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ISSUE BRIEF

The Impact of the Silicon Valley Bank Collapse on U.S. Public Pension Funds

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BY ANTHONY RANDAZZO & JONATHAN MOODY

Based on data reported through March 15th, 2023

MEDIA INQUIRIES: Sam Shaw | Vice President of Public Relations, Equable Institute | Sam@equable.org

KEY FINDINGS

- There are at least 29 state and local pension funds with direct exposure to the failure of Silicon Valley Bank (SVB).
- California Public Employees Retirement Fund (CalPERS) had the largest known exposure by value to SVB, with an estimated $67 Million investment, according to the retirement system.
- The total number of pension funds impacted by the collapse is unknown due to a lack of transparency standards and differences in reporting regulations for internally and externally managed pension funds.

OVERVIEW

State and federal regulators closed Silicon Valley Bank on March 10 as it faced a destabilizing bank run. As the 16th largest bank in the US and a popular finance partner of the Silicon Valley start-up community, it has sparked a wide range of financial fall out. It is the largest bank failing since Washington Mutual in 2008.

As of March 15th 2023, there are at least two dozen state and local pension funds with direct exposure to the failure of Silicon Valley Bank (SVB).

These pension funds are either directly invested in SVB Financial Global stock or hold a stake in a company that banked with SVB. This data is compiled from reported stock holdings during this quarter —either SEC filings or public disclosures on the pension fund's website — and announcements from companies that banked with SVB.

Variances in investment reporting and transparency between pension funds and federal reporting regulations for internally and externally managed pension funds means that the full impact of the collapse will likely remain unknown. However, whatever exposure to SVB a pension fund may have had at the time of the failure, the total losses are likely minimal compared to the size of these pension funds' total assets, based on the data that is publicly available. There are hundreds of millions in losses. But, measured against hundreds of billions is assets these are not destabilizing losses on their own.

However, there is clearly some degree of contagion related to the SVB collapse. This includes Signature Bank being closed simultaneously - also with dozens of pension funds invested in their stock. Additionally, the market shocks created by the Credit Suisse bank destabilization are also part of the larger trend. In that sense, the broader concern is simply exposure to volatility. This is an on-going challenge for pension funds of which or pension funds of which this is just the most recent unsettling event.

HOW ARE STATE & LOCAL PENSION FUNDS EXPOSED TO SVB?

There are at least three ways that public pension funds have been affected by SVB's collapse that we are currently aware of:

1. **Losses on SVB stock:** There were at least 26 public pension funds whose SEC filings during the past two months showed an investment in the parent of Silicon Valley Bank, SVB Financial Group. There are others who will be exposed to these losses through money managed externally or in mutual funds.
2. **Losses on the public stock of companies affiliated with SVB:** This includes companies who had substantial banking relationships with the failed bank, like Roku or Etsy. It also includes the stock of other banks. The contagion effects of a bank run that the FDIC and Federal Reserve have been trying to prevent could extend to other banking institutions. Maybe the Federal supports prevent this from happening, but it's not a guarantee.
3. **Lower valuations for private companies that had financing facilities with SVB:** If pension funds are invested in these companies, it will negatively impact the value of those assets on their balance sheets. This would include dozens if not hundreds of companies that might have financial stress because of the bank collapse. The risks to pension funds would be lower returns on their private equity portfolios as a result.

Federal officials announced programs that would backstop SVB's depositors and created a program to backstop deposits at all other banks in the U.S. should financial institutions need the support. While these programs could ensure confidence in companies linked to SVB and prevent cash flow problems, it is still likely that there will be some private companies that will suffer lower valuations as a result of the SVB collapse.

This will have a knock-on effect for the projected returns on private equity investments from pension funds. The federal support and bailout programs likely won't cover the lines of credit that start up companies might have with SVB to manage irregular periods of cash flow. Nor will they necessarily guarantee the return of cash in money market mutual funds.

These challenges could lead to payroll crunches, lost business development resources, or even company failures. Alternatively, funding shortfalls in the near-term could require the investment firms backing the start ups and small companies in trouble to provide temporary financial support. It's possible that they might use money invested by pension funds. All of these scenarios potentially pose downstream threats to public pension funds.

THE SVB FAILURE EXPOSES A PENSION TRANSPARENCY PROBLEM

It is impossible to know the full scope state and local pension plan exposure to SVB financial fallout using only public documents.

Many of state pension funds do not publish their equity holdings. Among the 92 pension "funds" (e.g. retirement system trustees, treasury departments, or investment commissions) that manage the assets of the country's largest state and local "retirement plans," less than a third have up-to-date SEC filings related to their public equity investments. And most pension funds tend to conceal their private capital investments.

