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ISSUE BRIEF

The Effect of the First Republic Bank Collapse on U.S. Public Pension Funds

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Based on data reported through May 2, 2023

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KEY FINDINGS

- There were at least 26 state and local pension funds with known, direct exposure to the failure of First Republic Bank at the start of 2023. These funds manage money on behalf of over 100 pension plans.
- Public Employees Retirement Association of Colorado has the largest known exposure by value to FRC, with a reported $110.5 million investment as of 12/31/22, according to SEC filings.[1]
- As a member of the S&P 500, most pension funds are likely to have some level of exposure to First Republic. They will also likely have exposure to JPMorgan Chase stock and any gains in JPMC stock resulting from their acquisition of First Republic's assets might balance out all or a portion of losses in FRC stock.
- 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.
- First Republic's collapse is related to larger upheaval related to interest rates; investment losses in FRC are a symptom of larger market volatility which is an on-going challenge for public retirement system investments.

OVERVIEW

First Republic Bank was seized by the Federal Deposit Insurance Corporation (FDIC) on May 1st 2023 and sold to JPMorgan Chase & Co. in what is the second largest bank failing in U.S. history. There are a range of effects from this for public pensions.

Based on SEC disclosures as of May 1st, there are at least 26 U.S. state and local public pension funds with exposure to the collapse of First Republic Bank (FRC) through either direct stock holdings, index funds, or ETFs. (This data is based on reported stock holdings with the SEC; we expect supplementary announcements from pension funds on their FRC specific holdings during the coming week either through press releases or requests for comment.)

The actual number of funds is unknown because many public pension funds do not file regular reports with the SEC, and among those who do most have not filed disclosures on their public equity holdings as of March 31, 2023 yet.

Since the Great Recession, pension funds in the U.S. have faced growing unfunded liabilities that reached $1.45 Trillion at the end of 2022. First Republic's seizure and sale will likely not result in massive losses for pension funds relative to their total assets and will not greatly exacerbate pension funding shortfalls on its own. In some cases, some retirement systems may experience a net gain on their investments as a result of the positive downstream impacts of JPMorgan Chase's acquisition of the failed bank on their stock value.

However, this is another event in a string of volatility events that have impacted retirement system investments. On their own, hundreds of millions in losses from individual bank failures, implosions of cryptocurrency platforms, or investments in now-heavily-sanctioned nations may look negligible relative to the trillions of assets currently held by pension funds. Taken together, this continuing trend of destabilizing market events should be concerning to pension fund stakeholders who are already looking at underfunded balance sheets.

HOW ARE STATE AND LOCAL PENSION FUNDS EXPOSED TO THE FIRST REPUBLIC COLLAPSE?

There are two primary ways that public pension funds may be affected by the First Republic collapse:

1. **Shareholders in First Republic Bank (trading under the ticker FRC) will likely lose all of the value in FRC stock.**
   - Pension funds have likely already experienced the brunt of the losses on their FRC stock holdings. The value of FRC stocks was already down 97% since January 1, so this closure doesn't do much more to reduce the equity value of First Republic than was already done.
   - If the FDIC doesn't recoup its losses in bailing out First Republic, then FRC bondholders and equity holders won't get any reimbursement either.
   - Almost every pension fund in the country will have owned some small portion of FRC since they were a component of the S&P 500. Some pension funds owned shares directly, while others got exposure through index funds or ETFs.
2. **Shareholders in JPMorgan Chase bank stock will likely gain value on their existing holdings.**
   - The value of JPMC stock was up by more than 2% by the end of the trading day on Monday, signaling general market support for JPMC taking over First Republic.
   - Most public pension funds will also own shares of JMPC, since they are one of the largest companies America. As of this week they are the 13th largest corporation by market capitalization.
   - It is possible that some pension funds will net gain from this transaction, if the value of their JMPC shares increase at a larger rate than their losses on FRC stock.

FIRST REPUBLIC'S FAILURE FURTHER EXPOSES A LACK OF INVESTMENT TRANSPARENCY AMONG PENSION FUNDS

We don't know the full scope of public pension fund exposure to FRC stock (or gains on JMPC stock) because of limited transparency on public equity holdings. State-level reporting varies widely in mandated detail and frequency and only a handful of the largest state and local pension funds file quarterly reports with the SEC detailing their public stock holdings (via "13F disclosures").

Most public pension funds use external managers for trading stocks and are not legally required to file such disclosures — though nothing would stop them from publishing a list of their holdings quarterly anyway (or from only using external asset managers who wouldn't stop such disclosures).

At the start of 2023, the value of First Republic Bank stock was over $121 a share. Pension funds that had a significant number of these shares will have suffered tens of millions or more in losses. Among the pension plans who have disclosed their holdings, it is possible some of them sold some or all of their shares over the past month.

