



City of Gainesville

Finance Department

To: Board of Trustees for the Gainesville General Employees Pension Plan

Via: Cynthia Curry, City Manager

From: Pension Review Committee, Gainesville Employees Pension Plan

Date: March 31, 2022

RE: PRC Recommendations Concerning City Commission Resolution No. 211008

The Gainesville City Commission approved Resolution No. 211008 at their March 17, 2022 meeting. The Resolution requests that the Board of Trustees of the Gainesville Employees Pension Plan divest of any current holdings in Russian or Belarusian securities as soon as possible, and that the Board consider a new investment policy opposed to future investment of City funds in Russian or Belarusian securities.

The Pension Review Committee (PRC) is an advisory committee for the Gainesville Employees Pension Plan whose purpose is to work with City staff and the Plan's investment consultant to make investment related recommendations to the Board of Trustees. At their March 24th 2022 meeting, the City's Pension Review Committee discussed City Commission Resolution No. 211008, and voted unanimously to make the following recommendations to the Board of Trustees for the Gainesville Employees Pension Plan:

1) The PRC recommends that the Board of Trustees for the Gainesville Employees Pension Plan reject the City Commission's request to divest of any current Russian and Belarusian investment securities as stated in Resolution 211008. It is the PRC's view that the Plan's investment managers are already evaluating the impact of the Russian-Ukrainian conflict on their security portfolios, and making investment decisions accordingly. Also, because there aren't any direct Russian or Belarusian company investments in the Plan's portfolio at this time, no divestment is necessary.

2) The PRC recommends that the Board of Trustees for the Gainesville Employees Pension Plan reject the City Commission's request that the Board amend the Employees Pension Plan Investment Policy Statement (IPS) to restrict investment in Russian and Belarusian securities as stated in Resolution 211008. The PRC believes that it isn't prudent to change the Plan's long-term IPS in response to a situation that is still evolving and has an unknown duration. If restrictions on Russian and Belarusian

company investments are necessary, that direction can be conveyed to the Plan's investment managers without modifying the Plan's Investment Policy Statement.

3) In the event that the Board of Trustees for the Gainesville Employees Pension Plan does require Russian and Belarusian security divestment, or amends the Plan's Investment Policy Statement to restrict investments in Russian and Belarusian securities as stated in Resolution 211008, the PRC makes the following recommendations:

- a. Any Russian and Belarusian security divestment requirements should include provisions that allow investment managers broad flexibility in the divestment timeframe and method to minimize any potential financial losses.
- b. Any Russian and Belarusian security restrictions should be limited to "direct" investments (the Plan's individual company holdings), and exemptions be provided for "indirect" investments in mutual funds, commingled investment trusts, exchange traded funds, index funds, or similar commingled investment products that may hold Russian or Belarusian securities in their underlying portfolios. This is similar to language in Florida Statute 215.473, which requires divestment from companies doing business with Sudan and Iran, but provides exemptive relief for "indirect" Plan investments in vehicles such as mutual funds and exchange traded funds.
- c. Any Russian and Belarusian security restrictions should include provisions that terminate those restrictions at such time as the Russian/Ukrainian conflict is resolved.

The Pension Review Committee believes that these recommendations effectively address the City Commission's Russian and Belarusian investment concerns, and are in the best interests of the Gainesville Employees Pension Plan and its members.

City staff has discussed City Commission Resolution 211008 with pension attorney Robert Klausner, and agrees with Mr. Klausner that restrictions on Russian and Belarusian investments during the Russian/Ukrainian conflict are prudent, and don't constitute a breach of the Board of Trustees' fiduciary duty. However, City Finance staff still agrees with the PRC's recommendations to the Board of Trustees concerning Resolution 211008.

Additionally, the Plan's investment consulting firm AndCo also currently supports the PRC's recommendations specifically for the City of Gainesville Employees' Pension Plan, and in consideration of the current facts and circumstances.