Oregon Treasury's Private Investment Transparency Problem

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Background

The Oregon Treasury manages $130 billion in state funds, and $90 billion of that is Public Employee Retirement System (PERS) funds. Transparency is required: they are entrusted with public funds and they need to be accountable to the public.

The Treasury has multiple transparency failures!

In Risky Business: The Oregon Treasury's Fossil Fuel Problem, Divest Oregon provided an in-depth look at Treasury's failure to disclose how much of the portfolio they manage is in risky long-term fossil fuel investments. Divest Oregon has only been able to uncover what their fossil fuel investments are in publicly held funds, but not in the 60% of PERS that is held in private investments.

Treasury's Climate Risk Assessment, commissioned by the Treasury in 2021, documents that extreme climate requires that Treasury change its business-as-usual now. All Divest Oregon could get, through a public records request, was a small portion of the $149,000 97-page report. Transparency requires that the Treasury disclose known climate risks – and what they plan to do about those documented risks.

Is there at least a regular audit of Treasury investments? No. Statute (ORS 293.776) requires an Examination and audit of investment program "at least once every four years." But as the Treasury said on August 31, 2022 in a responsive email, "An investment funds audit has not been completed and presented to the OIC since 2016."

Now we look at another huge Treasury problem that impacts us all: Oregon Treasury's Private Investment Transparency Problem.

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The Basics: What are Private Investments?

- Private Investments, which include Private Equity funds, are pooled investments overseen by Private Equity Firm fund managers. A typical investment strategy is to take a controlling interest in an operating business and engage actively in the management and direction of the business in order to increase its value to fund investors. This often involves cost cutting and adding substantial new debt.

- Private Equity Firms raise money from investors such as pension fund managers, like the Oregon State Treasury (OST), kick in a little of their own, then often borrow heavily to buy or invest in companies.

- The Private Equity fund managers have sole decision-making power about how private investment funds are used.

- Private Investments are just that – private.
    - Most private investments are not listed on any public stock exchange so there is no way to know how much any investment fund is really worth on any given day.
    - The terms of the investment are set by contract including:
        - how much is invested
        - management fees
        - length of commitment
        - return on investment

        - secrecy about specific fund investments

    - Private investments also have protection in Oregon public records law to keep specific investments and terms of the contract confidential.

Concerns about Private Investments

- **Private investment funds are growing in size, complexity and number.** U.S. private investment funds have gross assets under management of $17 **trillion** with net assets of $11.5 trillion, as of 2021.

- **Public pension funds are footing the bill.** Private investments are often funded by retirement funds of public employees – with investment profits lining Wall Street's pockets.

- **Secrecy that is in direct conflict with the transparency** required in a fiduciary or trustee relationship – like that between retirement plan managers and the state employees who are beneficiaries.

- **Unknown Valuation or Performance Metrics:** Private equity firms say what the private investments are worth, and that is the valuation retirement fund managers convey to the public. Significant research shows that private equity returns are no better than stock market investments, given the high fees.

- **Lengthy contracts:** Investor funds may be tied up for a decade or more and this illiquidity makes it hard to respond to developments like climate risks or geopolitical shifts.

- **Worse working conditions and wages of company employees** as private investors:

    - Slash costs by:
        - Firing workers
        - Cutting pay
        - Ending long-term investment in the company

    - Transfer responsibility for debt they created to buy the company – to the company they bought

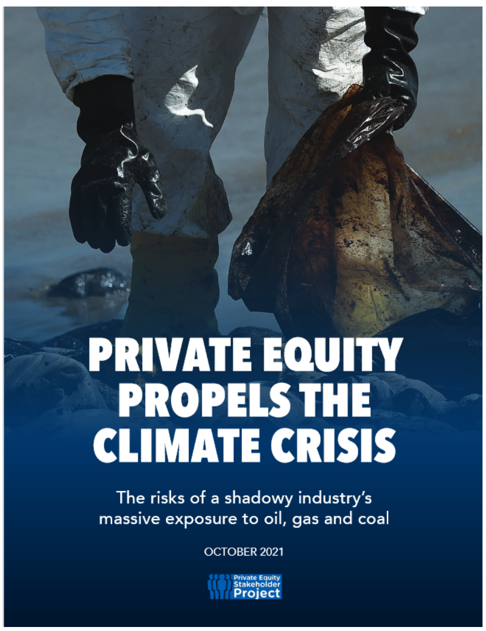
    - Transfer money to themselves by:
        - Charging multiple high fees with many names such as "management" and "consulting" fees, and hiding them in various

aspects of a complicated deal
    - Issuing generous dividends
    - Selling off company assets like real estate for short-term gain.

See the federal Securities and Exchange Commission statements for an overview of key concerns about private funds (June 23, 2020 Risk Alert, January 27, 2022 Risk Alert, and November 10, 2021 letter from SEC Chair Gary Gensler).

How Do Private Investments Relate to Fossil Fuels?

The report **Private Equity Propels the Climate Crisis**, by Private Equity Stakeholder Project (10/2021), describes the risks of private investments' massive exposure to the fossil fuel industry.



- **An analysis of private equity firms shows they have invested around $1.1 trillion dollars into energy assets since 2010.** That is double the market value of Exxon, Chevron, and Royal Dutch Shell combined.

- **Private equity has pumped hundreds of billions of dollars into buying up offshore drilling in the Gulf of Mexico**, propping up fracking operations, expanding infrastructure through pipelines and export terminals, spewing pollution from gas and coal power plants – and there are no comprehensive disclosures of their holdings, let alone of environmental and community impacts.

- **When fossil fuel companies shed some of their dirtiest operations, such as coal-powered plants, and claim they are going greener,** private equity will pick them up and continue business as usual - now off the public books.

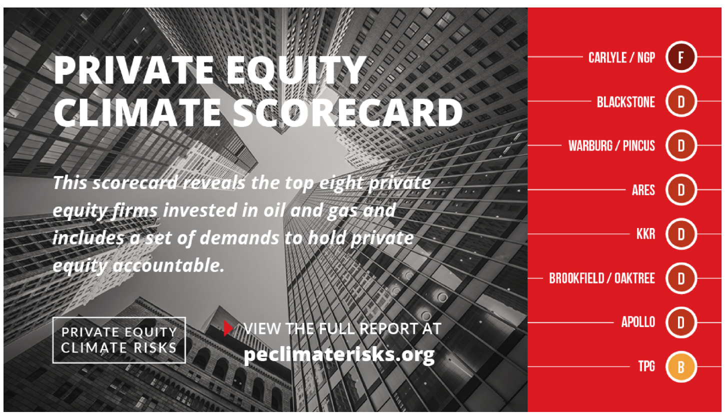
- Since private investments are concealed, **it is very difficult or impossible to track whether a public pension fund which holds private investments is increasing its support of the fossil fuel industry, or exiting fossil fuel investments**.

Key Concerns about Oregon Treasury's Private Investment Decisions

- **60% of the almost $100 billion** in the Oregon Public Retirement System (PERS), managed by the Oregon Treasury, is in private investments – in categories of assets labeled "Private Equity" but also "Real Estate", "Alternatives", "Opportunity", etc. This is up from 15% in 2002.

- **Oregon is one of the top 7 private equity investors in the United States –** and that is just looking at investments labeled "Private Equity" by the OST and not at all of Oregon's private investments.[1]

- **Oregon holds investments in the top 8 private equity firms that are heavily invested in oil and gas, listed on the Private Equity Climate Scorecard** (Private Equity Stakeholder Project, 9/2022).



- **The Oregon State Treasury (OST) and the Oregon Investment Council (OIC) are required by law to prudently invest and safeguard PERS, for the long term**, for active and retired PERS beneficiaries.

- **Many state retirement funds show better average 5-year and 10-year returns than Oregon's with little or no private equity investments as seen in Figure A.** Private equity firms market themselves as financial wizards that provide above-market returns to institutional investors such as the Oregon Treasury. Concerns about hidden costs such as fees and how returns are calculated are explored in this report.

[1] "The World's Dominant Investors in Private Equity" (by Christine Idzelis, *Institutional Investor,* 11/6/2020)

Rank by Size	Pension Fund Name	Largest 15 Pension Funds by Net Assets (6/30/2021)*	Overall 5-year investment return (highest to lowest)	Overall 10-year investment return	Private Equity Percentage of Portfolio Actual	Private Equity Percentage of Portfolio Target
7	Georgia Teachers	$102,146,688.00	12.3%	9.8%	0.1%	0.0%
10	Ohio Teachers	$89,379,040.00	12.2%	10.0%	0.0%	0.0%
4	Florida RS	$202,082,176.00	12.0%	9.3%	8.7%	10.8%
6	New York State Teachers	$148,148,464.00	11.9%	10.1%	10.9%	9.0%
2	California Teachers	$310,293,440.00	11.8%	9.7%	12.0%	10.0%
11	New York City ERS	$85,906,208.00	11.8%	9.3%	7.6%	8.0%
13	New York City Teachers	$78,347,296.00	11.6%	9.3%	11.4%	6.2%
9	University of California	$91,826,000.00	11.6%	8.9%	8.0%	10.0%
3	NY State & Local ERS	$220,580,576.00	11.2%	9.2%	11.4%	10.0%
5	Texas Teachers	$201,807,008.00	11.2%	9.0%	16.6%	13.2%
14	LA County ERS	$73,012,024.00	10.8%	8.6%	12.9%	10.0%
8	Virginia RS	$98,880,864.00	10.7%	8.8%	15.6%	14.0%
12	**Oregon PERS**	**$84,331,320.00**	**10.5%**	**8.8%**	**26.4%**	**17.5%**
1	California PERF	$477,322,752.00	10.3%	8.5%	8.2%	8.0%
15	Pennsylvania School Employees	$71,967,352.00	10.1%	8.0%	15.8%	10.9%
		Average of ALL funds	**11.2%**	**8.9%**	**10.2%**	**9.1%**
		Average of top 15 funds	**11.3%**	**9.2%**	**11.0%**	**9.2%**

** The Public Plans Database is developed and maintained through a collaboration of the Center for Retirement Research at Boston College, the Mission Square Research Institute, the National Association of State Retirement Administrators, and the Government Finance Officers Association.*

Figure A: Largest 15 US Pension Funds, Private Equity Percentages and 5 & 10 year investment returns ordered by rate of 5-year returns.

