Retirement News Highlights
Thursday, May 9, 2024

Many U.S. state pensions have funds tangled up in ByteDance. It's impossible to know how much

Jessica Mathews
Fortune
May 9, 2024

When President Joe Biden gave China's ByteDance an ultimatum last month—to either sell TikTok or be banned in the U.S.—dozens of state pension funds were quietly swept into the crosshairs.

After all, behind the $9.5 billion of venture capital that has been poured into ByteDance since 2012 is a sprawling list of U.S. pension funds (and yes, the endowments, nonprofits, insurance companies, and family offices, too).

So how many state pension funds have exposure to ByteDance? Good luck trying to find out.

One of the things I find to be most frustrating covering the private markets is the stunning lack of data. What you *can* find is usually self-reported. And if you're filing FOIA requests, the data is hardly ever reported in a uniform way, making it extremely difficult to analyze. So I was intrigued when Andrew King, a venture capitalist focused on national security startups, sent me a report that his advocacy organization, Future Union, had put together on ByteDance. The report pulled publicly available information to track which pensions, endowments, and nonprofits invested in the VC and PE firms that back ByteDance, and it seemed to be the most comprehensive tally to date of how many states were exposed.

But when I reached out to the dozens of pension funds on this list to check the numbers, I got a slew of emails and calls back: We have no exposure; That number isn't right; We aren't invested in any venture capital funds; No *direct* exposure.

That's the thing. Venture capital firms don't have to disclose which specific fund they used to invest in a company. Nor do most pensions have to disclose their individual startup holdings. So simply pulling the data of which LPs are invested in which funds isn't sufficient—an investor in Coatue might not have any exposure to ByteDance, for example. We just can't know the extent of exposure limited partners have to individual companies.

This isn't the first time I've written about something like this. When Russia invaded Ukraine, venture capital funds had to scramble to figure out if any of their LPs were on the newly implemented list of banned entities. Some venture funds apparently didn't even know who it was that had written them checks. Compliance got very messy.

Now, with global tensions rising around the world, we can only expect to see more of this sort of thing, especially given how entangled U.S. venture capital has become with the rest of the world's wealth. VC funds have been pouring money, and accepting it, across borders for decades—sometimes to much controversy. There's no dataset I'm aware of that will lay out precisely how much U.S. capital is sitting in foreign startups, nor how much foreign capital is sitting in U.S. funds and companies.

About a dozen pension funds and endowments have gotten back to me over the past couple days regarding ByteDance. Nearly all of them declined to comment on the record, though a few of them volunteered their level of direct exposure to ByteDance. The New York State Teachers' Retirement System has approximately $47.6 million exposed to ByteDance. The Ohio Police & Fire Pension Fund said, through its private equity investment in a KKR Asia Fund, it had invested $900,000 into ByteDance, which is now worth approximately $3 million. St. Mary's College of Maryland, through its foundation, has less than $1,500 invested. The Kentucky Teachers' Retirement System said it has a "small position" in ByteDance through an investment in a buyout fund. Some other LPs have more indirect exposure—through positions in funds that had invested in startups acquired by ByteDance. The Maryland State Retirement & Pension System said that, if it did have exposure, it would be indirect through a blind pool investment and "de minimis in amount."

These are only a few names. Firms like Sequoia Capital China (now separate from Sequoia and renamed HongShan), General Atlantic, Susquehanna International Group, Coatue, Tiger Global, SoftBank, KKR, and Carlyle Group all have money tied up in ByteDance—to name a few. That's money the firms have been given to invest by a laundry list of LPs, most of whom have zero disclosure requirements.

Congress is increasingly focused on challenging foreign investments that could pose a threat to U.S. security, including through a China-focused committee set up last year that has investigated Shein, Temu, and a handful of VC firms. And yet Congress has no way to actually measure the scope, or impact, of any actions it takes on the retirement funds within their communities.

For now, the U.S. government's crackdown on Bytedance isn't on track to make much of a dent in pension plan returns—secondaries markets data from Caplight shows ByteDance shares have been pretty resilient, trading at $120.94 in private transactions, which suggests a valuation of around $202 billion. That's a haircut from the price of a reported Bytedance share buyback a few months ago, but still a heaping valuation that will likely be a windfall to many LPs.

But a U.S. ban or forced sale of TikTok—and the outcome of TikTok's lawsuit to challenge either—could still end up wreaking havoc on the company's valuation. What exactly is at risk here? I wish I could tell you.