Ukraine and Russia

An Action Checklist

1 March 2022

welcome to brighter

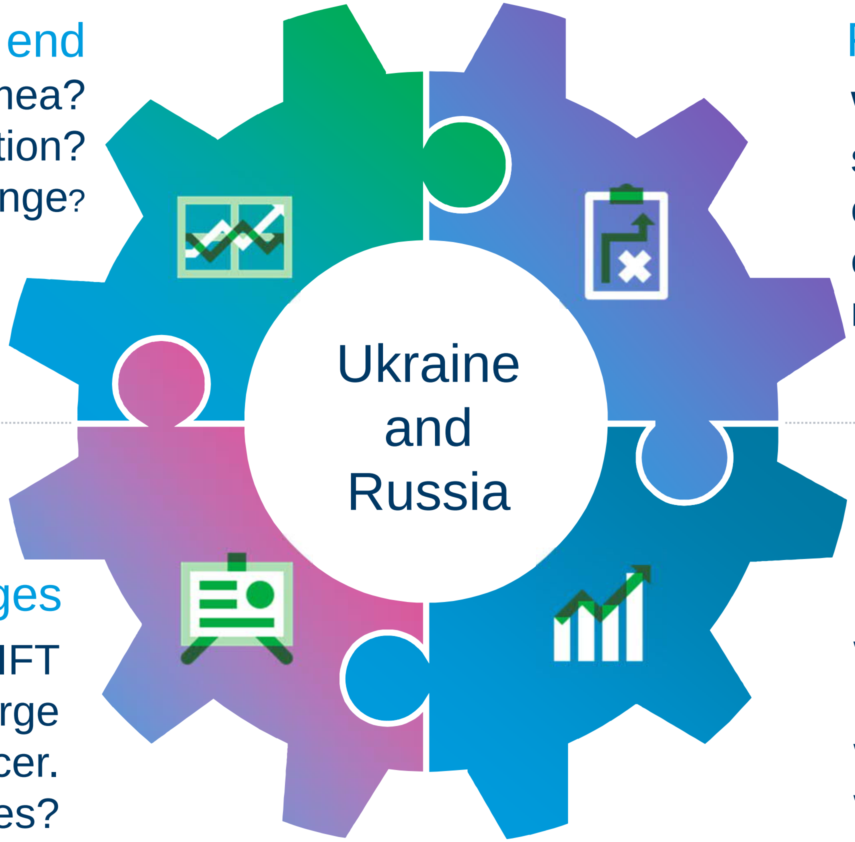
What we simply don’t know

How or when the conflict will end

Treaty with ceded territories like Crimea?
Prolonged conflict ending in annexation?
Russian regime change?

Full scale and impact of sanctions

With Ukraine and Russia being significant mineral, energy and commodity producers, there will be complex and unpredictable effects on many businesses and markets



Financial market linkages

Exclusion from SWIFT unprecedented for such a large economy and commodity producer.
Knock-on effects of asset seizures?

Policy Response in West

Will central banks pause from rate hikes and QE unwinding?
Will governments assist affected Western businesses?

What does history teach us?

Globally significant conflicts and the S&P 500

Event	Date of event	Duration of Sell-off (Trading Days)	Size of Sell-off (%)	Days to recover prior level	12 Months from Bottom (%)
WWII – Germany attacks France	9 May 1940	22	-20.5	108	18.9
WWII – Pearl Harbour	7 Dec 1941	17	-10.8	201	15.3
Israel Arab War / Oil Embargo	16 Oct 1973	27	-17.1	1475	-28.2
First Gulf War	16 Jan 1991	6	-5.7	8	31.4
Iraq War	20 Mar 2003	7	-5.3	16	32.8
Annexation of Crimea	14 Mar 2014	6	-2.0	13	11.5

Source: Deutsche Bank, Haver Analytics,

Other factors than the conflicts themselves were at play in each period so movements are only indicative

Three things we do know

1

Higher Energy Prices

Some forecasters expect oil to hit $110-$120 per barrel, with similar moves in other energy prices

Gas supply lines could be disrupted globally and supplies potentially under threat, particularly in Europe

2

Supply Chains Disrupted

East-West trade links disrupted around conflict zone. Alternative routes slower and more costly

Prolonged conflict could exacerbate global chip shortage, and affect other tech industries reliant on key minerals

3

Volatility and illiquidity

Ruble and Russian assets have borne brunt to date.

Expectations of pause in monetary tightening supportive of other assets

Heightened volatility and sporadic illiquidity likely to persist in most markets

Action Checklist

1. Direct exposure to Russia likely to be small but should engage with investment managers to assess potential range of indirect risk exposures to the conflict
2. Review hedging strategy, given movements in market-implied inflation and gilt yields. Depending on scheme circumstances, could be opportunity to increase rate hedging, or reduce inflation hedging, as inflation caps come into play
3. Where equity and credit spread risk high, consider “tactical” options for reducing identified risk exposures, subject to market levels and conditions (e.g. futures, options, Credit Default Swaps)
4. Reconfirm desirability of any planned changes to current portfolio given transactions costs higher due to market volatility and sporadic illiquidity
5. Removal of Russia from global equity and fixed incomes indices likely, which could result in illiquid off-benchmark exposures. Discuss exit strategy with investment managers.
6. Consider whether member expectations, or broader reputational risk, warrant disinvestment from all holdings in Russian assets, irrespective of exit costs

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