OREGON
STATE
TREASURY

Tobias Read
Oregon State Treasurer

Michael Kaplan
Deputy State Treasurer

October 25, 2021

Senate President Peter Courtney
Oregon State Senate
900 Court St. NE, S-201
Salem, Oregon 97301

Speaker of the House Tina Kotek
Oregon House of Representatives
900 Court St. NE, Rm. 269
Salem, Oregon 97301

Dear President Courtney and Speaker Kotek:

Just as climate change is having an effect on Oregon, it also has an effect on investments the Oregon State Treasury oversees in the Oregon Public Employees Retirement Fund (OPERF) and other state portfolios. The Oregon Investment Council – including Treasurer Read, who serves as Oregon's Chief Investment Officer – and a team of investment professionals at Oregon State Treasury work together to understand and address climate-related risks that affect the public and private monies we invest. The work by Treasury staff is consistent with statute and the policies adopted by OIC. It has also evolved quite a bit over the last few years.

In 2018, Treasurer Read convened the Sustainable Investing Summit to bring together state and national finance leaders to highlight how Oregon Treasury — while first achieving our fiduciary obligation to maximize long-term, risk-adjusted performance — can be a responsible shareholder, engage to enhance climate-related disclosure and action, manage for Environmental, Social, and Governance (ESG) risks, and invest strategically for a cleaner future. Treasury hired our first-ever ESG Investment Officer that same year, and soon thereafter began a comprehensive analysis of real-world climate threats to OPERF's real estate asset class. In September 2020, the OIC updated investment policies that guide Treasury staff to formally integrate ESG factors into investment decision-making while maintaining the fiduciary duty we have to beneficiaries. Treasury's team has followed OIC's direction with training programs for staff, more sophisticated analysis of how external managers incorporate ESG into their investment decisions, and the start of a comprehensive climate analysis.

We have taken these actions not as symbolic gestures, but as important steps to ensure the long-term viability and performance of our investments. Increasingly, though, Oregonians are reaching out to OIC members and Treasury staff about different strategies – specifically, divestment – asking us what we think about it, urging us to divest from different companies or sectors, and wondering whether the Legislature should consider a policy of divestment for the roughly $100 billion Treasury manages.

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Under Oregon law, OIC members and Treasury's investment staff have unequivocal legal obligations. We are to "make the moneys as productive as possible" (ORS 293.721) and the "investment funds shall be…managed as a prudent investor would do…" (ORS 293.726). This means we cannot insert personal or political preferences into our investment decisions. Instead, we must pursue the best financial interests of current and future retirees (OPERF), injured workers (State Accident Insurance Fund), and current and future schoolchildren (Common School Fund), among others. To this end, the OIC has directed Treasury to pursue sustainable, long-term returns via performance-based decisions and as engaged, responsible shareholders, using tools such as proxy voting and other means.

When we exit investments, we do so for performance reasons, not political or personal ones. We consider divestment an overly limiting tool, with potentially harmful impacts on long-term investment returns. It is also an ineffective tool for having real impact. Divestment would be an abdication of the OIC's fiduciary obligations.

But this does not mean we are blind to the threats a changing climate brings. Assessing long-term risks and evolving sector conditions, making strategic adjustments, all while maintaining steadfast allegiance to our fiduciary duty, is difficult work. Even so, we're seeing changes in the portfolio and in our ability to influence corporations under this approach. For example, Treasury joined with other shareholders this summer to spur Exxon to bring on three new board members with climate expertise. In OPERF, we've seen our holdings of renewable energy stocks steadily grow from approximately $50 million in 2014 to in excess of $800 million in 2021. We believe that our most effective strategy is to maintain an active and engaged shareholder approach while making informed investment decisions for the long-term.

Because of our legal mandates, the effectiveness of shareholder engagement, and the lack of clear evidence that divestment changes corporate behavior, we have not pursued divestment strategies and remain committed to our current approach. Nevertheless, as interest in divestment as a political strategy grows, and as other entities make specific commitments to reduce their fossil fuel holdings, we believe the Legislature will also see an increase in questions about divestment. We want to outline the statutory and budgetary adjustments that would be necessary to facilitate a divestment policy should the Legislature decide to pursue this path.

If there were to be legislative interest in pursuing divestment from specific sectors, Treasury would need statutory changes to accommodate the fundamental shift in investment philosophy. Further, there could also be a need for the appropriation of general funds, and/or other funds outside of the fees we derive from investment of these trust funds, to pay for the potential lost earnings owed to beneficiaries and cover any costs associated with pursuing divestment for any purpose other than generating returns for beneficiaries' current and future financial interests.

Second, the Legislature would need to provide Treasury and the OIC with a reasonable timeline to accomplish any divestment mandate. Steering a $100 billion investment portfolio takes time and careful planning.

Third, the Legislature would need to provide Treasury and the OIC with statutory protections that could be triggered should any divestment mandate run up against time, financial, or fiduciary barriers.

The above is just a brief sketch of some of the factors and issues associated with divestment for non-performance reasons. We urge caution and careful consideration of any approach that injects politics into the management of Oregonians' pensions. At Treasury, we are acutely aware that OPERF represents the retirement security of hundreds of thousands of hardworking public servants, past and present. If the Legislature decides to pursue a divestment policy, it will be necessary to directly engage with beneficiaries and groups that represent them.

We welcome your questions and ask that you include Treasury in any legislative discussions so we can contribute information and resources on fiduciary, budgetary, and practical considerations affecting investment policy.

Sincerely,

Tobias Read, Oregon State Treasurer and Member, Oregon Investment Council
John Russell, Chair, Oregon Investment Council
Cara Samples, Vice-Chair, Oregon Investment Council
Monica Enand, Member, Oregon Investment Council
Charles Wilhoite, Member, Oregon Investment Council

CC: Governor Kate Brown