- **Net of fees, performance of private equity funds matched that of public equity markets**, from at least 2006 though 2019. (An Inconvenient Fact: Private Equity Returns & The Billionaire Factory by Ludovic Phalippou, University of Oxford, 6/10/2020).

List of Oregon Treasury's Private Investment Issues

Click on each private investment issue listed below for more details about how they impact the Oregon Public Employees Retirement Fund, or OPERF.

1. High-fee investments just in the OST investment category labeled private equity are now one-quarter of the entire OPERF portfolio.
2. Almost every detail of OPERF's private equity investments are shrouded in secrecy – even from the beneficiaries of the fund.
3. Secret private equity investments rarely come to light. When they do, they can be disturbing.
4. Investment control is entirely in the hands of the private equity firms over the life of their 10-12 year contract term.

5. Treasury claims its need for high private equity returns justifies the veil of secrecy over private equity – but OPERF private equity investments on a 10-year average:

    a. performed worse than stock market index funds,

    b. failed to meet benchmarks,

    c. carried more risk and

    d. generated less cash than common stock

   – all according to presentations to the OIC by the Oregon Treasury's own staff and consultants.

6. Many of OPERF's reported returns on private equity investments are probably inflated due to a calculation method that is subject to manipulation by private equity firms.

7. Unlike the public equity market – the stock market – OPERF's reported valuations of private equity have no established market value and are estimates determined by the private equity firms themselves.

8. Private equity investments are rife with the possibility of scandals and unfair expense charges to investors by the firms that control them, according to OIC stated policy.

9. The Treasury refuses to release the full climate-change risk assessment commissioned of all OPERF investments, while private equity is increasingly investing in fossil fuel extraction, infrastructure and power generation. The portions Treasury did release, after a six-month delay, project substantial risk to OPERF assets from climate change and investing as usual.

10. The Treasurer's climate risk consultant told an earlier client: There are serious concerns fossil fuel investments will continue to lose value and become permanently unprofitable.

11. Market trends are putting OPERF's public and private equity portfolios at increasing risk from unprofitable, destructive investments in coal, oil and gas.

12. The Russian invasion of Ukraine shows the financial peril of waiting too long to divest problematic assets.

Description of (and Supporting Research on) Oregon State Treasury Private Investment Issues

1. High-fee investments just in the OST investment category labeled private equity are now one-quarter of the entire OPERF portfolio

As of December 31, 2021, OPERF had assets of $96.5 billion. Fully one quarter of the pension fund – $24.8 billion – was invested in the asset class OPERF labels as private equity.[2] Figure 1 shows the significant increase in OPERF's private equity reliance, in both dollars and portfolio percentages, from 2001 to 2022.

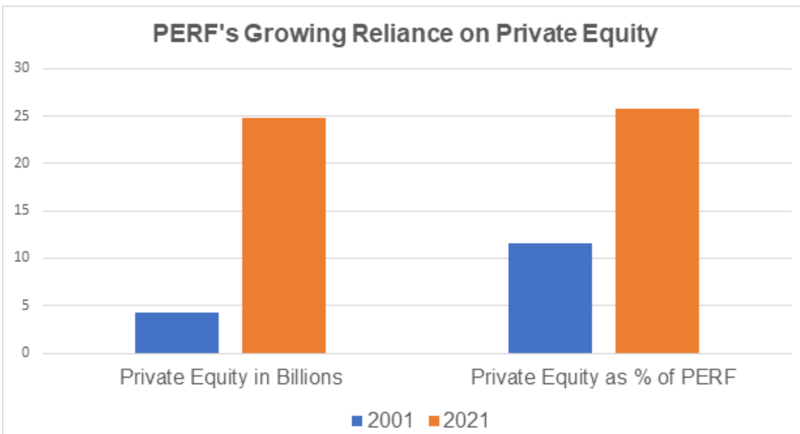


Figure 1: OPERF's investments in private equity asset class and percentage of OPERF in private equity from 2001 to 2021.

The Oregon Investment Council (OIC), which by law sets investment policies for OPERF, defines private equity as private venture, buyout, initial public offering, distressed debt and specific sectors investing.[3]

A typical private equity investment is many years long and could include multiple deals over time, based on parameters in the investment contract which could be

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[2] Exhibit 1 p. 14, Oregon Public Employee Retirement Fund, Returns for periods ending December 2016-2021. Returns for December 2008-2017 are at https://www.oregon.gov/treasury/invested-for-oregon/Pages/OPERF-Archive.aspx.

Returns for December 2018-2021 are at https://www.oregon.gov/treasury/invested-for-oregon/pages/performance-holdings.aspx.

[3] Exhibit 2, pp. 2-6, 11, OIC Investment Policy 1203.

flexible or not. Much is left to the discretion of the private equity firm. This means the investors may not be sure exactly what they are investing in, other than their confidence in the firm itself.

Because private equity investments are not liquid, an investor who wants to exit during the contract term can do so only by selling in a very limited secondary market at a steep discount – if they are able to find a buyer.

A private equity investment at its most basic level consists of capital calls in which investors must send in amounts to the private equity firm, or general partner, and cash distributions in which investors receive money back from the general partner. At the end of the contract the general partner typically "exits" the investment by selling it to another buyer, in the past often a large corporation. As more and more investment money has flowed into private equity over the years, exit sales are increasingly to other private equity firms.

The investment agreement gives the general partner the right to decide when to make capital calls and in what amount. The investors agree to proportionate allocations of each capital call. The payments to investors come at the general partner's discretion when it has sufficient money from its various deals. There can be a complex formula for reimbursements first, with the remainder being profit. There is no fixed return, it is entirely an at-risk investment. The general partner always gets paid expenses, which can be hidden, and an annual management fee on the total amount of capital the investors have agreed to contribute. The general partner also takes 20% of profits if there are any. It is also worth noting that the general partner does not share in any losses if they occur.

The legislature first allowed a portion of OPERF to be invested in common stock in a 1967 major revision of PERS. The allowable portion has risen from 10% in 1967, then to 50%, to no limit today.[4]

In the early 1980s, OPERF invested with Kohlberg Kravis Roberts, now KKR, in a private equity purchase of Fred Meyer.

In 1993 and 1997, the legislature formally approved OPERF's practice of investing in private equity, through "investment holding companies, which may be corporations, partnerships or limited liability companies. . . ."[5]

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[4] ORS 293.726(6), https://oregon.public.law/statutes/ors_293.726; 1967 Or Laws Ch 335 §7(2); ORS 238A.050(4)

[5] ORS 293.778(1), https://oregon.public.law/statutes/ors_293.778.

From 2001 to 2021, OST has increased the amount and percentage of OPERF in private equity as seen in Figure 1. The private equity holdings increased from $4.3 billion at 11.6% of the portfolio to $24.8 billion and 25.7% of the portfolio.[6]

However, the actual percentage of OPERF private market holdings is much higher than the one-quarter officially labeled as private equity. That is because over the years OST has added new asset classes to the annual OPERF statements that do not use the words "private equity" in them. However, behind the labels, OIC investment policy and OPERF's outside auditor describe the assets as being or bearing the essential hallmarks of private equity investments. These asset classes over the years have been called "Opportunity," "Alternatives," "Real Assets" "Risk Parity" and "Diversifying Strategies," along with most of what is contained in the asset class "Real Estate". OPERF calls them private market investments.[7]

As shown in Figure 2, when all these investments are included, the 2021 portion of OPERF in private investments is more than half of the total state retirement fund portfolio. Treasury's September 2022 statement of OPERF returns show private investments were 60.3% of OPERF.

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[6] Compare Exhibit 1 p. 14 with Exhibit 3, 2001 PERS Comprehensive Annual Report p. 48, https://www.oregon.gov/pers/Documents/Financials/CAFR/2001-CAFR.pdf

[7] Exhibit 1 pp. 20, 21; Exhibit 2 pp. 9-12, OIC Investment Policy 1203 0.4-0.10.

OPERF 2021 Annual Comprehensive Financial Report, at Note 4, pp. 51-54 -

The vast majority of OPERF's real estate investments are structured as commingled limited partnerships extending to the year 2035, with valuations provided by the general partner rather than by an established market. The audit describes the same situation for OPERF's Private Equity, Alternatives, and Opportunity portfolios.

