August 19, 2025

Dear Treasurer Steiner and members of the Oregon Investment Council,

The recent PERS piece in *Willamette Week* contrasted a tale of OPERF's private equity impact on two public servants: An art teacher probably making about $60,000, and a chief investment officer making $810,000. The teacher, who at age 68 is still a few years from retirement, is reduced to half-time, dashing her retirement plans. Meanwhile, there is no pay cut for the head investment officers after missing a 34% bull market. CIO Kim explains an anemic 4% private equity return to be part of a long-term strategy that has failed to meet its benchmark for the past 10 years. After ignoring OIC policy for years, it appears OST intends to mostly stay the course.

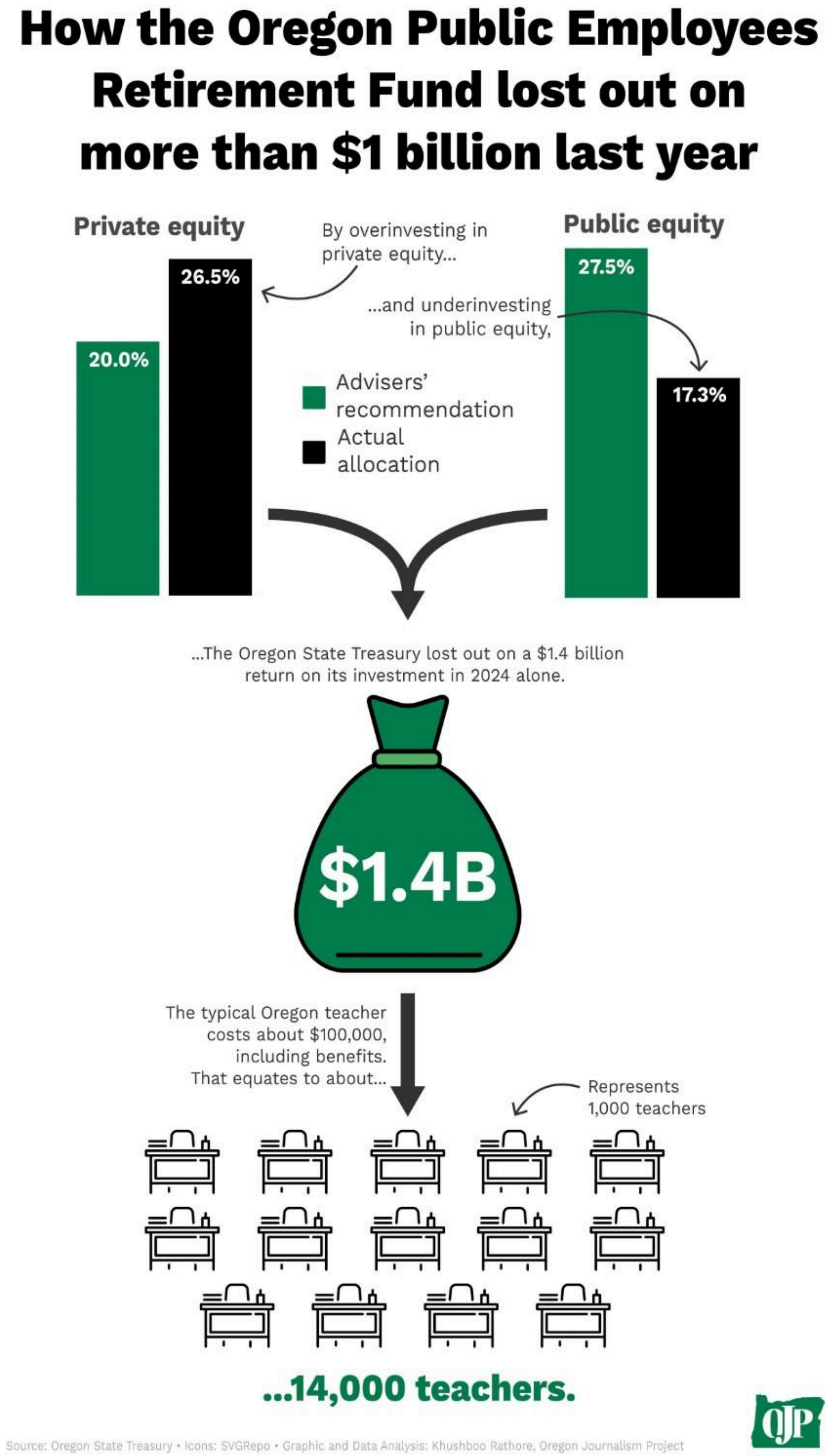
CIO Kim further acknowledged to *The Oregonian* that OPERF's 20-year average return for private equity fell 33% below its market outperformance benchmark. Many experts are telling investors the glory days of private equity are gone, crushed by high interest rates and too many investors throwing too much money at too many highly compensated marketers. The private investments in a pension fund, especially investments in fossil fuel extraction and infrastructure, do not justify the high risks and increasingly average-level returns.

On the heels of critical pieces in *The Oregonian, Willamette Week*, and *OPB's Think Out Loud*, the American Federation of Teachers (AFT), the American Association of University Professors, and Americans for Financial Reform released a report, *From Public Pensions to Private Fortunes: How Working People's Retirements Line Billionaire Pockets* (July 30, 2025). The report summarizes in a solid, documented, and readable manner the many studies showing how private equity and related forms of private investment no longer deliver superior returns, particularly on a risk-adjusted basis. It explains how private equity general partners manipulate values and fees. It makes the common sense point that losses sellers take on the secondary market are a better reflection of private equity valuation than quarterly statements from highly interested general partners.

