



CITY OF GLENDALE, CALIFORNIA REPORT TO THE CITY COUNCIL

AGENDA ITEM

Report: Consideration of Amendment to City's Investment Policy to Prohibit Investments of City Funds in or Related to the Republic of Azerbaijan.

1. Resolution of the Council of the City of Glendale, California Amending the City's Investment Policy to Prohibit Investments in or Related to the Republic of Azerbaijan and Conducting a Review of all Funds to Ensure Comporance with these Principles.

COUNCIL ACTION

Item Type: Action Item

Approved for July 16, 2024 **calendar**

EXECUTIVE SUMMARY

On January 30, 2024, the Glendale City Council adopted a resolution recognizing Azerbaijan's ethnic cleansing and genocide in Artsakh also known as Nagorno-Karabakh. At its May 7, 2024, meeting, the Council, while acknowledging that moneys in the City of Glendale's general fund are not invested in any foreign securities, it nonetheless directed staff to investigate other city investments, such as CalPERS, and determine whether any city funds are invested in Azerbaijani securities. Staff raised concerns about CalPERS' approximately \$170 million investment in Azerbaijani securities, which contradicts its Environmental Social Governance (ESG) policies, especially given Glendale's significant Armenian-American population. The report below emphasizes the risks posed by such investments given Azerbaijan's potential for sanctions, urging a policy review to align with community values and uphold ESG principles.

RECOMMENDATION

That City Council consider the adoption of a Resolution to amend the investment policy adopted on September 19, 2023, regarding the investment of city funds to prohibit any indirect investments in or related to the Republic of Azerbaijan and conducting a review of all funds to ensure comporance with these principles; outreach to all fund managers to advise of the City's objection to the investment of its funds in any such securities.

ANALYSIS

On January 30, 2024, the City Council recognized via resolution that the government of the Republic of Azerbaijan engaged in ethnic cleansing and genocide in Nagorno-Karabakh under Article II(c) of the Genocide Convention by “[d]eliberately inflicting on the group conditions of life calculated to bring about its physical destruction,” and the City of Glendale is home to the largest Armenian-American population in the United States.

At a recent City Council meeting on May 7, 2024, staff was directed to research and prepare a report to further explore indirect investments via public funds in or related to the Republic of Azerbaijan. The City Treasurer has confirmed that the City of Glendale in accordance with the California Government Code is not permitted to have direct foreign investments. This slight modification to the City's investment policy also ensures that there are also no indirect investments in any Azerbaijani securities through the comingling of funds with US-based mutual funds.

The rationale for exploring the amendment of the City of Glendale's investment policy is incumbent on the three tenants, listening to the voices of our community and Sister Cities, ethical investments in accordance with ESG principles and lastly, the financial future of public employees within the CalPERS system.

Firstly, as Glendale is home to the largest Armenian diaspora and currently has experienced an influx of displaced people of Artsakh, voices that must be heard as families still mourn the tragic loss of loved one due to Azerbaijan's violations of international law. Next, CalPERs serves as the California Public Employees' Retirement System and has approximately \$170 million in direct investments with the Republic of Azerbaijan. This decision stands in stark contrast to CalPERS' own Environmental, Social, and Governance (ESG) policy, which aims to promote sustainable and ethical investment practices. The City Council has expressed strong objections to this investment due to Azerbaijan's involvement in genocidal actions. The investment is particularly troubling for Glendale, given the profound impact on its sister city, Martuni, which has suffered significantly due to Azerbaijan's actions. Although CalPERS has acknowledged the concerns, it maintains that while ESG considerations are important, the primary focus remains on achieving high rates of return on investments for its members. The City Council may urge CalPERS to reconsider its investment in Azerbaijan, highlighting the need to honor the sentiments of the community and adhere more closely to its ESG commitments. Lastly, while representing public funds, direct or indirect investments in nations with a high-risk for sanctions pose a risk to public employees and their benefits not only in Glendale but across the State.

It has been noted that Azerbaijan is ranked among the worst countries for corruption according to Transparency International's Corruption Perception Index (CPI).¹ As of the last reporting period, Azerbaijan has a score of 23/100 and is ranked 154th, just below Zimbabwe and along with Iraq.² Scores below 50 are considered failing scores, while scores below 30 indicate “severe systemic corruption.”³ Also, Freedom House stated that bribery and corruption in Azerbaijan is “rampant.”⁴ For instance, the U.S. State Department stated in its *2022 Investment Climate Statements: Azerbaijan* that “corruption remains a major challenge for firms operating in Azerbaijan.”⁵

As international awareness about Azerbaijan's war crimes increases, the likelihood that state and international sanctions will be imposed against Azerbaijan is expected to increase significantly in the coming months.

Additionally, the Azerbaijan Republic has made international placements of bonds and other debt securities directly on behalf of the government (ticker symbol of bonds issued directly by the Government of Azerbaijan is AZERBJ), as well as using state-controlled entities (“Quasi-Sovereigns”) such as International Bank of Azerbaijan OJSC (ticker: IBAZAZ), State Oil Company of the Azerbaijan Republic, also known as SOCAR (ticker: SOIAZ) and Southern Gas Corridor CJSC (ticker: SGCAZE) (state and quasi-sovereign issuers collectively “Azerbaijani Issuers”). International Bank of Azerbaijan is fully owned and controlled by the State of Azerbaijan and has been instrumental in financing the activities described in this letter. SOCAR and Southern Gas Corridor CJSC are also ultimately fully owned by the government of Azerbaijan and are direct contributors to the state budget.⁶ Noticeably, SOCAR has reportedly tried to avoid US sanctions against Iran, was a key player of a high-level corruption scandal in Malta which involved Azerbaijan's president's family and a \$3 billion money laundering scheme, known as

¹ *The ABCs of the CPI: How the Corruption Perceptions Index is Calculated*, TRANSPARENCY INT'L (Dec. 20, 2021), <https://www.transparency.org/en/news/how-cpi-scores-are-calculated>.