Exhibit 4 p. 1, OIC Investment Policy 704, Summary Policy Statement, describes many OPERF assets in the real estate asset class as consisting of actively managed private market partnerships.

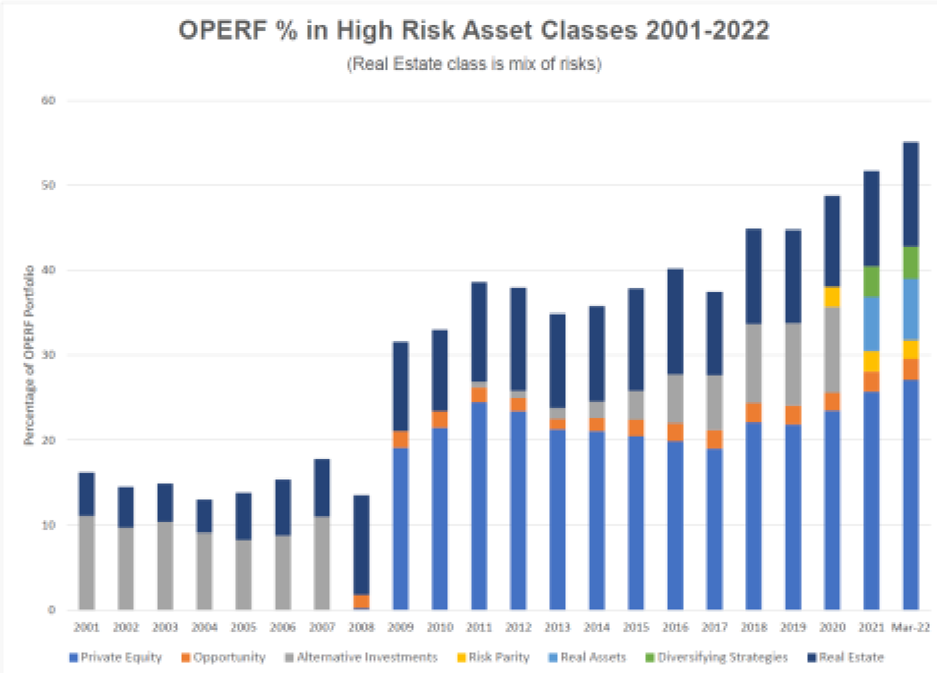

Figure 2: Percent of OPERF in private equity and related classes, 2001-2021.

2. Almost every detail of OPERF's private investments are shrouded in secrecy

The specifics of OPERF's public equity investments are technically public records. However, OPERF's private investments are shrouded in secrecy. Their purpose, agreement terms, specific investments made by the private firm, and the level of due diligence the Oregon Treasury performed before making them, are all concealed by exemptions in the public records act itself.

A major problem inevitably occurs when a public institution such as PERS invests in private equity. The problem arises because of a fundamental culture clash between the two partners. Private equity firms demand secrecy. The public, however, wants its institutions to be open and transparent. We rely on transparency as a major incentive for government to operate competently, and as a major safeguard to ensure government operates in the public interest and the interest of state pension beneficiaries.

That does not happen when $25 billion to $60 billion of OPERF's investments are shrouded in secrecy.

When the legislature permitted OPERF to invest in equities,[8] investment secrecy was never contemplated. Instead the legislature assumed there would be minimal risk to beneficiaries and taxpayers because all PERS equity investments would receive regular public scrutiny.

During the 1967 investment overhaul, William Bass, representing the Legislative Fiscal Committee, testified to the House Committee on Financial Affairs:

. . . . that the Fiscal Committee had received expert testimony from Wall Street and all over the country as to the advisability of investing in common stock. He said that **the bill provides for monthly reports to trustees in charge of the funds and to the council as to exactly what investments were made by the treasurer, the press would be there to publicize any investments made, and the Fiscal Committee was not concerned that the treasurer would get out of line in investing.**[9]

The reality of private equity investing for OPERF meant the specific details of those investments became secret. The private equity firms insisted on it, and the Treasurer and the legislature relented. Contrary to the statutory general rule of openness,[10] Oregon's public records act now specifically **forbids** public disclosure of state investment records ". . . in a privately-placed investment fund or a private asset. . . ."[11]

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[8] "The Oregon Public Employees Retirement System History The First 60 Years," pp. 10-13, https://www.tracktheirvote.org/Docs/PERS-History.pdf

[9] Exhibit 14 p. 3, Committee Minutes, Feb. 2, 1967, p. 2 (emphasis added).

[10] ORS 192.314(1) ("Every person has a right to inspect any public record of a public body in this state, except as otherwise expressly provided by ORS192.338, 192.345 and 192.355". https://oregon.public.law/statutes/ors_192.314

[11] Confidentiality is imposed both generally, as above, and on specific types of private equity records:

. . . . including but not limited to records regarding the solicitation, acquisition, deployment, exchange or liquidation of the investments including but not limited to:

(A) Due diligence materials that are proprietary to an investment fund, to an asset ownership or to their respective investment vehicles.

There are limited exceptions to private equity confidentiality. However, they permit public disclosure only about the overall performance of a fund. They do not allow evaluation of what due diligence the Treasurer made before committing hundreds of millions of OPERF dollars to a private equity firm. They do not allow evaluation of, or even knowledge about, specific investments within a fund. They do not allow evaluation of the terms of the long-term contracts that the OIC finds rife with the possibility of sharp practices by private equity general partners.[12]

Contrary to the legislature's intent when first allowing PERS to invest in equities, 60% of public pension fund investments are now shielded from public scrutiny.

(B) Financial statements of an investment fund, an asset ownership or their respective investment vehicles.

(C) Meeting materials of an investment fund, an asset ownership or their respective investment vehicles.

(D) Records containing information regarding the portfolio positions in which an investment fund, an asset ownership or their respective investment vehicles invest.

(E) Capital call and distribution notices of an investment fund, an asset ownership or their respective investment vehicles.

(F) Investment agreements and related documents.

ORS 192.355(14)(a), https://casetext.com/statute/oregon-revised-statutes/title-19-miscellaneous-matters-related-to-government-and-public-affairs/chapter-192-records-public-reports-and-meetings/records-and-reports-in-english/section-192355-public-records-exempt-from-disclosure

[12] Allowed disclosures about private equity investments by the Treasury are:

(A) The name, address and vintage year of each privately placed investment fund.

(B) The dollar amount of the commitment made to each privately placed investment fund since inception of the fund.

(C) The dollar amount of cash contributions made to each privately placed investment fund since inception of the fund.

(D) The dollar amount, on a fiscal year-end basis, of cash distributions received by the State Treasurer, the Oregon Investment Council, the Oregon Growth Board or

3. Secret private equity investments rarely come to light

Secrecy surrounding OPERF's private equity investments conceals how private equity firms are specifically investing $25 billion of OPERF's assets. There have been glimpses of disturbing investments from the known business practices of certain private equity firms, and sporadic media reports. One can only wonder what else may be in OPERF's private equity portfolio.

<u>Climate Degradation</u>

Some private equity funds are propping up oil, chasing short-term profit in volatile markets. These secretive investment companies have pumped billions of dollars into fossil fuel projects, buying up offshore platforms, building new pipelines, and extending lifelines to coal power plants.[13]

An October 2021 report by the Private Equity Stakeholder Project found that approximately 80% of energy investments held by ten of the largest private equity

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the agents of the treasurer, council or board from each privately placed investment fund.

(E) The dollar amount, on a fiscal year-end basis, of the remaining value of assets in a privately placed investment fund attributable to an investment by the State Treasurer, the Oregon Investment Council, the

Oregon Growth Board or the agents of the treasurer, council or board.

(F) The net internal rate of return of each privately placed investment fund since inception of the fund.

(G) The investment multiple of each privately placed investment fund since inception of the fund.

(H) The dollar amount of the total management fees and costs paid on an annual fiscal year-end basis to each privately placed investment fund.

(I) The dollar amount of cash profit received from each privately placed investment fund on a fiscal year end basis

ORS 192.355(14)(b); Exhibit 4 pp. 2-4, OIC Investment Policy 704.

[13] For support for this subpart see Risky Business - Oregon Treasury's Fossil Fuel Problem, pp. 12, 13, 28, 29, https://www.divestoregon.org/allreports

buyout firms are in oil, gas, and coal. OST invests in six of these ten private equity firms (KKR, Blackstone, Warburg Pincus, Apollo, TPG, and CVC).

OST has a long history of investing with KKR, which currently owns around three dozen energy companies. Around 82% of KKR's energy portfolio companies are in fossil fuels, with around 18% in renewable energy.

In the Pacific Northwest, KKR acquired a significant stake in the Coastal GasLink Project, which is being built to deliver fracked gas from British Columbia to a liquified natural gas export facility on the West Coast. Wet'suwet'en hereditary chiefs' opposition to having the pipeline traverse their unceded territory has resulted in protests, delays and blockades; the pipeline is over budget and behind schedule. In addition to OST's investment in KKR, OST also has invested directly in the Coastal GasLink parent company, TC Energy.

