



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

PSERS
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June 14, 2022
PSERS Interim Chief Investment Officer
Robert Devine

Opening Statement to the Senate State Government Committee

House Bill 2447 – Divestment of Russian Holdings

Mr. Chairman and Members of the Committee, thank you for inviting the Public School Employees Retirement System to testify today at the public hearing on House Bill 2447. Divestment of Russian Holdings. I am Bob Devine, PSERS Interim Chief Investment Officer.

On February 24th of this year, Russia began its invasion of Ukraine. We all watched in horror as Russian tanks began their invasion and bombing of Ukrainian cities. We watched as the brave Ukrainian people fight for their freedom and their country.

Shortly after, PSERS Board Chair Chris Santa Maria and PSERS Investment Committee Chair Jason Davis asked PSERS investment professionals to review the System's investment holdings for exposure to Russia and Belarus.

As of March 1st, PSERS had under \$300 million (less than ½ of 1% of PSERS total assets of \$72.5 billion) invested in Russian and Belarus exposure.

PSERS investment professionals provided updates to the Board and monitored the situation very closely.

After a discussion involving the Chair, Vice Chair, the Investment Committee Chair, the Executive Director, myself, and our Fiduciary Counsel along with our Chief Counsel, the Board made the decision to hold an emergency meeting of the Board on March 3rd to discuss the Russian situation and its impact on PSERS investments.

At the Special Board Meeting, the Board passed Resolution 2022-12, which authorized me as the Interim Chief Investment Officer to take all necessary action to divest PSERS from investments in Russia and Belarus. This was to be done as expeditiously as possible, while remaining consistent with the Board's fiduciary duty of prudence.

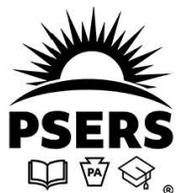
In addition, the resolution stated no future investments involving Russia or Belarus could be made or brought before the Board, until the Board directs otherwise.

Since that time PSERS began divesting its direct holdings in Russia and Belarus. As of May 31st, PSERS had less than \$2 million remaining in Russia and Belarus holdings. PSERS is looking to exit these investments when the markets again become tradeable.

PSERS management has reviewed House Bill 2447 and determined the bill will not cause a “material actuarial impact” on the System as defined under Act 37 of 2020. A copy of the letter PSERS provided to the Independent Fiscal Office is attached to this statement.

PSERS has a history of complying with other divestment legislation, for example Northern Ireland, and Sudan and Iran. Should this legislation pass, PSERS will ensure that this divestiture legislation is successfully implemented.

That concludes my opening statement, and we are happy to take your questions.



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March 25, 2022

Matthew Knittel
Director, Independent Fiscal Office
Rachel Carson State Office Building
400 Market Street
Harrisburg, PA 17105

RE: HB 2447, P.N. PN 2869

Dear Mr. Knittel:

I am writing in response to an email of March 23, 2022, from Mathieu Taylor, requesting that the Public School Employees' Retirement System (PSERS) submit an analysis of House Bill 2447, Printer's Number 2869 to the Independent Fiscal Office.

PSERS management has reviewed House Bill 2447 and determined the bill will not cause a "material actuarial impact" on the System as defined under Act 37 of 2020. Therefore, it is not necessary to retain the System's contracted actuarial firm, Buck Global LLC, to conduct an actuarial note with 30-year projections. PSERS management consulted with Buck staff and Buck concurs with management's determination.

PSERS understands that there will be additional technical correction amendments with which we currently concur.

Management's review of the bill has identified some potential divestiture losses on direct holdings. The value of the losses, however, may change between the date of this letter and the effective date of the legislation as the values of these holdings have continued to decline since the invasion of Ukraine began. According to BNY Mellon, custodian bank for the Commonwealth, losses of up to \$17 million could occur on the sale of PSERS directly held securities. The value of these holdings, however, may be closer to \$0 because certain equity markets are frozen and not trading, and PSERS bond exposure is restricted and cannot be traded at this time. Additionally, potential losses on indirect holdings and alternative investments are expected to be minimal at this time given the stated ability in the legislation to prudently divest of those positions over time.

House Bill 2447, Printer's Number 2869

House Bill 2447, P.N. 2869, requires the State Treasurer as custodian of Commonwealth funds, the State Employees' Retirement System, the Public School Employees' Retirement System, and the Pennsylvania Municipal Retirement System to divest all direct and indirect investment holdings and alternative investments of companies that are sanctioned Russian companies, sanctioned Belarusian companies, and scrutinized companies, including the government of Russia and the government of Belarus. This bill expands upon Act 44 of 2010's mandate to divest from investments related to Iran and Sudan.

HB 2447's divesture rules and definitions do not apply to PSERS defined contribution plan, which was enacted under Act 5 of 2017.

PSERS Management and Office of Chief Counsel have reviewed the bill and determined there are no major objections or concerns to the bill as currently written.

PSERS Russian and Belarus Investment Holdings

At the start of the Russian invasion of Ukraine in late February 2022, PSERS had estimated the Fund had under \$300 million (less than ½ of 1% of PSERS total assets of \$72.5 billion) invested in Russian and Belarus investment holdings.

On March 3, 2022, PSERS Board of Trustees passed Resolution 2022-12 to “*authorize the Interim Chief Investment Officer to take all necessary action to divest PSERS from investments in Russia and Belarus as expeditiously as possible, consistent with the Board’s fiduciary duty of prudence.*” In addition, future investments involving Russia or Belarus were prohibited until directed otherwise by the Board.

Since that time, the amount of PSERS investment holdings in Russia and Belarus has steadily declined due in part to indexes rebalancing through the removal of Russian exposure, and declines are expected to continue.

PSERS conservatively estimates:

- **Direct Holdings** - As of March 16, 2022, PSERS direct holdings had market value of approximately \$17 million according to our custodian bank, BNY Mellon. Of that \$17 million, approximately \$3 million was in Belarus holdings.
- **Indirect Holdings and Alternative Investments:** As of March 16, 2022, PSERS had indirect holdings and alternative investments of approximately \$51 million in Russian holdings. The majority of this exposure is in foreign currency forward contracts, which will expire at the end of March 2022.

Estimated Administrative Costs of Compliance

In addition to potential losses identified above, costs and expenses likely to be incurred by PSERS to comply with HB 2447 are anticipated to be minimal. Administrative expenses, including PSERS’ pro-rata share of consulting services obtained by the public funds and salaries of staff related to various compliance activities such as report preparation and correspondence with managers, is not projected to exceed \$10,000 annually.

In closing, I thank you for the opportunity to opine on HB 2447 as part of IFO’s responsibility to review pension-related legislation under section 615-B of the Administrative Code of 1929. PSERS is ready to assist you and your agency with any historical, financial, or operational information you need to better understand how PSERS operates and its mission to serve roughly half a million Pennsylvanians each year.

Sincerely,



Jennifer A. Mills, Esq.
Deputy Executive Director and Director of Defined Contribution Investments