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**Testimony to the  
House Rules Committee  
Richard B. Solomon, Oregon Investment Council**

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Thank you for the invitation to testify.

For the record, I am Dick Solomon, and I am speaking in my capacity as the chair of the Oregon Investment Council. I would like to thank the committee for taking the time to learn about House Bill 4144 -- the Investment Modernization Act. I have served on the OIC since 2004 and that has given me a unique perspective on Oregon's public portfolio in both good markets and bad.

I believe strongly that HB 4144 will make the portfolio, and therefore Oregon, stronger and better able to navigate the increasingly stormy financial seas in today's global financial markets. And just as critically, the proposed restructuring will allow us to reduce the costs associated with investing Oregon trust funds. We calculate that we could save PERS as much as \$2.8 billion over a 20 year period.

In my professional life, I am a Certified Public Accountant with over 40 years of experience. My colleagues on the Council all bring specific investment expertise and skills that they can apply to the Council's deliberations. While the Investment Council is made up of appointed citizens, it requires individuals with solid acumen in investing and finance who are responsible for keeping Oregon's investment house in order.

The Investment Council guides the investment policies for more than \$87 billion in public trust funds, including the Oregon Public Employees Retirement Fund, the State Accident Insurance Fund and the Common School Fund. The OIC takes a hard look at proposed investments, how much those investments cost and whether they are prudent for the long-term. The returns have been solid, and Oregon consistently out-performs our peers. In fact, a year ago, an independent ranking showed that Oregon was at the top of the field for returns in the 1-, 3- and 10-year periods.

In that light, it is entirely reasonable to ask: What's broken? After all, Oregon has been recognized as a leader in investment management for many years.

However, to sustain leadership requires vigilance and continuous improvement. So the OIC asked for independent advice and reviewed some of the program's fundamental underpinnings and industry best practices. The reports confirm that Oregon's investment house is sitting on a foundation that is poorly aligned with our fiduciary duties.

The current structure for the investment program was created in the 1960s and 1970s, when the pension fund totaled less than \$1 billion and almost all of it was invested in bonds. While the investment world has changed markedly since, Oregon's staff structure has not kept pace. HB 4144 will allow Oregon to move forward more safely in an investment landscape that is more complex and has more pitfalls than ever before.

Among the other findings:

- The lines of accountability are blurred because the Investment Council, though able to set investment policy, is not actually able to direct staff in the implementation of that policy.
- Oregon's cost structure is higher than similar funds because of our heavy reliance on external investment managers.
- And critically, Oregon has only a fraction of the risk management, analysis, and compliance functions that are commonplace for managers of similarly-sized portfolios.

This legislation is our best effort to achieve needed changes and protect the State's investment funds. As a fiduciary, all council members are duty-bound to protect trust funds and maximize our returns, and these reforms are essential.

Our portfolio could face significant risks if we fail to modernize and strengthen its management. We believe we can potentially save billions of dollars over the coming years by reducing the outsourcing of significant parts of our investment management. While external money managers bring significant value to certain strategies within a portfolio, our heavy reliance on Wall Street is a necessity rather than a choice under the current structure.

This legislation will address these shortcomings by converting the investment program to a public investment agency -- the Oregon Investment Department -- governed by the OIC. As a public investment agency, the new entity will have the flexibility to manage the State's investment program like a professional investment organization, and in a way that management of a global \$87 billion portfolio warrants. The staff of the agency will report to the entire OIC, rather than to just one member. That is similar to how a private investment organization reports to a board of directors.

This alignment of fiduciary duty and management responsibility will allow the OIC to address functional weaknesses in the organization such as the lack of a dedicated risk management program, inadequate regulatory and transactional compliance, and in-house research support.

Currently, the OIC takes a hard look at how much is spent on external management, and has won industry-wide accolades for driving a hard bargain and getting good value for less. But we can do better. Under HB 4144, the OIC would be able to scrutinize the costs of the entire investment program -- inside and out -- and make resourcing decisions that are both prudent and maximize long-term value creation.

HB 4144 is a priority for the Oregon Investment Council, and we unanimously support it. That said, we would not be before you today if it wasn't for the support and commitment of the Treasurer, in his roles as both a state officer and a Council member.

All Oregonians have a stake in the wise management of public trust fund assets. HB 4144 places management authority in the hands of those charged with fiduciary oversight -- a fundamental best practice in investment fund management -- and it could save Oregonians billions of dollars. It is critical to keeping our investment house in order, and to building a stronger and more sustainable foundation for the long-term.

Thank you for your time and I would be happy to answer your questions.