Also in the Pacific Northwest, after decade-long opposition, Oregonians defeated a gas pipeline project proposed by Canadian pipeline company Pembina; it would have been Oregon's top carbon polluter. The pipeline would have transported natural gas through Oregon to Jordan Cove for markets in Asia. In 2022, KKR created a joint venture with Pembina to boost Western Canada fossil fuel infrastructure.

KKR is increasing fossil fuel investment as others abandon it. *Bloomberg* noted that, "KKR [is] doubling down on investing in exploration and production companies as many in the sector seek to recover from years of poor returns amid the shale boom and bust."

Just as KKR is aggressively committed to fossil fuel infrastructure expansion, the OST has increasing investment in KKR – and in private equity assets more broadly. In 2021, the OIC approved 16 new private equity commitments totaling $3.2 billion, including $275 million in additional investment in KKR.

NSO Group/Novalpina Capital

The Treasury in 2017 committed OPERF to invest $233 million in the private equity firm Novalpina Capital. Two years later this firm acquired a controlling interest in NSO Group, a manufacturer of Pegasus smartphone spyware.[14] The spyware infects a targeted phone and then transmits the user's SMS messages, address books, call history, calendars, emails, browsing histories, photos, videos and locations. It secretly turns on and records audio through the phone's microphone.[15]

Repressive regimes have used Pegasus spyware to hack smartphones of journalists, human rights activists, business executives, and two women close to Saudi journalist Jamal Kashoggi, who was murdered at the Saudi consulate in Istanbul, Turkey.

The U.S. Commerce Department in 2021 placed export controls on NSO Group for enabling authoritarian governments to silence dissent outside their borders.[16] However, according to an Oregon Treasury representative, "Treasury is one of many limited partners in this fund; as a limited partner, we do not control the investment decisions made by external managers at private equity funds."[17]

Homestead Capital

In Oregon, 96.7% of farms and ranches are family owned and operated.[18] A years-long drought in Eastern Oregon is stressing historic water supplies and

[14] "Oregon pension fund is invested in spyware, prison companies," Associated Press 11/19/2019, https://www.koin.com/news/oregon/oregon-pension-fund-is-invested-in-spyware-prison-companies/

[15] "What is Pegasus spyware and how does it hack phones?" The Guardian 7/18/2021, https://www.theguardian.com/news/2021/jul/18/what-is-pegasus-spyware-and-how-does-it-hack-phones

[16] https://www.commerce.gov/news/press-releases/2021/11/commerce-adds-nso-group-and-other-foreign-companies-entity-list

[17] "Manager of fund that owns Israeli spyware firm not yet given access to sensitive info," The Guardian 10/7/2021, https://www.theguardian.com/world/2021/oct/07/manager-of-fund-that-owns-israeli-spyware-firm-not-yet-given-access-to-sensitive-info

[18] https://agsci.oregonstate.edu/sites/agsci.oregonstate.edu/files/oregon_agriculture_2015.pdf, p. 10.

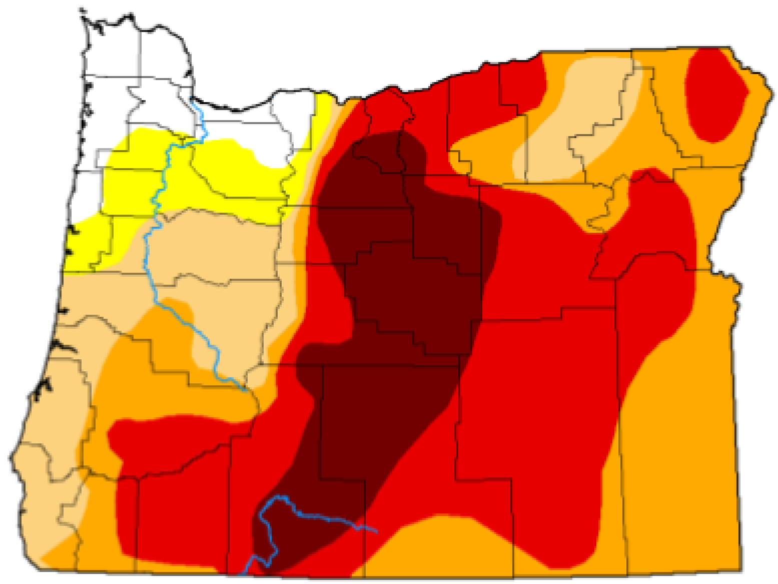
squeezing family farm and ranch operations.

The Oregon Treasury in 2016 invested $104 million of OPERF's assets in Homestead Capital USA Farmland Fund II.[19] Three years later, an agribusiness arm of Homestead Capital bought 3,300 acres with preferential groundwater rights in Malheur County's Cow Valley, a basin grappling, like many others east of the Cascades, with twin snowmelt and groundwater crises.[20]

Stock and domestic wells in and near Cow Valley are failing. Creeks and springs are dry year round. The Oregon Department of Water Resources, working closely with large water users, continues to approve unsustainable groundwater extractions that lower the water table and require increasingly expensive drilling and pumping to reach it. The costs are pricing out long time ranchers and farmers in favor of private equity agribusiness. One Cow Valley family ranch, whose owners complained of agribusiness over-extraction to the Water Resources Department for years without success, sold last year to a Hong Kong-based private equity firm.[21]

US Drought Monitor, March 2022

https://droughtmonitor.unl.edu/data/png/20220315/20220315_or_text.png



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[19] Exhibit 15 p.1, OPERF Alternatives Portfolio as of June 30, 2021.

[20] "Race to the bottom: How big business took over Oregon's first protected aquifer," March 16, 2022, https://www.opb.org/article/2022/03/16/race-to-the-bottom-how-big-business-took-over-oregons-first-protected-aquifer/

[21] "Race to the bottom: How big business took over Oregon's first protected aquifer," March 16, 2022, https://www.opb.org/article/2022/03/16/race-to-the-bottom-how-big-business-took-over-oregons-first-protected-aquifer/

Vista Equity Partners

OPERF has invested $1.35 billion in Vista Equity Partners, a firm that markets a set of turnkey software programs for school administration, curriculum, information technology, finance, student achievement tracking, and counseling. According to Vista's company PowerSchool, recent years have seen an explosion of school data applications and "Each new application creates millions of new data points that tell part of a student's story."[22]

Vista companies gather data about student citizenship status, free or reduced lunch status, attendance, religious affiliation, disciplinary history, medical diagnoses, reading and typing speed, test scores, the full text of test answers, pictures drawn for assignments, number of parents in the household, drug use, crime victimization, and expressed interest in LGBTQ+ groups.

> **K-12 districts possess more information than at any time in history. . . . . Each new application creates millions of new data points that tell part of a student's story.**
>
> **PowerSchool Resource Library**

Vista companies create risk/success algorithms for individual students from the data they collect. The resulting labels follow students through their time at school from as early as first grade. Vista companies have the contractual right to use individually de-identified data in any way they see fit for research and development of data products. Parents are typically unaware of the amount and scope of Vista data collection.[23]

4. Investment control is entirely in the hands of the private equity firms over the life of their 10-12 year contract term

In a private equity investment, the Oregon Treasury on behalf of OPERF is a limited partner with no right to control the investments. A private equity manager is the

[22] https://www.powerschool.com/whitepaper/from-sight-to-vision-how-data-can-contribute-to-personalization-and-preparedness-in-k-12-education/

[23] "This Private Equity Firm is Amassing Companies that Collect Data on America's Children," January 11, 2022, https://themarkup.org/machine-learning/2022/01/11/this-private-equity-firm-is-amassing-companies-that-collect-data-on-americas-children

general partner with the authority to make all investment decisions.[24] The typical agreement is for 10-12 years. PERS withdrawal rights from a private equity investment "are virtually nonexistent."[25] If the Treasury learns of a private equity investment it wants to replace, its ability to do so is similarly almost nonexistent.

5. **Treasury claims its need for high private equity returns justify the veil of secrecy over private equity – but OPERF's private equity investments on a 10-year average performed worse than stock market index funds, failed to meet benchmarks, carried more risk and generated less cash than common stock**

The Treasury justifies the secret nature of its private equity investments by claiming it needs the high returns of private equity, and the private equity firms insist on secrecy as a condition of doing business. This justification is not supported by evidence, including substantial evidence presented by the Treasury to the OIC.

OIC Investment Policy 1203 requires private equity investments to be managed and assessed "over very long time horizons, typically rolling, consecutive 10-year periods." Reflecting OIC's assumption that OPERF should receive an increased reward when it assumes the increased risk and expense of a private equity investment,[26] OIC Investment Policy 1203 says OPERF private equity should earn 300 basis points, or 3%, more than the Russell 3000 stock index over a rolling 10 year period.[27]

The OST consistently reports publicly in OIC meetings that private equity provides the highest returns in the OPERF portfolio.[28] However, that is because OST's publicly traded stock market investments could be better - not because OST's private equity returns are so high. While the Treasurer presents private equity as a much higher than normal performing asset, his staff director of private markets tells a different story. That official reported to the OIC in January 2022 that the OPERF set of private equity firms has lower average performance than standard stock market index funds over the past 1 and 10 years, and fell below a mixture of key performance

[24] Exhibit 4 p. 11, OIC Investment Policy 1203(08)(2)(d).