Based on the few pension funds that have filed their 2023 first quarter 13F reports, we know that New Jersey Common Fund and Texas Employees Retirement System both sold all of their shares during the first three months of the year. At least a half dozen other large pension funds held on to their shares during Q1 and lost around 90% of the value between the end of December and the end of March.

FIRST REPUBLIC'S COLLAPSE IS JUST THE MOST RECENT OCCURRENCE IN A STRING OF VOLATILITY EVENTS

While it seems that the banking contagion is contained, volatility events have become increasingly common in the post-Covid era. While First Republic stock losses for pension funds aren't a big deal on their own, they aren't happening in a vacuum. Losses on Silicon Valley Bank or Signature Bank shares also weren't huge on their own. And neither were losses on FTX. But taken together with the resulting broader negative market effects of these events, there has been an undeniable downward pressure on public equities and the value of private investments. There almost certainly will be a negative effect on pension fund values.

This larger trend of volatility poses a variety of challenges for pension funds financial performance. There is no reason to assume that the trend will subside anytime soon and it will become increasingly necessary for pension funds to further mitigate the ongoing impacts of volatility through appropriate investment assumptions and risk management.

WHICH PENSION FUNDS ARE AFFECTED BY THE FAILURE OF FIRST REPUBLIC?

As of December 31, 2022, there were at least 26 major state and local pension funds with reported direct exposure to the failure of First Republic Bank. At least two of these funds sold their entire stake in the bank during the first quarter of 2023.

Most pension funds have not filed reports on their 2023 public equity activities yet that would confirm how their holdings in First Republic might have changed. Dozens of other state and local pension funds don't ever file SEC public equity disclosures reports.

The overall exposure to FRC stock as a share of each pension fund's portfolio is very small. Even at the start of the year, when First Republic stock was $121 a share, it accounted for less than 0.5% of each pension fund's portfolio.

Still, pension funds like Colorado PERA might have lost over $100 million on FRC stock. While that's not very much in the context of their $53 billion portfolio, that would still be tens of millions of dollars contributed by Colorado taxpayers and public employees.

PENSION INVESTMENT FUND	VALUE ON 12/31/22	VALUE ON 3/31/23	VALUE CHANGE IN Q1 2023
Public Employees Retirement Association of Colorado	$110,542,000		
California Public Employees Retirement System	$48,913,000		
California State Teachers Retirement System	$37,399,000		
Florida Retirement System (State Board of Administration)	$25,221,000		
Kentucky Teachers Retirement System	$24,000,000		
New York State Common Retirement Fund	$23,000,000		
New York State Teachers Retirement System	$22,903,000	$2,625,000	-88.54%
Ohio Public Employees Retirement System	$12,000,000		
State of Wisconsin Investment Board	$11,165,000		
Treasurer of the State of North Carolina	$10,000,000		
Retirement Systems of Alabama	$7,142,998	$768,247	-89.24%
Arizona State Retirement System	$6,304,029	$744,002	-88.20%
State of Michigan Retirement System	$6,060,736	$713,812	-88.22%
Utah Retirement Systems	$3,941,679		
Pennsylvania Public School Employees Retirement System	$3,769,000		
State of Tennessee, Treasury Department	$3,402,000		
State of Alaska, Department of Revenue	$3,120,000	$358,000	-88.53%
Texas Teacher Retirement System	$2,448,000		
Kentucky Retirement Systems	$2,000,000		
Oregon Public Employees Retirement Fund	$1,720,000		
Maryland State Retirement & Pension System	$1,718,771	$197,273	-88.52%
Louisiana State Employees Retirement System	$1,438,000	$169,279	-88.23%
New Mexico Educational Retirement Board	$1,060,000		
Illinois Municipal Retirement Fund	$592,000		
Employees Retirement System of Texas	$20,356,000	SOLD IN Q1	
State of New Jersey Common Pension Fund D	$12,906,201	SOLD IN Q1	

SOURCE: Equable Institute analysis of 13F SEC disclosures

***NOTE:** Funds that manage at least $100 million in public equities are required to disclose holdings quarterly; reports as of March 31 are not due until the end of June and only a few funds have filed their 2023 Q1 reports. Pension funds who have hired an external asset manager to trade equities on their behalf typically don't file SEC disclosures creating a lack of transparency around how much they own; generally, these funds are smaller than those listed above and will have lower stakes than shown in this figure.

FOOTNOTE & STATEMENTS

[1] Colorado PERA's reported holdings in FRC are as of December 31, 2022 in a disclosure filed February 13, 2023. In theory they could have sold all or part of these shares before there was a sharp decline in the value of FRC. They are not required to disclose holdings as of March 31, 2022 until the end of June (though they could file sooner if they want, or they could publish more frequent disclosures on their website).

- We will update a live list of public plan exposure to First Republic Bank at https://docs.google.com/spreadsheets/d/1XYL1DJNULjh8szUCxuBvPgc98u7ox7Cr8RDFRR9CfOo/edit?usp=sharing