



RUSSIAN HOLDINGS AND DIVESTMENT REPORT

April 12, 2022

Background

Over the last several years, SERS has had a small level of Russian holdings in the Emerging Markets Equity, Global Fixed Income and Private Equity asset classes of SERS' investment portfolio. The assets have been acquired and sold by external investment managers as part of their respective investment mandates.

Emerging Markets Equity has had the largest segment of the Russian holdings (approximately 85% on average). Most of those holdings have been acquired by managers executing an active management strategy tied to the emerging markets index. On a country basis, the emerging markets index has a small Russian component based on the relatively modest size of the Russian economy. On a sector basis, Russian oil and gas companies are most frequently acquired as part of emerging markets index energy sector holdings target.

SERS has an Emerging Markets Equity allocation because of the diversification benefits it provides relative to US Equity and Non-US Developed Markets Equity. Emerging Markets Equity also currently provides a higher 10-year investment return assumption than US Equity and Non-US Developed Markets Equity. For the 5-year period ending 12/31/21, Emerging Markets Equity provided an annualized return of 12.88%, which was lower than US Equity but ahead of Non-US Developed Markets Equity.

Within Emerging Markets Equity, as of 12/31/21, Russian holdings (primarily oil and gas companies) had a return of 19.6% for the calendar year. However, that return had fallen off in the last quarter of 2021 due in part to the escalating tension regarding Ukraine. Because of those concerns, and because of broader concerns regarding near term prospects in emerging markets as a whole, SERS began to tilt away from emerging markets in December 2021. The target asset allocation for Emerging Markets Equity is 6.8% of the total fund but as of 12/31/21, SERS' emerging markets allocation had been reduced to 5.0% of the total fund. SERS' current emerging markets allocation is down to 4.35% of the total fund.

Between January and March 2022, growing concerns over Russian behavior and the increasing levels of economic sanctions applied to Russia have caused the value of Russian assets to decline. As of March 1, 2022, SERS' Russian holdings had declined to \$42.12 million, which represented 0.24% of the total fund value at the time – \$17.799 billion.

Consistent with the economic sanctions, SERS directed its external investment managers to make no new investments in Russian assets.

Current Situation

SERS is required by law to undertake its responsibilities for the management and operation of the retirement system in accordance with fiduciary duties. A core element of those duties is the reasonable and prudent management of the investment assets of the system for the purpose of funding and paying plan benefits to SERS' members.

Since March 1st, the Russian markets have been closed to foreign investment activity and there has been virtually no opportunity to sell Russian assets and draw the proceeds of such sales out of Russia. Any parties seeking to purchase Russian assets from asset owners outside of Russia have sought to do so for pennies on the dollar relative to their value as of March 1st.

Because there is currently no market for Russian assets, per generally accepted accounting principles (GAAP) and SERS' investment valuation policy, the value of SERS' Russian holdings has been marked down to zero.

However, while the assets have been marked down, they have not been written off and remain on the books with the expectation that at some point they will become tradeable and a fair value can be established.

At this juncture there are many unknowns regarding the circumstances that will exist if and when the market for Russian assets re-opens. Accordingly, it is not possible at this time to determine and declare what the prudent fiduciary course of action will be until the markets re-open and a then-current and prospective value can be established for those assets.

Until that time, SERS will continue to direct its investment managers to adhere to all economic sanctions imposed on Russia and continue to make no new investments in Russian assets.

In addition, SERS will actively monitor developments and:

- Assess when markets re-open;
- Assess the value of SERS' holdings in Russian assets, both when and as markets re-open and prospectively;
- Determine when it is reasonable and prudent to sell SERS' Russian assets; and
- Determine if and when divestment of Russian assets is consistent with SERS' fiduciary responsibilities.

Status reports on these considerations will be provided to the SERS Board and the Ohio Retirement Study Council (ORSC) on a regular basis.