

STATE OF MICHIGAN INVESTMENT BOARD MEETING

March 9, 2022

State of Michigan Retirement Systems
Special Meeting



Rachael Eubanks, State Treasurer
Prepared by Bureau of Investments
Michigan Department of Treasury

**STATE OF MICHIGAN INVESTMENT BOARD SPECIAL MEETING
MARCH 9, 2022**

Agenda



- 9:00 a.m. Call to Order and Opening Remarks**
- 9:05 a.m. State Treasurer and CIO's Discussion on Governor's Request**
- Action item:**
- **Consideration of Policy to Divest from Russian Securities**
- 9:25 a.m. Public Comment**
- 9:30 a.m. Closing Remarks ~ Adjournment**



2022 Meeting Schedule

Thursday, March 24, 2022
Thursday, June 23, 2022
Thursday, September 22, 2022
Thursday, December 8, 2022

All meetings start at 9:30 a.m.



Michigan Department of
TREASURY

Engagement. Service. Improvement.

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Issue

- Russian aggression against a neighboring country has led to significant sanctions
- Global community is moving away from investing in Russian securities
- Michigan Governor Gretchen Whitmer has requested the State of Michigan Investment Board take action to remove Russian securities from the State of Michigan Retirement Systems' (SMRS) state pension fund portfolios
- Prior to invasion, SMRS had a very small amount (0.06%) of its portfolio invested with external managers who invested in Russian securities
- The overwhelming majority of this market exposure consists of low-cost international index funds managed by external fund managers

Risk and Challenges

- Russian companies are a component of many international index funds, which are used by individual and institutional investors to gain low-cost diversified exposure to markets
- Russian markets are currently closed precluding the usual liquidity associated with divesting security holdings
- With markets frozen, the value of these securities is unclear but in all likelihood, Russian securities have substantially decreased in value given the invasion, the ensuing economic sanctions, and closed Russian markets.
- Recently, U.S. credit rating agencies have downgraded Russia sovereign debt to junk status.

Next Steps

- Subject to SMIB Board approval of a resolution to divest:
 - SMRS will send formal letters to all relevant investment managers, requesting expeditious divestment from any Russian investments
 - External managers will be asked for solutions to effectuate this directive
 - Leading global index providers have removed Russian securities from international index funds, effective this week, potentially streamlining SMRS divestment
 - SMRS portfolios don't contain Belarus securities – but for similar reasons – are also proposed for restriction in the SMIB Board resolution
 - SMRS will actively work with our investment partners to effectuate the SMIB Board's directives

State of Michigan Retirement System

RESOLUTION

State of Michigan Investment Board

Special Meeting

March 9, 2022



Jon M. Braeutigam
Chief Investment Officer
Bureau of Investments

STATE OF MICHIGAN INVESTMENT BOARD

**RESOLUTION DIRECTING DIVESTMENT RELATED TO THE RUSSIAN
FEDERATION**

Resolution 2022-1

WHEREAS, pursuant to Executive Order 2018-10 (the “Order”), the State of Michigan Investment Board (the “Board”) is the investment fiduciary of the State of Michigan Retirement System; and

WHEREAS, pursuant to the Order, and the duly adopted Investment Policy Statement adopted by the Board in Resolution 2018-1, the Board delegated power to and otherwise authorized the Bureau of Investments within the Department of Treasury (the “BOI”) to invest and prudently manage the assets of the State of Michigan Retirement System, and otherwise permitted the BOI to take certain actions as more fully described in the Investment Policy Statement; and

WHEREAS, the Board maintains the authority and right, pursuant to the Order and the Investment Policy Statement, to direct the investment of the assets of the State of Michigan Retirement System and to further direct the BOI to take action related thereto; and

WHEREAS, the Russian Federation (“Russia”), as part of an overall attempt to impose control over the country of Ukraine and the Ukrainian people and to stop Ukraine’s right to pursue closer ties to the European Union and the United States, has instigated, supported, and supplied a separatist war beginning in 2014 with the annexation of Crimea and that Russia has escalated to a broader war of aggression against Ukraine; and

WHEREAS, Russia has attempted to create a false pretext to invade and occupy Ukraine based on inaccurate narratives that Ukraine posed a threat to Russian citizens among other inflammatory accusations against Ukraine and its citizens; and

WHEREAS, Russia has launched an unjust and unprovoked invasion upon Ukraine and its citizens; and

WHEREAS, Russian soldiers are currently conducting a war of aggression against Ukraine, inflicting violence upon civilians and destroying homes, businesses, and properties in contravention of international law; and

WHEREAS, the Republic of Belarus (“Belarus”) has provided material aid and support to the Russian war efforts; and

WHEREAS, Michigan is home to a proud, mighty Ukrainian-American community and Michiganders stand united with the people of Ukraine in their fight for freedom; and

WHEREAS, on March 1, 2022 the Governor sent a letter to the Chair of the Board to request that it hold a special meeting to consider the issue of divesting the State of Michigan

Retirement System from any investments in institutions or companies headquartered in Russia or that have their principal place of business in Russia; and

WHEREAS, the investment of assets of the State of Michigan Retirement System is intended to provide benefits to the active and retired public employee members of the system; and

WHEREAS, any investment of State of Michigan Retirement System assets that could be used to support and prolong Russia's war against Ukraine and its willful violation of international law, runs contrary to the purpose of providing benefits to individuals who dedicated their professional lives to public service in and to the State of Michigan; and

WHEREAS, the Board has reviewed a "Divestment From Russia and Belarus Policy" and attached hereto as Exhibit A, with the intention of incorporating it into the existing Investment Policy Statement.

NOW, THEREFORE, BE IT RESOLVED, that the Board, in attempting to sever any source of funding that Russia may use to support its unjust war efforts against Ukraine, wishes to sell, liquidate, or otherwise divest all State of Michigan Retirement System assets currently invested, and to refrain from any future investment, in Russian or Belarussian companies, Russian or Belarussian government securities, or investment otherwise connected to Russia or Belarus (the "Divestment Directive"); and

BE IT FURTHER RESOLVED, the Board directs the BOI to implement the Divestment Directive as described herein, to the extent practical and as may be permitted by current or future market conditions, laws, regulations, rules, and legal or contractual obligations in applicable markets, exchanges, or local jurisdictions; and

BE IT FURTHER RESOLVED, the Board adopts the Divestment From Russia and Belarus Policy and fully incorporates it into the Investment Policy Statement as a new "Exhibit B".

Ayes:

Nays:

Recused:

East Lansing, Michigan

March 9th, 2022

EXHIBIT A

DIVESTMENT FROM RUSSIA AND BELARUS POLICY

The Russian Federation (“Russia”) has instituted an unjust war of aggression against the country of Ukraine and its citizens without provocation in violation of international law and standards of morality, and the Republic of Belarus (“Belarus”) has provided material aid to Russia’s war efforts. The State of Michigan Retirement System serves to provide benefits to active and retired civil servants and other individuals who have worked for the benefit of the State of Michigan. This aim cannot be fulfilled through investments in companies that may provide direct or indirect support to the war against Ukraine. Michiganders stand united with the people of Ukraine in their fight for freedom. To help staunch any financial or other support that Russia may rely on in its efforts to prolong or expand its unjust war efforts, the State of Michigan Retirement System will divest itself from investments, where practical, in institutions or companies headquartered or that have their principal place of business in Russia or Belarus and refrain from new purchases of such investments subject to current or future laws, regulations, market conditions, rules, and legal or contractual obligations in applicable markets, exchanges, or local jurisdictions.