OREGON STATE TREASURY

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Oregon State Treasurer

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March 19, 2025
Testimony on SB 681
To: Senate Revenue Committee
From: Oregon State Treasury

Chair Meek, Vice-Chair McLane and Members of the Committee,

The Oregon State Treasury (OST) opposes SB 681 because it reduces our ability to diversify our portfolio and maximize returns for the retirees who are beneficiaries of the Oregon Public Employee Retirement Fund (OPERF).

SB 681 prohibits the State Treasurer from renewing investments or make new investments in a private market fund if the managers of the fund have stated an intention to invest in fossil fuels, which is explained by SB 681 as:

"Invest in fossil fuels" means to make investments, or to intend to actively consider making investments, of at least 10 percent of assets under management in companies engaged in any combination of: (A) Producing, exploring for or extracting fossil fuels; (B) Transmitting or exporting fossil fuels; (C) Creating, maintaining or dealing in infrastructure dedicated to fossil fuels, including pipelines and terminals"

A limit on such investments as defined by SB 681 will narrow OST's investment opportunities across multiple asset classes. For example, it will limit the investible universe of real assets such that our ability to meet the Oregon Investment Council's (OIC's) objective for this asset class will be dramatically hampered. The real assets portfolio helps during period so high inflation, such as in 2022. At that time, when most of the marketplace was losing money during this high inflationary period the OPERF real assets portfolio was making money because of its exposure to inflation sensitive investments. In 2022 the global stock market was down 18% versus OST's real assets portfolio, which was up 15.9%.

A diversified portfolio that includes private investments is important. Below is a chart that shows growth of $100 for OPERF (in blue) against a passive 70% in stocks 30% in bonds portfolio from July 1997 to end of 2024 (in red).

Growth $100
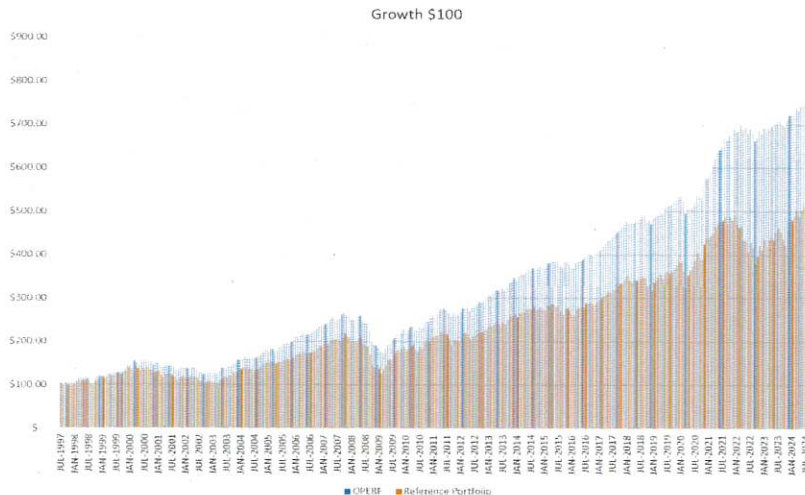
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OPERF returns over a five- and ten-year period also proves out our successful and diversified investment strategy:

Five- and Ten-Year Performance Comparison: Private and Public Equity*

| Asset Class	Five Year Performance	Ten Year Performance
Private Equity	12.36%	12.14%
Public Equity	12.24%	9.59%

*These data align quarterly reporting timeframes for Private Equity and Public Equity.

To illuminate further, the green "mountains" in the graph below show the excess return of private equity over public equity. Note that only three years (2003, 2013 and 2014) out of a 27-year time horizon where private equity underperformed when compared to public equity. (Acronyms = PEP: Private Equity Program, and MSCI ACWI IMI: Passive total world equity index. Blue line equals private equity/Orange line equals the MSCI).
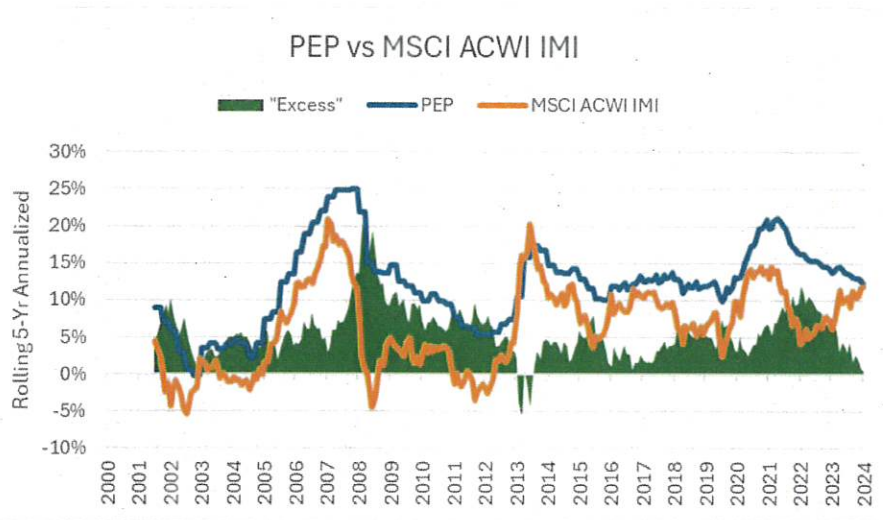
OST is committed to supporting an investment portfolio with low greenhouse gas exposure if they also support a positive investment goal. Treasurer's Net Zero Annual Report (page 20) offers a list of case studies, which include investments like the largest renewable energy independent power producer in the Asia-Pacific region ("APAC"), investing across all technologies (onshore/offshore wind, solar, batteries, and hydrogen). OPERF's investments in energy transition infrastructure have increased 20% since 2016, see graph depicting the information below.

Growth in Energy Transition Infrastructure Exposure
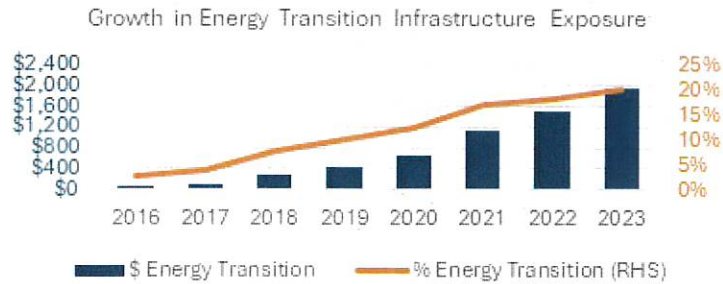
While Treasury shares the sponsors' intent to manage our portfolio with climate risk as an important element in our investment strategy, SB 681 is not the answer because it could reduce OPERF returns and potentially increase unfunded liabilities, creating unintended consequences that would pose significant implementation challenges to the agency.

Thank you for your consideration of our analysis and concerns with the legislation.
Sincerely,

Jessica Howell

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Oregon State Treasury