[25] Exhibit 3 pp. 1-3, OIC Investment Policy 704.

[26] Exhibit 5 p. 3, OIC Investment Policy 701 Section II.A.

[27] Exhibit 2 p. 11, Section 0.8.1

[28] Exhibit 1.

benchmarks over the past 1, 5 and 10 year rolling averages.[29] See Figure 3.

Two months later, in March 2022, Treasury's consultant Meketa Investment Group presented to the OIC on OPERF's private equity performance. Meketa reported the private investment Internal Rate of Return (IRR) was less than the S&P 500 over both 3 year and 10 year rolling averages (21% vs. 26.1%, and 15.7% vs. 16.6%),[30] and less than Treasury's benchmark of the Russell 3000 +3% over 5 and 10 year rolling averages as set by OIC Investment policy.[31]

OIC presentation 01/26/2022

9/30/2021	IRR 1 year	IRR 3 year	IRR 5 year	IRR 10 year
OPERF Private Equity	**41.8%**	**21.3%**	**19.3%**	**15.2%**
Russell 3000 + 3%	36.3%	19.5%	20.3%	20.6%
Value-Added	5.4%	1.8%	-1.0%	-5.4%
Russell 3000	32.6%	16.2%	16.9%	17.3%
Value-Added	9.1%	5.1%	2.3%	-2.0%
Russell 2000 + 3%	53.6%	14.2%	17.1%	19.1%
Value-Added	-11.9%	7.2%	2.2%	-3.8%
Russell 2000	49.6%	11.0%	13.8%	15.8%
Value-Added	-7.8%	10.4%	5.5%	-0.6%

Figure 3: Performance of OPERF Private Equity (9/30/2021) from OIC presentation on 01/26/2022.

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29 Exhibit 6 p. 2, OIC January 26, 2022 regular meeting materials, p. 13, https://www.oregon.gov/treasury/invested-for-oregon/Documents/Invested-for-OR-47OIC-Agenda-and-Minutes/Minutes/2022/01.26.22-OIC-Regular-Meeting-Public-Book.pdf.

According to the Treasury staff presentation, stock market index funds beating Treasury's private equity returns long term are the Russelll 3000 and Russell 2000 over a 10 year average. The Russell 2000 also beat OPERF's private equity returns over a one year period.

The benchmarks OPERF's private equity investments failed to meet are the Russell 3000 + 3% over 5 and 10 year averages, the Russell 2000 + 3% over 1 and 10 year averages, the MSCI ACWI + 3% over a 10 year average, and the Burgiss All Funds Ex RA Value-Added over 1, 3, 5 and 10 year averages.

30 Exhibit 7 p. 2-3, OIC meeting materials 3/9/22 pp 22, 91, https://www.oregon.gov/treasury/invested-for-oregon/Documents/Invested-for-OR-47OIC-Agenda-and-Minutes/2022/03-09-22-OIC-Public-Book-FINAL.pdf

31 Exhibit 7 p. 2, OIC meeting materials 3/9/22 p. 22.

The experience of neighboring Nevada's PERS system with private equity is instructive. Nevada has less than half the amount in private equity that OPERF has, invests its public equity through index funds, and has a significantly higher 10-year average return than OPERF—9.9% versus 8.8%.[32]

Not just in Nevada, but across the country, many state retirement funds show better average returns than Oregon's with either no private equity investments, or much fewer, as seen in Figure 4.

Pension Fund Name	Largest 12 Pension Funds	Private Equity Percentage of Portfolio Actual	Private Equity Percentage of Portfolio Target	5 year investment return	10 year investment return
California PERF	$477,322,752.00	8.2%	8.0%	10.3%	8.5%
California Teachers	$310,293,440.00	12.0%	10.0%	11.8%	9.7%
NY State & Local ERS	$220,580,576.00	11.4%	10.0%	11.2%	9.2%
Florida RS	$202,082,176.00	8.7%	10.8%	12.0%	9.3%
Texas Teachers	$201,807,008.00	16.6%	13.2%	11.2%	9.0%
New York State Teachers	$148,148,464.00	10.9%	9.0%	11.9%	10.1%
Georgia Teachers	$102,146,688.00	0.1%	0.0%	12.3%	9.8%
Virginia RS	$ 98,880,864.00	15.6%	14.0%	10.7%	8.8%
University of California	$ 91,826,000.00	8.0%	10.0%	11.6%	8.9%
Ohio Teachers	$ 89,379,040.00	0.0%	0.0%	12.2%	10.0%
New York City ERS	$ 85,906,208.00	7.6%	8.0%	11.8%	9.3%
Oregon PERS	$ 84,331,320.00	26.4%	17.5%	10.5%	8.8%

From the Public Plans Database at Boston University for fiscal year ending 6/30/2021

Figure 4: 10-year returns for the 12 largest pension funds in the United States as of 6/20/2021.

Treasury's senior investment officer for portfolio risk has also reported to the OIC about the risk of private equity holdings.

As shown in Figure 5, 49% of the predicted financial risk to OPERF comes from its private equity investments – which then comprised 26.4% of OPERF's assets. Public equity, in contrast, generated 32% of OPERF's predicted risk while then comprising 26.5% of OPERF's assets.[33]

Thus, for each comparable unit of the portfolio, OPERF's private equity investments

[32] Compare https://www.nvpers.org/sites/default/files/2022-01/FY21PAFR.pdf p. 8 with https://www.oregon.gov/treasury/invested-for-oregon/Documents/Invested-for-OR-Performance-and-Holdings/2021/OPERF-06302021.pdf.

[33] Exhibit 7 pp. 4-6, OIC meeting materials 3/9/22 pp. 99-101.

are 54% riskier than its public equity investments as shown in Figure 5.[34]

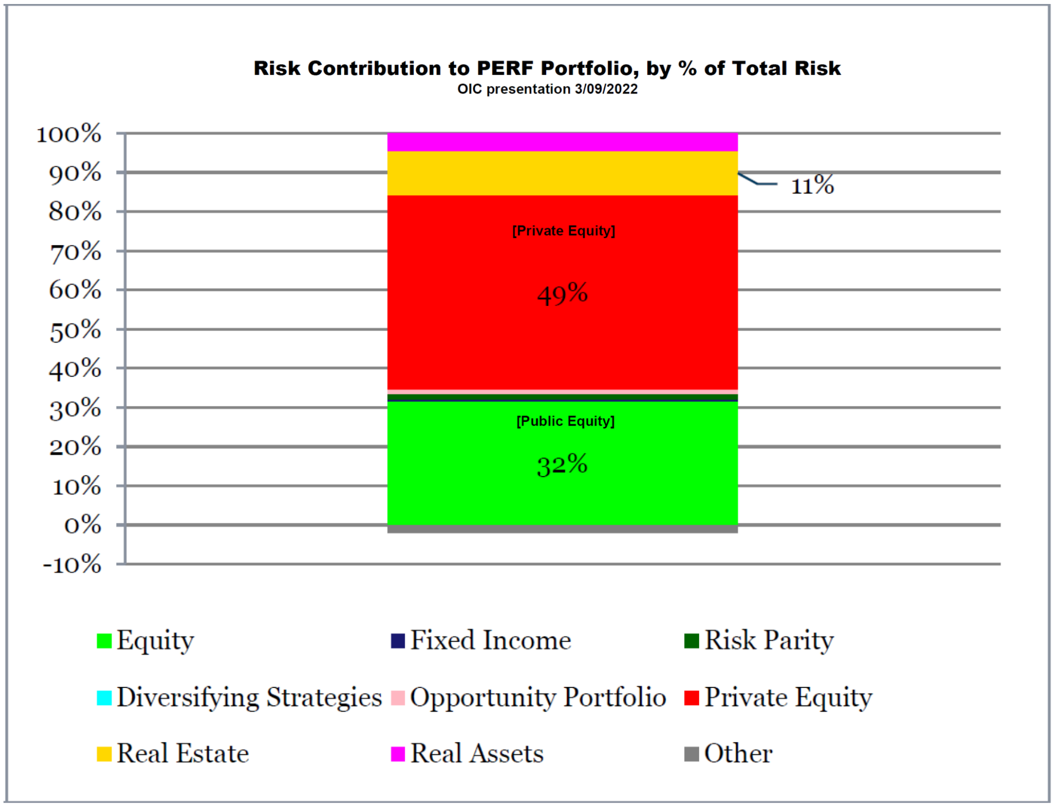

Figure 5: March, 2022 presentation to the OIC on financial risk to OPERF from its private equity investments

This raises serious questions for OPERF's investment fiduciaries: In justifying investment secrecy, why does the OIC set a risk-reward premium on private equity only 3% above the stock market? Why would it allow the Treasury to invest OPERF equity assets at such extraordinary extra risk, and then allow OPERF to be satisfied with such a comparatively small extra performance? And why does it continue to present private equity investments as high performing when 10-year averages fail to meet benchmarks and return less to OPERF than standard index funds in the public stock market?

