

# State of Alaska Department of Revenue

## Divestment regarding Russian Entities

Department of Revenue  
Presentation to House State Affairs Committee  
March 10, 2022  
DOR  
APFC



Governor  
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# Alaska Russian Investments

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- Status and Sanctions
- Market Overview
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# State Investment Summary

## Alaska Investments in Russia Assets

\$ Millions	Stocks	Bonds	Private Equity	Total Assets
APFC & Mental Health	153	63	3	219
ARMB Retirement	94			94
State Funds	7			7
All Participant Directed	13			13
AHFC	0	0	0	0
AIDEA	0	0	0	0
<b>Totals</b>	<b>\$267</b>	<b>\$63</b>	<b>\$3</b>	<b>\$333</b>
Estimated valuation rate	2%	20%	0%	
Estimated Valuation as of 3/7/22	\$5	\$13	\$0	\$18

### Notes:

- Valuations are no longer provided by the market and are highly speculative.
- APFC values are as of 12/31/21 and Treasury values are as of 1/31/22 as provided in the presentation.

# Unprecedented Global Sanctions

Category	Significant Sanctions (1,274 sanctions since February 2022)
Banks and Financial Services	<ul style="list-style-type: none"><li>• Russian Central Bank restrictions imposed by US, UK, Canada and EU</li><li>• Swift ban enacted on seven Russian banks</li><li>• Sanctions imposed on Sberbank and VTB Bank, Russia's largest banks</li><li>• US persons prohibited from investing in new debt or equity issuance from certain OFAC Russian institutions</li></ul>
Oil and Gas	<ul style="list-style-type: none"><li>• US bans import of Russian energy products including oil, liquified natural gas, and coal</li></ul>
Corporate	<ul style="list-style-type: none"><li>• Over 300 companies have withdrawn from Russia including Boeing, Airbus, Visa, Mastercard, FedEx, UPS, Apple, Netflix, and McDonalds</li><li>• Google, Meta (Facebook), and TikTok have blocked Russian state media channels</li><li>• BP, Shell, Exxon, and Equinor are divesting from billions in oil and gas developments</li></ul>
Other	<ul style="list-style-type: none"><li>• US bans Russian aircraft from US airspace</li><li>• Foreign-held asset freeze and travel bans for some politicians, officials, oligarchs and family members</li></ul>



# International Equity in Russia

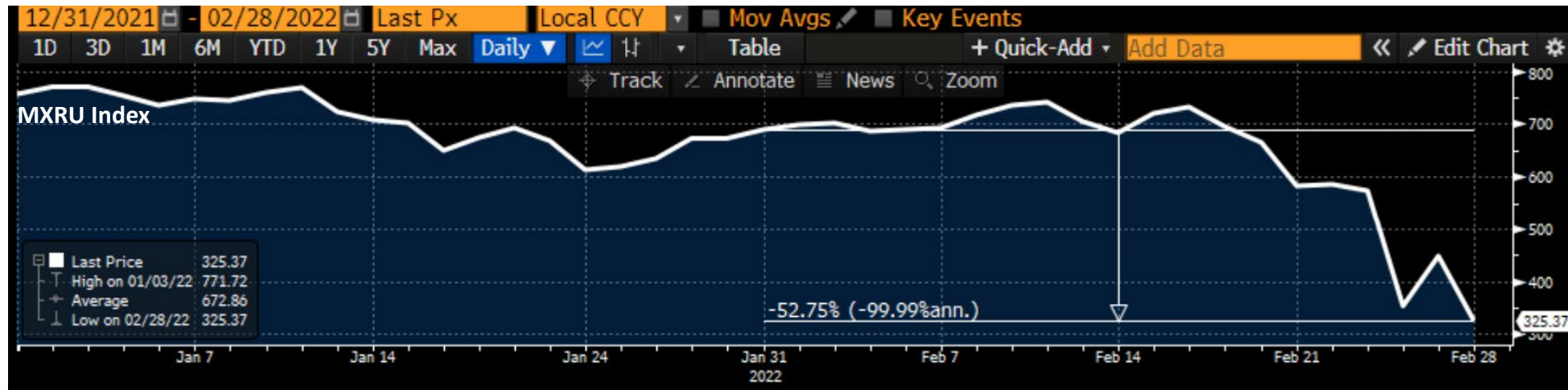
- Most institutional investors invest in a diverse basket of global securities.
- The Morgan Stanley All-Country World Index Investable Market Index (MSCI ACWI IMI) is a common institutional index that incorporates 99% of globally publicly traded equities.
- The index is diversified across 48 countries – 23 developed and 25 emerging market– and includes roughly 9,300 securities.
- The index is a reasonable proxy for many institutional investor portfolios:

#	Country	MSCI ACWI IMI	#	Country	MSCI ACWI IMI	#	Country	MSCI ACWI IMI
1	United States	58.3%	11	India	1.6%	21	Saudi Arabia	0.4%
2	Japan	5.9%	12	South Korea	1.4%	22	South Africa	0.4%
3	United Kingdom	4.2%	13	Netherlands	1.2%	23	Singapore	0.4%
4	China	3.1%	14	Sweden	1.0%	24	Finland	0.3%
5	Canada	3.1%	15	Hong Kong	0.9%	<b>25</b>	<b>Russia</b>	<b>0.3%</b>
6	Switzerland	2.7%	16	Ireland	0.9%	26	Israel	0.3%
7	France	2.6%	17	Denmark	0.6%	27	Belgium	0.3%
8	Germany	2.1%	18	Spain	0.6%	28	Norway	0.2%
9	Taiwan	1.9%	19	Italy	0.6%	29	Mexico	0.2%
10	Australia	1.8%	20	Brazil	0.6%		Remaining	1.9%
Cumulative Totals:		85.8%			95.2%			100.0%

Russian Sectors (GICs)	%/Total	Cumulative Total
Energy	51.1%	51.1%
Materials	18.3%	69.3%
Financials	16.6%	85.9%
Communication Services	8.0%	93.9%
Consumer Staples	3.2%	97.1%
Utilities	1.3%	98.4%
Consumer Discretionary	0.7%	99.0%
Industrials	0.6%	99.6%
Health Care	0.2%	99.8%
Real Estate	0.2%	100.0%

# Current Status of Russian Equity Investments

- Russian equities decreased by 53% in value in February.
- Trading halted on February 25<sup>th</sup> for all Russian-listed equities.
- There is currently no way to buy or sell Russian equities on an exchange.
- Valuations are now highly speculative since they are no longer provided by the market.
- All major stock indexes are taking Russian securities out this month and passive index funds are holding Russian securities at low-to-no-value.



# Treasury Russian Equity Investments – 1/31/22

## Treasury Russian equity investments – 0.23% of \$50.6 billion in assets:

### Defined Benefit Retirement Systems – 0.28% of \$33.9 billion in assets

- 0.28% of the retirement funds had Russian equity exposure on 1/31/22 (\$93.5 million).
- 7 investment managers – 4 active, 3 passive/index.

### State Investments – 0.10% of \$7.7 billion in assets

- 0.10% of state assets had Russian equity exposure on 1/31/22 (\$7.4 million).
- 1 passive/index investment manager.

### Participant Directed – 0.15% of \$9.0 billion in assets

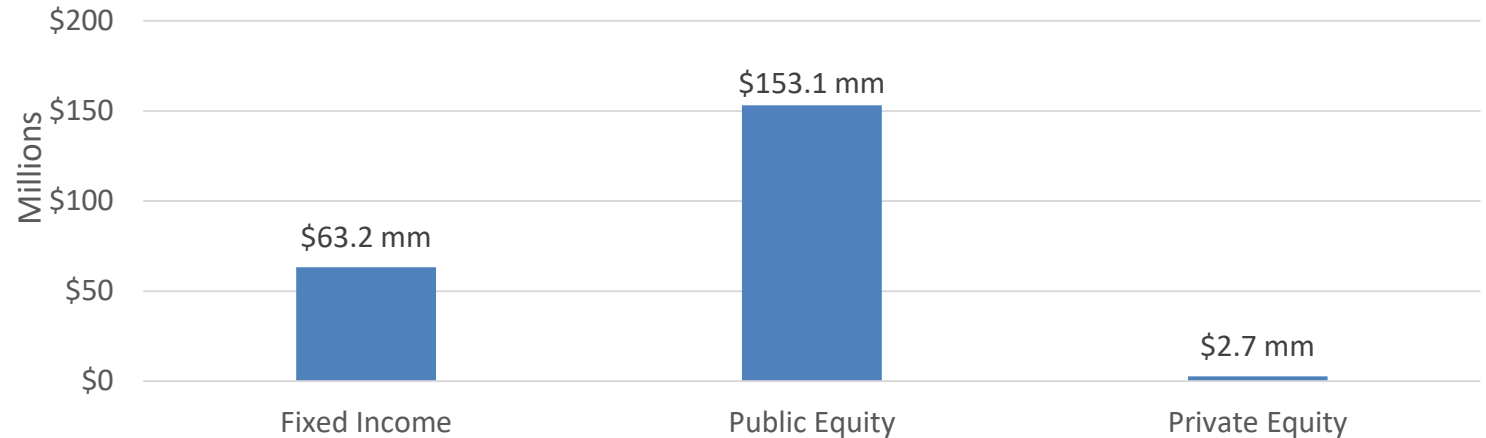
- 0.15% of participant directed assets had Russian equity exposure on 1/31/22 (\$13.4 million).
- 4 investment managers – 2 managers active, 2 passive/index funds.
- All of the Russian exposure is through commingled funds where the ARMB is not the direct fiduciary for the funds.