Ultimately the SBV losses are small dollar amounts of exposure relative to the tens of billions in assets that most public retirement systems manage. However, if you are a retiree or member of either pension fund, you might not be sure what kind of damage the bank failure has done because of the wide variances in transparency between retirement systems.

So, in some respects, the exposure of various pension funds to the Silicon Valley Bank failure isn't the main story. Some pension funds will lose money because of this bank failure, but it won't cripple any of them. Instead, the lack of transparency among pension fund investments is more troubling. The SVB story is a clear example of how certain pension funds do not have a lot of sunlight on their investments.

WHICH PENSION FUNDS WERE AFFECTED BY THE SVB BANK RUN?

As of March 15th, 2023, we are aware of 29 pension funds directly exposed to the effects of Silicon Valley Bank's failure.

PENSION INVESTMENT FUND	SVB FINANCIAL REPORTED VALUE	% OF FUND'S TOTAL ASSETS
California Public Employees Retirement Fund	$67,000,000*	
Ohio State Teachers' Retirement System	$27,200,000*	
New York State Common Fund	$26,500,000	
Washington State Investment Board	$18,100,000**	
New York State Teachers' Retirement System	$15,000,000	
Florida Retirement System (State Board of Administration)	$14,000,000	
Colorado Public Employees Retirement Association	$12.500,000*	
California State Teachers' Retirement System	$11,000,000*	
North Carolina Total Retirement Plans	$9,900,000*	
Wisconsin Retirement System	$8,600,000	
New Jersey Department of Investment	$8,400,000	
Ohio Public Employees' Retirement System	$7,000,000	
Retirement Systems of Alabama	$4,400,000	
Michigan Department of Treasury	$3,900,000	
Arizona State Retirement System	$3,800,000	
Oregon Public Employees Retirement System	$2,500,000	
Utah Retirement System	$2,400,000	
Texas Teachers Retirement System	$2,000,000	
Pennsylvania Public School Employees' Retirement System	$2,000,000	
Tennessee State Treasury (TN Consolidated Retirement System)	$2,000,000	
Alaska Retirement Management Board	$2,000,000	
Kentucky Teachers' Retirement System	$1,200,000	
Maryland State Retirement and Pension System	$1,000,000	
Kentucky Retirement System	$1,000,000	
Louisiana State Employees' Retirement System	$875,000	
New Mexico Educational Retirement Board	$656,000	
Illinois Municipal Retirement Fund	$518,000	
Ohio School Employees Retirement System	$421,000*	
Rhode Island Employees Retirement System	$2.6m or less (reported combined data)	

Note: *Data updated based on recent statement from retirement system. | **WSIB data is as of June 30, 2022; VRS data as of March 31, 2022. | All other data reported in 2023 Q1 via 13F SEC filings. Dollar amounts are stock values at the date of reporting and likely vary from the value in the days right before SVB failed.

This is only a partial list of pension funds who have stock holdings in SVB Financial Global. The SEC does not require the same kind of disclosures from pension funds who use external asset managers to invest in public stocks. There are likely many other pension funds with exposure through index funds, mutual funds, hedge funds, or private equity. The largest shareholder in SVB Financial was Vanguard, holding about 10% of the stock. Asset management firms Blackrock and State Street were among other top investors. Additionally, any of these pension funds might have sold their SVB stock in the days leading up to the crash and have not yet reported it.

NOTES & STATEMENTS

- CalPERS's CIO reported to their board in a March 13 public meeting what the value of their SVB and Signature Bank stock was before the collapse.
- Colorado PERA and CalSTRS provided updated stock values to a Newsweek reporter on March 13. They don't have statements on their website to this effect though.
- Arizona SRS also provided their SVB stock value to Newsweek on March 13, but it was the same value that they had reported earlier in Q1 and wasn't updated through the week of March 6.
- The Employee Retirement System of Rhode Island said in an email to WPRI.com on March 13 that they had a combined $2.6m of exposure to SVB, Signature, Silvergate, and First Republic.
- Ohio STRS issued a statement on March 14 about the value of their exposure. This simple and straightforward framing could serve as a model for the bare minimum of how every pension fund in the country should have responded.
- North Carolina's Treasurers office confirmed specific stock holdings on March 15 to WRAL TechWire. While the Treasurer did make a statement on March 13 about the NC banking sector, it was not clear from reporting that the specific exposure of the pension fund was discussed.