In addition to investment performance and risk, cash flow to pay retirement benefits is a crucial OPERF concern. Cash generation is also the ultimate financial bottom line. On this point, the Treasury's risk assessment officer reported to the OIC that OPERF's

[34] A calculation can be found at Exhibit 8.

investments in the stock market (public equity) generated more cash in each of the past 6 years than did OPERF's private-equity investments.[35]

Taking into account the relative amounts of public vs. private equity in OPERF's portfolio over 6 years,[36] Treasury's data shows public equity generated 69% of the cash with 61% of the allocation between the two. Private equity generated 30% of the cash with 39% of the allocation. This data indicates private equity has lower, not higher, returns than OPERF's stock market investments.

The promise of high returns in private equity investments used to justify this secrecy does not hold up to scrutiny.

6. **OPERF's reported returns for private equity investments use a calculation method based on a flawed assumption. They are also subject to manipulation by private equity firms.**

The Treasury assesses annual performance of OPERF's private equity investments using a flawed assumption:

Because there is no established market for private equity investments, OIC policy says Treasury should use a private equity IRR, or Internal Rate of Return, to determine return on investment.[37] A private equity investment's internal rate of return looks at a snapshot of the flow of cash coming from investors and the flow of payments going to them, assumes that return will occur for the life of the investment, and adds in the estimated value of the investment.[38]

Because irregularities in private equity's timing and size of cash flows are common, measurement of returns is "far from straightforward" and is "difficult to benchmark with other asset classes."[39] Although IRR is "the performance metric of choice in the PE

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[35] Exhibit 7 p. 7, OIC meeting materials 3/9/22 p. 103. PERS public equity investments generated $16.6 million in cash from 2016 through 2021; PERS private equity investments generated $7.3 million in cash.

[36] Exhibit 1 pp. 9-14,

[37] Exhibit 5 p. 3, Section II.A.

[38] Exhibit 9 p.2, INSEAD, Measuring Private Equity Fund Performance (2019) p. 1, https://www.insead.edu/sites/default/files/assets/dept/centres/gpei/docs/Measuring_PE_Fund-Performance-2019.pdf

[39] Exhibit 9 pp. 6, 11.

industry,"[40] some in the financial world conclude that IRR has a marked tendency to overstate the profitability of a private equity investment.

Here is the concern: Private equity investments are binding for a long time, in OPERF's case typically for 10-12 years. If a particular investment very early in its life pays a high yield of cash to OPERF, IRR assumes that the same high yield will continue throughout all the years of the private equity investment. Thus, if a private equity fund "reports a 50% IRR and has returned cash early in its life," the IRR calculation assumes for the future life of the fund that "the cash was put to work again at a 50% annual return." However, "In reality, investors are unlikely to find such an investment opportunity every time cash is distributed."[41]

Harvard Business Review

Entrepreneurial Financing

The Truth About Private Equity Performance

This feature of IRR as a performance indicator provides an incentive for private equity general partners "to aggressively exit portfolio companies early in the fund's lifecycle to 'lock in' a high IRR."[42]

Modifying IRR, to assume cash payments to investors are reinvested at more realistic benchmark levels rather than a one-time high-yield rate, "provides a more accurate measure" of private equity performance.[43] The Treasury gives no indication it uses such a modification when calculating IRR.

The Treasury does, however, routinely warn in fine print that OIC's policy to use internal rate of return as its investment standard for private equity is unreliable and should not be used to assess the success of an investment. In presenting on Treasury's website the IRR figures for its general private equity investments, Treasury states:

> Warning: Due to a number of factors, including most importantly a lack of valuation standards in the private equity industry, differences in the pace of

[40] Exhibit 9 p.2.

[41] Exhibit 10 p. 1, "The Truth About Private Equity Performance," https://hbr.org/2007/12/the-truth-about-private-equity-performance

[42] Exhibit 9 p. 2.

[43] Exhibit 9 p. 3.

> investments across partnerships and the understatement of returns in the early years of a partnership's life, the IRR information in this report DOES NOT accurately reflect the current or expected future returns of the partnership. The 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. . . .[44]

7. OPERF's reported private equity valuations are determined by the private equity firms themselves

From September 2020 to September 2021, OST reported to the OIC that OPERF's private equity investments increased in value from $20.5 billion to $25.9 billion.[45]

How did the OSTdetermine this increased valuation?

According to OIC policy, the value of OPERF's private equity investments are determined by the private equity firms themselves. The same policy also states that although Treasury staff has knowledge, they "are not typically experts in the valuation of non-public securities."[46]

Values are estimates, according to the OIC, because private equity investments "are not traded on an active exchange and thus do not have readily determinable market prices established by arms-length transactions". Moreover, the policy says,"there exists no broadly accepted methodology for determining fair value, and valuations of such securities may contain subjective elements."[47]

This means, according to PERS itself, that 60% of the stated value of the state pension fund cannot be considered a reliable figure. Instead:

> Due to the inherent uncertainty and the degree of judgment involved in determining real estate, private equity, opportunity and alternatives portfolios

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44 https://www.oregon.gov/treasury/invested-for-oregon/Documents/Invested-for-OR-Performance-and-Holdings/2022/OPERF-Private-Equity-Q2-2022.pdf, p. 8

45 Exhibit 11, OIC January 26, 2022 regular meeting materials p. 28, https://www.oregon.gov/treasury/invested-for-oregon/Documents/Invested-for-OR-47OIC-Agenda-and-Minutes/Minutes/2022/01.26.22-OIC-Regular-Meeting-Public-Book.pdf.

46 Exhibit 12 p. 1, "Private Equity Investments Valuation Policy," OIC Investment Policy 701 Appendix A.

47 Exhibit 12 p.1.

investment valuations, **the fair values reflected in the accompanying financial statements may differ significantly from values that would have been used had a readily determinable fair value for the investments existed, and the difference could be material**. In addition, these investments are generally considered to be illiquid long-term investments, and **the recorded fair values may materially differ from the amounts that eventually may be realized from the sale or other disposition of these investments**.[48]

8. Private equity investments are rife with the possibility of scandals and unfair expense charges to investors by the firms that control them

OIC Investment Policy 704 reflects a deep-seated mistrust that private equity firms and their general partners will not deal fairly with their limited partner investors – Treasury and OPERF – during the course of their 10-12 year investment relationship. The OIC policy describes a series of misdeeds for investment staff to watch for, including:

- unwarranted asset distribution timings and "creative partnership agreement drafting" that allow "leakage" of excess profits to the private equity general partner;
- use of management fees by the general partner as "a material profit-center or funding source for staff bonuses or business expansion plans;"
- lack of fee concessions to large investors, especially when they are making follow-on investments in pre-existing deals;
- unwarranted transaction and monitoring fees;
- charging entertainment, publicity, fundraising, office space, IT, personnel and other overhead expenses as fees to OPERF; and
- passing on to OPERF the costs of detrimental changes in tax treatment of the general partner.[49]

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[48] 2021 OPERS Annual Comprehensive Financial Report, p. 41, https://www.oregon.gov/pers/Documents/Financials/CAFR/2021-ACFR.pdf

[49] Exhibit 4 pp. 2-4, OIC Investment Policy 704.


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ALERT

Oregon AG: Investment manager loots millions from PERS

ZANE SPARLING Pamplin Media Group Sep 16, 2021 Updated Sep 16, 2021 0

News report of OIC private investment scandal

Underscoring the untrustworthiness of many private equity firms, OIC's investment policy warns that "**Recent scandals have again highlighted the need for and importance of an independent auditor firmly focused on the best interests of the partnership and its limited partners, rather than the interests of the general partner**" (emphasis added).[50]

OIC's investment policy says that general partners "should" be required to "seek" approval of the limited partners to change the investment strategy proposed when the fund was promoted.[51] The investment policy, however, stops short of saying the general partners "must" be required to "obtain" approval.

Similarly, OIC's investment policy says a set of standardized processes for an advisory board of limited partners "should" be adopted, that fees "should" be transparent and subject to review, that all fees "should" be fully disclosed, and limited partners "should" be notified "when/if the general partner receives any SEC inquiries or meaningful legal actions."[52]

All the "shoulds" in official policy give huge leeway to Treasury's private investment staff to invest as they please. "Must" is a word the OIC does not use when setting policy for dealing with private equity firms.

9. Treasury refuses to release the full Climate Risk Assessment report commissioned regarding all OPERF investments

Acknowledging the financial risk that climate change poses to the state pension fund, in May, 2021, Treasury signed a $144,800 contract with two consulting firms for a

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[50] Exhibit 4 p. 3.

[51] Exhibit 4 p. 3.

[52] Exhibit 4 pp. 3-4.

climate risk assessment of all OPERF investments – including but not limited to those in private equity. The contract deliverables shown in Figure 6 below also required climate risk education for OIC members and Treasury staff. The risk assessment was to be completed by December 31, 2021.[53]

Deliverables: Treasury 2021 climate risk assessment contract

	Description	**Fee**	**Consultant party anticipated to provide the Deliverable**	**Due By Date**
1	Education for Oregon Investment Council members and Client staff	$14,200.00	Manifest Climate	December 31, 2021
2	Modelling to assess physical and transition risks	$79,600.00	Ortec Finance	December 31, 2021
3	Further scenario and "what if" work	$16,000.00	Ortec Finance	December 31, 2021
4	Workshops to develop use cases	$22,000.00	Manifest Climate	December 31, 2021
5	Logistics and project support	$13,000.00	Manifest Climate	December 31, 2021

Figure 6: Deliverables list from Treasury 2021 Climate Risk Assessment contract.