1/31/22 Values	Russian Exposure	Total Assets	%/Total
ARMB Assets	93,500,000	33,900,000,000	0.28%
State Assets	7,400,000	7,700,000,000	0.10%
<i>Subtotal</i>	<i>100,900,000</i>	<i>41,500,000,000</i>	<i>0.24%</i>
Participant Directed	13,400,000	9,000,000,000	0.15%
<i>Grandtotal</i>	<i>114,300,000</i>	<i>50,600,000,000</i>	<i>0.23%</i>

**Treasury has directed a halt to the purchase of Russian securities at this time.**

# APFC - *Russian Securities*

As of December 31, 2021 APFC's exposure to Russian securities totals to \$219 million which accounts for 0.3% of Alaska Permanent Fund's \$82 billion assets under management.



Fixed Income

Public Equity

Private Equity

\$63 million in Russian and Ukrainian governments bonds in the Fixed Income portfolio. Less than \$10 million of that under internal management.

\$153 million in publicly traded Russian stocks, traded on the Moscow Stock Exchange. All public stocks held in APFC's name are in externally managed accounts.

\$2.7 million represents Private Equity stakes in portfolio companies held by funds in which APFC is one of many investors. APFC does not maintain control of the investments in these portfolio companies.





# APFC – *Current Situation*

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Global Complexity

Markets Closure

Valuations Uncertain

Divestment strategies are complicated. Given the market conditions, selling Russian assets today would be challenging.

The vast majority of APFC’s Russian securities are blocked from trading due to Russian and US sanctions.

External and internal managers have been directed *not to* purchase any Russian securities.

APFC Board and Staff *are and will* comply with all policy directives from federal and state levels.

# What are others doing?

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## States

- Based on a survey administered by The Pennsylvania Treasurer, on 3/4/22, there were a total of 27 states who are currently looking into or currently freezing state money or pension funds going to Russian companies, investments or oligarchs
- Other actions taken by other states include the following:
  - Looking into or currently banning state agencies from doing business with Russian state-owned firms and subcontractors
  - Blocking Russian businesses and nonprofits from acquiring property in their state for 1 year
  - Looking into or ending sister state relationship with Russia
  - Officially condemned Russia's invasion
  - Welcoming refugees
  - Calling on businesses to ban Russian made goods

## Norway Sovereign Wealth Funds

- Norway announced that they are divesting from Russia
- Russian assets at the end of 2021 made up 0.2% of Norway fund (\$3 billion in total)
- Recognize that divestment takes time because they want to ensure sales are not made to sanctioned individuals/entities



# Guiding Statutes for Investing

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- Prudent Investor Rule Summary

- In addition to other considerations, a fiduciary shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments.

- ARMB/Treasury Statutes

- AS 37.10.071(c) – In exercising investment, custodial, or depository powers or duties under this section, the fiduciary of a state fund shall apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the fund entrusted to the fiduciary. Among beneficiaries of a fund, the fiduciaries shall treat beneficiaries with impartiality.
- AS 37.10.210(a) – Consistent with standards of prudence, the board has the fiduciary obligation to manage and invest these assets in a manner that is sufficient to meet the liabilities and pension obligations of the systems, plan, program, and trusts.

- APFC Statutes

- 37.13.120. Investment responsibilities. (a) The board shall adopt regulations specifically designating the types of income-producing investments eligible for investment of fund assets. When adopting regulations authorized by this section or managing and investing fund assets, the prudent-investor rule shall be applied by the corporation. The prudent-investor rule as applied to investment activity of the fund means that the corporation shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the fund over time while maximizing the expected total return from both income and the appreciation of capital.

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# Questions or Comments?