² *Corruption Perceptions Index, Show the 2023 Scores*, TRANSPARENCY INT'L (2023), <https://www.transparency.org/en/cpi/2023>

³ *Corruption Perceptions Index 2021: Corruption Levels, Including in the Asia-Pacific Region, Remain at a Worldwide Standstill*, MORRISON FOERSTER (Feb. 14, 2022), <https://www.mofo.com/resources/insights/20213-corruption-perceptions-index-2021>.

⁴ *Freedom in the World 2022*, FREEDOM HOUSE (last visited Feb. 7, 2023), <https://freedomhouse.org/country/azerbaijan/freedom-world/2022>.

⁵ *2022 Investment Climate Statements: Azerbaijan*, U.S. DEPT. OF STATE (2022), <https://www.state.gov/reports/2022-investment-climate-statements/azerbaijan/>

⁶ State Oil Company of the Azerbaijan Republic (SOCAR), FitchRatings (Feb. 25, 2020), <https://www.fitchratings.com/research/corporate-finance/state-oil-company-of-azerbaijan-republic-socar-25-02-2020> (“SOCAR[] is Azerbaijan's national oil company and is fully owned by the state.”); *Fitch Affirms Azerbaijan's Southern Gas Corridor CJSC's Notes at 'BB+'*, FITCHRATINGS (Mar. 16, 2017), <https://www.fitchratings.com/research/international-public-finance/fitch-affirms-azerbaijan-southern-gas-corridor-cjsc-notes-at-bb-16-03-2017> (stating that Azerbaijan “ultimately owns 100% in SGC via 51% stake held by the Ministry of Economy and 49% stake held by the [SOCAR]”).

“Azerbaijani Laundromat.”⁷ These Quasi-Sovereigns have been conducting open-war propaganda via their media channels, by expressly glorifying and supporting the war and military that includes terrorist groups.

The war crimes by Azerbaijan, including the use of cluster munition, tortures and killings of prisoners of war, aiding and abetting terrorist fighters, and ethnic cleansing are not only grave violations of a number of United Nations conventions, but run afoul of core ESG values, regardless of whether or not war crimes are explicitly called out in ESG policies. These crimes are categorically incompatible with social and justice pillars of ESG principles. As an example, many ESG conscious investors rely on the Rule of Law index published by World Justice Project as a qualitative indicator for their fixed income portfolios. Our research of the Rule of Law website revealed that the Rule of Law initiative does not currently track Azerbaijan.⁸ Similarly, other indices either do not expressly track Azerbaijan or are not aimed to cover war crimes.

On May 10, 2024, the United Nations Committee Against Torture released its Concluding Observations following its fifth periodic review of Azerbaijan. The Committee’s findings confirm the fact of official hatred in Azerbaijan against ethnic Armenians, which manifests itself in torture and impunity for torture. This establishes at the highest international level that once or if the displaced residents of Nagorno-Karabakh return to the territory, they cannot be directly subject to Azerbaijan’s authority. Based on past experiences, the Republic of Azerbaijan has historically been free from international law implications.

STAKEHOLDERS/OUTREACH

The Armenian Bar Association has provided insight and made recommendations to move forward with this resolution.

FISCAL IMPACT

There is no fiscal impact associated with this report.

ENVIRONMENTAL REVIEW (CEQA/NEPA)

N/A

CAMPAIGN DISCLOSURE

This item is exempt from campaign disclosure requirements.

ALTERNATIVES TO STAFF RECOMMENDATION

Alternative 1: The City Council may not adopt the Resolution as drafted.

Alternative 2: The City Council may adopt an amended variation of the resolution and

⁷ Paul Radu, *et al.*, *The Azerbaijani Laundromat*, ORGANIZED CRIME AND CORRUPTION REPORTING PROJECT (Sept. 4, 2017), <https://www.occrp.org/en/azerbaijanilaundromat/>.

⁸ See *WJP Rule of Law Index*, WORLD JUSTICE PROJECT (last visited Feb. 7, 2023), <https://worldjusticeproject.org/rule-of-law-index/global>. Azerbaijan cannot be located on the list of covered countries.

direct staff to advocate the City's decision via official letter to CalPERS.

Alternative 3: The City Council may consider any other alternative not proposed by staff.

ADMINISTRATIVE ACTION

Submitted by:

Rafi Manoukian, City Treasurer

Prepared by:

Stephanie Mkhlian, Legislative Affairs and Communications Manager

Approved by:

Roubik R. Golanian, P.E., City Manager

EXHIBITS/ATTACHMENTS

Exhibit 1: Draft Resolution

Exhibit 2: California Legislative History on Divestment

Exhibit 3: 2023 CalPERS Annual Investment Report

Exhibit 4: The California Debt and Investment Advisory Commission (CDIAC) Local Agency Investment Guidelines (2024)

Exhibit 5: 2023 CalPERS California Public Divest from Iran Act Legislative Report