In hearings on HB 4115, a Treasury Transparency Bill that did not pass in the 2022 legislature, Treasury fought disclosure of the climate risk assessment, saying it would reveal confidential details of private equity investments. Then, it delayed responding to a public records request for this climate risk assessment for six months – from the request date of January 12, 2022, until release of a redacted report on July 20, 2022.

Then, the OST released a heavily redacted version with 27 full pages and 19 partial pages deleted from the 91 page report. The claimed justification was alleged "trade secrets" of the consultant. A mediation request concerning the redactions is currently pending with the Oregon Public Records Advocate.

"Climate change is a profound and persistent threat to Oregonians and a risk to institutional investors like Oregon State Treasury."
– Dmitri Palmateer, OST

As of the date of this report, Treasury has given no indication to the public about what, if any, efforts it has made to protect retirement fund

[53] Exhibit 16.

investments from the energy transition and physical impacts of climate change.

The redacted Climate Risk Assessment report Treasury provided, along with a separate document of redacted pages only and with page titles later provided by Treasury, is available at https://www.divestoregon.org/climaterisk.

Redacted portions prevent disclosure of significant details behind the generalities. They hamstring an accurate independent assessment of the report's implications. These are details any of 385,000 PERS beneficiaries should want to know – as well as any of Oregon's 4 million citizens, residents and taxpayers.

What has been released is deeply concerning. Unredacted portions generally describe significant probabilities of declines in asset values of the Oregon Public Employees Retirement Fund (OPERF), with the amount of decline depending on a combination of the rate and impact of climate change, and Treasury's investment reallocations in response to these inevitable changes.

Under the scenario we appear to be in right now – a disorderly transition away from fossil fuels – Slide 11 (Figure 7) from the Climate Risk Assessment states climate change is "particularly impactful in the short term. . . . The disruptive transition causes financial markets to overly react and inflict long lasting damage to the return performance." Slide 11 (Figure 7), also graphically depicts risk to the OPERF portfolio under different energy transition scenarios.

In the face of this analysis, Treasury in mid August mystifyingly announced a proposal to **increase** the projected 20-year future return of OPERF. It gave no indication of giving any consideration to its climate risk assessment in projecting that rosy 18% projected improvement in long term investment performance.[54]

[54] https://www.bizjournals.com/portland/news/2022/08/16/oregon-treasury-raising-expectations-for-state-pen.html

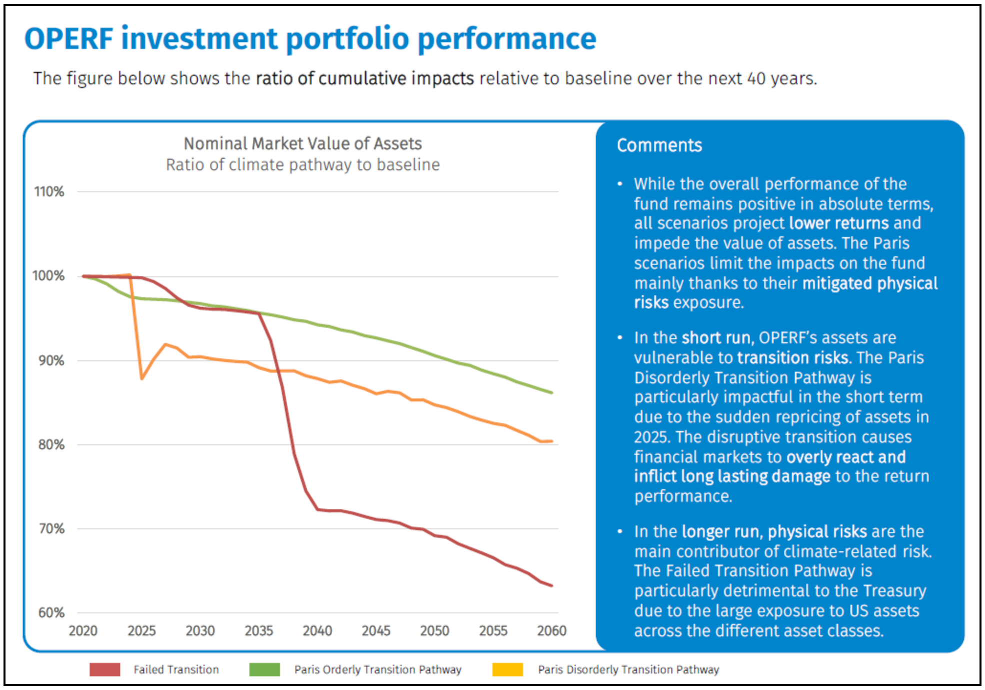

Figure 7: Slide 11 from Treasury's 2021 Climate Risk Assessment

10. The Treasurer's climate risk consultant told an earlier client: There are serious concerns fossil fuel investments will continue to lose value and become permanently unprofitable

The Treasurer's concealment of his climate risk assessment is particularly troubling in light of its consultant's assessment for an earlier client.

One of Treasury's two consultants for the Climate Risk Assessment, formerly named Mantle 314 and now renamed Manifest Climate Inc., in 2020 prepared a report for its then-client the University of British Columbia.[55] **Manifest pointed out that because of climate change concerns, the estimated value of proven but unburnable coal, oil and gas reserves "could be as high as 100 trillion USD by 2050. These 'stranded assets' would result in large amounts of value of fossil fuel based companies becoming unrealized.**"[56]

Mantle/Manifest further reported:

● "Fossil fuel companies will find securing credit to be more difficult or restricted to a smaller set of lenders. These actions foreshadow a difficult environment for fossil fuel companies as the financial sector coordinates their climate-related risk

[55] https://manifestclimate.com/blog/mantle314-rebrands-manifest-climate/

[56] Exhibit 17 p. 4, "Financial Risk of Climate Change in a Transition to a Low-Carbon World."

management approaches."[57]

● "Credit rating agencies and banks are increasing the cost of credit for fossil fuel companies or simply restricting access."[58]

● "While a very few fossil-fuel-based companies are acknowledging the transition to a low- carbon economy, most have not shifted fundamental structures."[59]

● In traditional coal, oil and gas companies, new spending "continues to be funneled to fossil fuel products with very little allocated towards diversification into clean technologies. Remuneration of top executives continues to be based on bringing fossil fuels to production."[60]

All this, according to the Treasurer's climate-risk consultant, "raises serious doubts about whether the best way to support a low-carbon transition is to keep investing in large oil and gas companies, and about whether large oil and gas companies will remain profitable in a low-carbon economy."[61](emphasis added).

11. Market trends are putting OPERF's public and private equity portfolios at increasing risk from unprofitable, destructive investments in coal, oil and gas

The impact of climate risks on OPERF's fossil fuel investments adds another layer of concern. At his inauguration, Oregon's Treasurer said, "We should always invest for the long term, and employ long-run thinking as we make decisions. . . . [A]n environment and economy threatened by global climate change – these challenges all require long-term thinking."[62]

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[57] Exhibit 17 p. 3.

[58] Exhibit 17 p. 5.

[59] Exhibit 17 p. 5.

[60] Exhibit 17 p. 5.

[61] Exhibit 17 p. 5.

[62] Exhibit 18, Oregon State Treasury Annual Report p. 8,

https://www.google.com/url?client=internal-element-cse&cx=017270664345420165392:lck5qsqubxg&q=https://www.oregon.gov/treasury/news-data/Documents/News-and-Data-Treasury-News-and-Reports/2017/News-and-Data-Treasury-News-and-Reports-2017-Annual-Report-final.pdf&sa=U&ved=2ahUKEwjttYjX-cj2AhWIDjQIHVPTDEUQFnoECAUQAg&usg=AOvVaw1SSUhtYdxJEf0TXi2smdnH

Although there has been a recent Ukraine war blip, long term financial performance of the fossil-fuel energy sector – coal, oil and methane gas – is dismal. Before the war, the fossil energy sector was under water after consistently underperforming the broader stock market over the past 10 years. Even with war, its performance remains dismal over 10 years.

Figure 8 compares S&P's coal, oil and gas energy sector (white line) with the S&P fossil fuel free index (blue line).

