and launched such an indefensible attack," Polis said in a statement Friday.

New York State Comptroller Thomas DiNapoli, the sole trustee of the $279.7 billion Common Retirement Fund, on Tuesday directed staff to prohibit new investments in Russian companies and determine whether current holdings should be restricted or sold. He also asked the fund's outside asset managers to conduct a similar review to mitigate investment risk and market impact.

The move came two days after New York Governor Kathy Hochul ordered a stop to state business and investments in Russia. DiNapoli estimated the fund has $110.8 million public equities in Russian companies.

"While American sanctions already prohibit investments in many Russian companies, I believe it is prudent to freeze purchases in all Russian companies due to the situation's unpredictability and the likelihood that conditions will deteriorate," DiNapoli said in a news release.

Asset Review

For New York City, Comptroller Brad Lander called for ridding five municipal pension funds of Russia-linked holdings. That amounts to $271 million, less than 0.1% of their $274 billion.

Georgia officials identified holdings in iShares MSCI Russia, an exchange-traded fund that invests in a range of companies. The state plans to be fully out by midweek, said spokesperson Katie Byrd, who didn't have details on the size of that investment.

“Most holdings of Russian assets by public pension funds are likely to be in index funds or other funds. rather than as individual direct investments, which makes it a lot more difficult to unwind,” said Brainard.

But some states are running for the exits nonetheless. Last week, the Pennsylvania Treasury Department, which directly manages nearly $40 billion, began selling off $2.9 million invested in Russian companies. They included mostly energy firms, with a few telecoms and banks, according to spokesperson Samantha Heckel. The state has completely divested from 28 of the 31.

California, Maryland

Pennsylvania’s Public School Employees’ Retirement System said it too is reviewing its portfolio, adding that Russia- and Belarus-linked investments add up to $300 million, or one-half of 1% of its $72 billion portfolio.

Connecticut Treasurer Shawn Wooden, who is tasked with overseeing the state’s $47 billion retirement system, said he directed his team to divest the fund’s $218 million in Russia-domiciled stocks and bonds.

Many states have begun a flurry of portfolio-combing and course-recalculation.

California Governor Gavin Newsom in a letter Monday asked Calpers, Calstrs and the University of California’s retirement system to halt any purchase of Russian debt and any capital flowing to it.. Legislators introduced a bill Monday that would require the state, Calpers and the California State Teachers’ Retirement System to divest from Russian assets, and block state contracts for any company doing business with Russia.

Treasurer Fiona Ma, who sits on the boards of Calpers and Calstrs, said she supports divestment of Russian assets, as well as from local governments’ pensions.

Maryland Governor Larry Hogan directed agencies to review contracts, procurements and holdings and Comptroller Peter Franchot, who chairs the pension system, called for divesting. The system has about $96 million in Russian investments out of $69.3 billion in assets. That’s down from $197 million on Feb. 18.

Washington Governor Jay Inslee said Monday that agencies must end contracts with Russian state companies or institutions. That said, the Washington State Investment Board isn’t changing its strategy, as it doesn’t have direct or actively managed exposure to Russian investments, according to spokesperson Chris Phillips.

Credit Raters’ Concerns?

In Massachusetts, a group of lawmakers led by Republicans is asking the state treasurer to dump Russia-linked assets and Democratic State Senator Walter Timilty introduced a divestment bill. The $101.3 billion Massachusetts pension had about $140 million in exposure to Russia as of Feb. 25.

Illinois and New Jersey lawmakers are proposing similar legislation.

So far, credit raters aren't concerned.

"We expect any changes to asset allocation to take time and that the pension plans' expected return and risk profile will be minimally impacted," said Todd Kanaster, a director in S&P public finance.

'Tacit Approval'

Some state pensions, including those of North Carolina and Louisiana, have no plans to divest, saying their tainted holdings are minimal.

But even if exposure is small, symbolism is important, officials elsewhere said.

"Continuing to invest our state pension funds in Russian companies constitutes tacit approval of Russia's deplorable actions," a bipartisan group of lawmakers wrote Monday to Massachusetts' treasurer.

Divesting "will send a clear message that the Commonwealth condemns Putin's actions and supports the people of Ukraine."

— With assistance by Joseph Mysak Jr, Danielle Moran, Amanda Albright, Nathan Crooks, Vincent Del Giudice, Brett Pulley, Skylar Woodhouse, Romy Varghese, Michelle Kaske, Dina Bass, Martin Z Braun, Carey Goldberg, Shruti Singh, and Shelly Banjo

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Sanctions, Restrictions Leave Managers Stuck in Russia Securities

By Dervedia Thomas
FUNDfire
March 2, 2022

Asset management firms and investors are struggling to divest from Russian securities following sanctions aimed at punishing Russia for waging an unprovoked war on Ukraine.

Government officials in states such as Colorado, New York and Virginia have called on state institutions to either divest or assess their Russia holdings. But many managers and asset owners are stuck with these securities since international authorities blocked certain Russian banks from the Swift payment network and European settlement houses Euroclear and Clearstream decided to stop settling Russian securities. Nasdaq and Intercontinental Exchange also halted trading of Russia-based stocks on their exchanges Monday.

“All the functions in the fixed income market or equities market will be impacted,” said Vinod Jain, a senior analyst for capital markets at Aite-Novarica Group. “You’re holding on to something which you want to get rid of, but you cannot get rid of now, so you will see more volatility.”

Managers are unable to adequately value Russian securities, since there’s no real market for them right now, and if they are able to sell, getting the proceeds from the sale will be difficult since some Russian banks are no longer on Swift, said Jason Scharfman, a managing partner at Corgentum Consulting. Managers also have to comply with sanctions as they move money through banks, he added.

“All of that takes a long time for financial counterparties to sort through, and also the volume has increased because there’s basically a run on the bank in Russia – there’s long lines at ATMs on the retail level, people are trying to pull their money [out] and get liquid,” he said.

The divestment picture is further complicated by parties in a settlement transaction that may be unknown to managers, Jain said.

“[Managers] may be thinking that they’re holding the securities at Euroclear or Clearstream, but then there’s some kind of a custody bank who’s providing all the information to them,” he said.

BlackRock, the largest holder of Russian dollar bonds, told Reuters that the firm is consulting with regulators, index providers and other market participants to help clients get out of their positions in Russian securities where allowed. Vanguard Group is “reviewing the various global sanctions and determining the impacts to our funds and will comply with applicable sanctions and government,” a spokesperson told FundFire.

Meanwhile, firms such has J.P. Morgan Asset Management, BNP Paribas, DWS and HSBC have frozen funds roiled by new sanctions on Russia, as reported.

Segal Marco Advisors has been in contact with the asset managers it works with even before the war began and observed that very few had any meaningful direct exposure to Russian investments or the ruble outside of dedicated emerging market equity or debt strategies, said T.J. Kistner, the investment consultant’s head of discretionary portfolio management and solutions. But, a number of large institutions, particularly, some public plans in the U.S. and sovereign wealth funds outside of the U.S., have significant exposures to Russia, he added.

“It's just a very challenging time for investors in the Russian market, and in a lot of ways, it is an embedded risk investing in areas outside the U.S. – in emerging markets,” he said.

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