The report also raises concerns about harmful workforce management practices in private equity, including child or forced labor, restricted freedom of association, mass layoffs, and workplace health and safety problems, among other issues. These practices pose a reputational risk to pension funds and can erode fund performance (not to mention humanitarian concerns). The report recommends policies and practices to mitigate labor risk including a call to adopt labor standards that include a clear enforcement framework.

The following undersigned legislators, Divest Oregon, AFT-Oregon, and AAUP-Oregon share these concerns.

The report about the loss of thousands of teachers, as illustrated by the graphic from the *Willamette Week* article below, hits close to home for AFT's membership. The risks of increasing private investments over the past 15 years have materialized and come home to roost in Oregon PERS. A $500 million statewide increase for school funding was approved by our legislature in 2025, but the $1.4 billion loss in the PERS retirement fund means funds that were to be used to improve student outcomes and reading ability will be diverted to PERS contribution increases. That huge loss would not have occurred if Treasury staff had followed the allocation targets set by the OIC, rather than flouting them for years.



OPERF's investments in private Real Assets are of particular concern to Divest Oregon when they are used to fund fossil fuel resource extraction, infrastructure, and power generation. These investments create and cement decades-long sources of greenhouse gas emissions. Their emissions will inevitably increase global warming that economists now identify as posing increasingly substantial risks to GDP and investment values. These economic risks place the future retirements of younger PERS members in jeopardy. Investing in fossil fuel projects prioritizes payments to current beneficiaries over the long-term viability of PERS and the protection of younger members' retirements—something the fiduciary duty of impartiality does not allow.

Similarly to private equity, Real Assets are 40% over target in OPERF's portfolio. Staff tells the OIC it will not bring the allocation within target until 2033—8 years from now. Much of PERS emissions intensity comes from this asset class and must be addressed immediately.

Staff touts a history of Real Asset returns 1-2% over benchmark, presenting to the OIC this April an Internal Rate of Return (IRR) of 7.6% from inception to date. However, Treasury's website says "IRRs SHOULD NOT be used to assess the investment success of a partnership or to compare returns across partnerships. The IRRs in this report HAVE NOT been approved by the individual general partners of the partnerships" (emphasis in original). More accurate returns stated on Treasury's website show Real Asset returns to be 4.8% from inception to date on a time-weighted basis. 4.8% is almost 2% below benchmark for the Real Asset class.

The Oregonian article linked to a critique by investment analyst Richard Ennis of public pension funds' risk-laden reliance on private equity. Mr. Ennis tellingly addresses the question raised by many beneficiaries about why pension funds continue to invest in private investments. As Ennis summarizes,

> "Agency problems and weak governance have sustained alts-investing. CIOs and consultant-advisors, who develop and implement investment strategy, have an incentive to favor complex investment programs. They also design the benchmarks used to evaluate performance. Benchmark returns are downwardly biased. Compounding the incentive problem, trustees often pay bonuses based on performance relative to these benchmarks. This is an obvious governance failure. The spirit of stewardship is taking a beating in all this."

Ennis goes on to say:

> **"I choose to focus here on agency problems and weak governance in the management and supervision of these assets.** The funds' CIOs and consultant-advisors, who are responsible for formulating and implementing investment strategy, have an incentive to favor complex strategies.[27] They can earn much greater salaries and consulting fees advocating complex investments.[28] Doing this also helps burnish their reputation as shrewd investors. And they get to do it with large amounts of other people's money. This is the heart of the agency problem of institutional investing."

Questions to Treasurer Steiner and the rest of the OIC

The questions raised by the media, report, and the previous issues described by Ennis need to be addressed. They are listed in one document here.

We applaud OST's commitment to a Net Zero Plan (NZP) to reduce the fossil fuel emissions from its portfolio, much of which are due to private investments. It seems to be at cross purposes to argue against stopping new fossil fuel private investments (as was done in opposition to SB 681, the Pause Act). Therefore, it is time for OST leaders to explain to beneficiaries and the public in detail their rationale for this opposition, and what they are actually doing to reduce fossil fuel emissions. To both meet the NZP goals and reduce its investment risk, **will OST stop investing in these risky funds and get rid of those fossil fuel investments when secondary sales are necessary?**

OST investment managers appear to be "driving with the rear view mirror" and not always following OIC policies. The OST understanding of the role of private investments in the portfolio needs to be critically re-examined. Questions such as these need to be answered by OST:

- What institutional changes are you going to implement to ensure the staff follows OIC policies and stays within asset class allocation targets?
- Whose advice are you following and what data are you using to support the preference for private investments?
- Why isn't Treasury reporting private equity returns and all exited private investment returns on a time-weighted basis so beneficiaries and the public can see what actual returns really are?

In addition, what is the Treasury doing to mitigate labor-related risks and address poor workforce management practices that harm workers, erode fund performance, pose a reputational risk, and have broader negative social consequences?

It is time to give serious, thoughtful, deliberate consideration — one that is fully open to engagement and real information sharing with affected groups of beneficiaries and taxpayers — to phasing out and ending new private investments in fossil fuel holdings and examine a much reduced amount of private investments.

Treasurer Steiner: We request a written, publicly available response to these questions, beyond a "we know best" statement. Thank you for addressing these concerns.

Sincerely,
Divest Oregon Coalition
Senator Jeff Golden
Senator Khanh Pham
Senator James Manning
Representative Farrah Chaichi
Representative Lisa Fragala
Representative Mark Gamba
AAUP-Oregon
AFT-Oregon