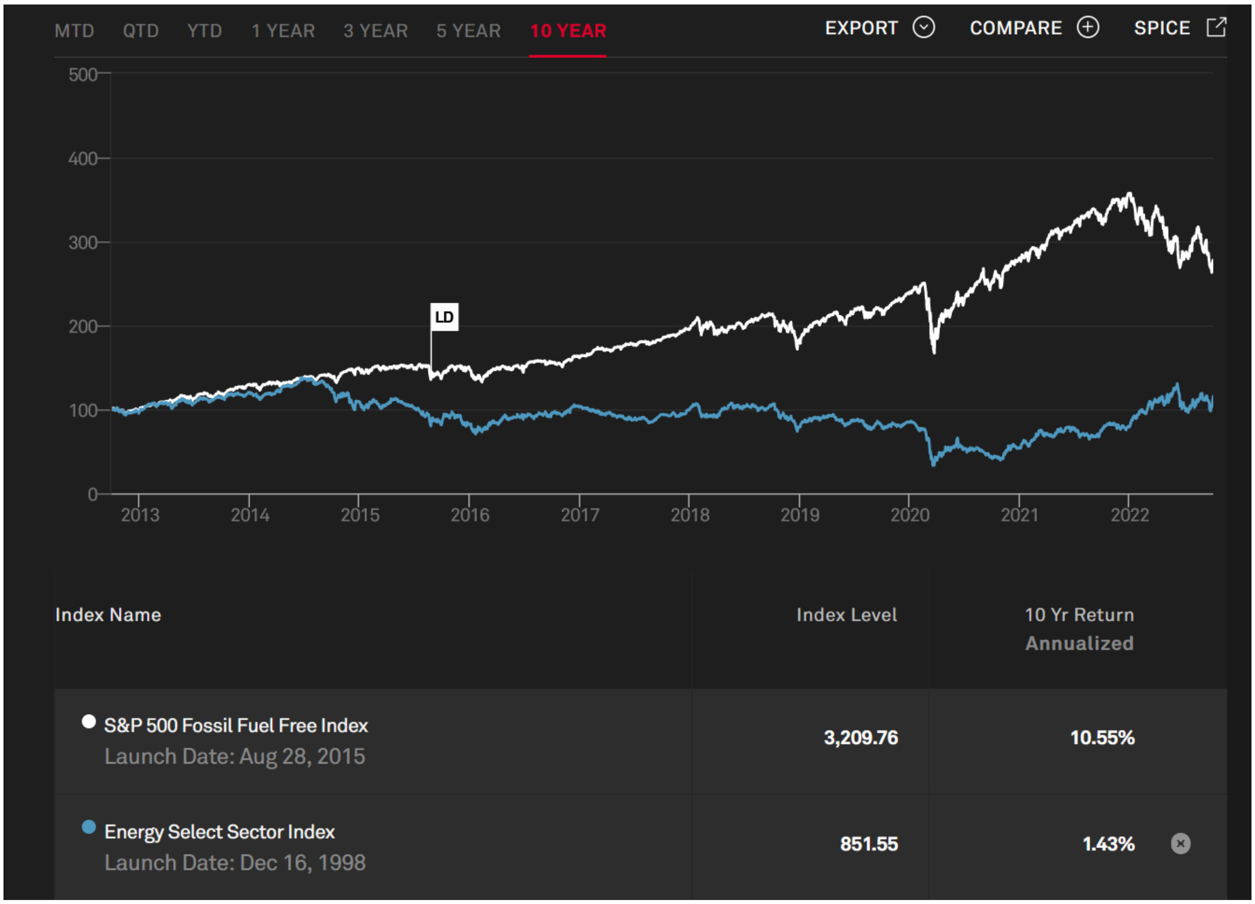


Figure 8: Fossil Fuel Energy Sector vs S&P 500 Fossil Fuel Free Index (10/5/22) (S&P 500 Fossil Fuel Free Index | S&P Dow Jones Indices)

Even with the recent Ukraine war-inspired runup of fossil fuel prices, **over the past 10 years, fossil-fuel public equity investment returned 1.4% on an annualized basis, while the S&P fossil free 500 index had a 10.5 %annualized return.**

It took three months in 2021 for the volunteer group Divest Oregon to obtain a list of OPERF's public equity investments, including its fossil fuel holdings. Treasury refused to produce any details of specific investments held by private equity, citing disclosure exemptions in Oregon's public records law.

The extent of OPERF losses from holding onto fossil fuel investments are hard to calculate precisely, in part because so many of the holdings are probably hidden with OPERF's private investments.

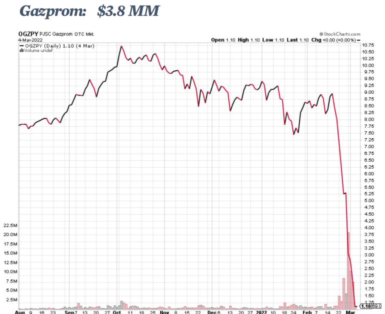
Divest Oregon requested a conservative simulation that looked back to see what would have happened if, 10 years ago, today's known OPERF fossil fuel holdings had been divested and then reinvested. The simulation used two different methods to value the holdings back then, followed in each case by divestment and immediate reinvestment of the proceeds in the S&P 500 Fossil Free Index. It then compared the simulation results with the actual performance of OPERF's fossil fuel holdings.

The two estimates showed OPERF would have likely gained between $4 billion and $10 billion in value over the past 10 years if it had divested its fossil fuel holdings and reinvested without them.[63]

Moreover, due to market trends, OPERF's private equity investments now appear likely to put OPERF's long-term investment portfolio at increasing financial risk. That is because pension and other institutional funds totaling more than $40 trillion have pledged to replace their fossil fuel investments.[64] As a result, private equity has moved in to provide the bulk of new fossil fuel investment capital.[65]

This means OPERF's specific private holdings are likely to contain a growing share of high risk investments that are also fueling climate change.

Gazprom: $3.8 MM



12. The Russian invasion of Ukraine shows the financial peril of waiting too long to divest problematic assets.

On March 3, 2022, the Treasurer announced "I stand with Ukraine" and directed divestment of the Treasury's holdings in sanctioned Russian companies.[66] Treasury's Russian

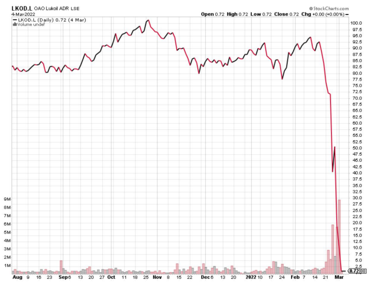
[63] Divest Oregon, "Risky Business - Oregon Treasury's Fossil Fuel Problem" p. 10 and Appendix B, https://www.divestoregon.org/.

[64] https://divestmentdatabase.org/

[65] Exhibit 19, Private Equity Stakeholder Project, Private Equity Propels the Climate Crisis pp. 4-5, https://pestakeholder.org/report/climate-crisis/

[66] https://www.oregon.gov/newsroom/Pages/NewsDetail.aspx?newsid=64935

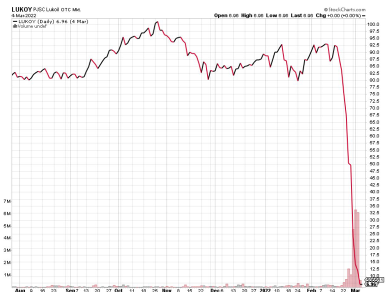
Lukoil ADR: $1.8 million



assets totalled $137 million before the Russian invasion.[67]

Unfortunately, the Treasurer waited until a week *after* the Russian invasion before ordering divestiture. By then, OPERF's and Oregon's other Russian assets were worthless. **The six charts of Russian gas and oil stock performance in this section depict what happened because of the Treasury's delayed divestment.**[68]

Lukoil: $5.7 million



The delay occurred despite, in the months before the invasion, gathering storm clouds and a specific warning to the OIC of possible damage to the state investment portfolio.

- On November 28, 2021, Ukraine reported a buildup of 92,000 Russian troops at its borders.

- On December 7, 2021, President Biden warned President Putin of strong economic sanctions should Russia invade.

JPM Russian Securities: $15.2 MM

- On January 24, 2022, NATO put troops on standby.

- On February 22, 2022, NATO countries imposed a first round of sanctions after Russia declared parts of eastern Ukraine independent countries.

- On February 24, 2022, Russia invaded.[69]

- In the midst of these widely reported events, on January 26, 2022, a partner of the private equity firm KKR presented to the OIC on market trends. Oregon's Treasurer asked where the presenter felt least confident about his upbeat economic assessment.

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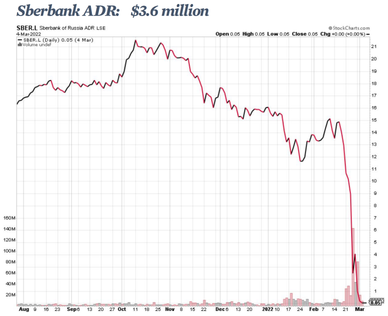
67 https://oregoncapitalchronicle.com/briefs/oregon-will-divest-russian-investments-treasurer-read-says/

68 Sources: https://www.oregon.gov/treasury/invested-for-oregon/Documents/Invested-for-OR-Performance-and-Holdings/2021/OPERF-Public-Equity-as-of-06-30-2021.pdf , pp. 86, 119, 130, 192, 228; Stockcharts.com

69 https://en.wikipedia.org/wiki/Timeline_of_the_2022_Russian_invasion_of_Ukraine#Prelude

Sberbank: $28.9 MM

Sberbank ADR: $3.6 million



The KKR partner replied, after the possibility of deflation, it was **“The China-US relationship, and you throw in Russia.** You could be in a period where that volatility persists and is more intensified than what I’m estimating. And that would make equities not a good buy and people would again go back into more safe haven investments.”[70]

Now, OPERF and other Oregon assets once worth $137 million are valueless.

The delay in divesting problematic Russian assets is a lesson on the financial peril of waiting to divest problematic assets in the face of warning after warning.

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70 Audio recording at 1:31:28, https://www.oregon.gov/treasury/invested-for-oregon/Documents/Invested-for-OR-47OIC-Agenda-and-Minutes/Audio/2022/OIC-20220126.mp3