

# Invested for You

YEAR-END PERFORMANCE 2019



OREGON  
STATE  
TREASURY

## COVID-19 and Your PERS Investments

Details on how Treasury's investment team is managing public employees' retirement investments during this volatile and uncertain time.

We started seeing reactions to COVID-19 in the stock market in February. The downturn intensified in March, with big and in some cases historic drops in stock prices followed by continued ups and downs in April and May. This has meant a large reduction in stock market value, erasing much of the gains that had been realized over the past few years, and a dramatic real-time demonstration that economic cycles and financial markets can be volatile.

Oregon and the country had been riding the longest economic expansion in our country's history. OPERF ended the 2019 calendar year up 13.6 percent, roughly double the rate assumed by the Oregon Public Employees Retirement System.

For the first quarter of 2020, total fund performance is down 7.2 percent. For just the capital markets portion of our portfolio – essentially, stocks and bonds – fund performance was a negative 14.0 percent for the quarter.

The difference between overall fund performance and the portion invested in the stock market reflects the diversity and composition of the retirement fund. It also reflects a core value of Treasury's investment team: we know the investment decisions we make for OPERF have to stand over the long haul, in both up and down markets. That's why over the past several years, we've taken deliberate steps to improve fund resilience (see page 4 for details).

This does not mean OPERF is immune to economic uncertainty and financial market volatility, as our first quarter results demonstrate. Instead, it means that OPERF is better positioned to weather all types of economic and financial market conditions, with less dramatic swings either up or down.

We've seen this play out over the last two years. At the end



of 2018, stock prices dropped sharply, but OPERF posted modest positive returns while other public plans ended 2018 in the red. OPERF's 2019 performance of 13.6 percent was a good absolute result, but more tellingly, compared to similar public pension plans, it was achieved with much less exposure to stocks and other risk-based assets.

There's a lot of uncertainty and, frankly, bad news right now surrounding COVID-19 and its broader effects on global economic activity and the financial markets. With stay-at-home orders and record levels of job losses, Oregonians have immediate, pressing concerns related to the virus. But we know the long-term effects matter to you, too. To that end, we'll continue managing Oregon's public employees' retirement fund with a focus on sustainable, long-term returns and strong risk management practices.

Thanks for reading and keeping in touch.

— Treasurer Tobias Read

Oregon Public Employees  
Retirement Fund

**\$82.1 billion**

Total assets as of  
12/31/19

OPERF Annual  
Performance

**13.6%**

For calendar year  
2019

Benefits Paid with  
Investment Returns

**73.9¢**

of every dollar

Inside:

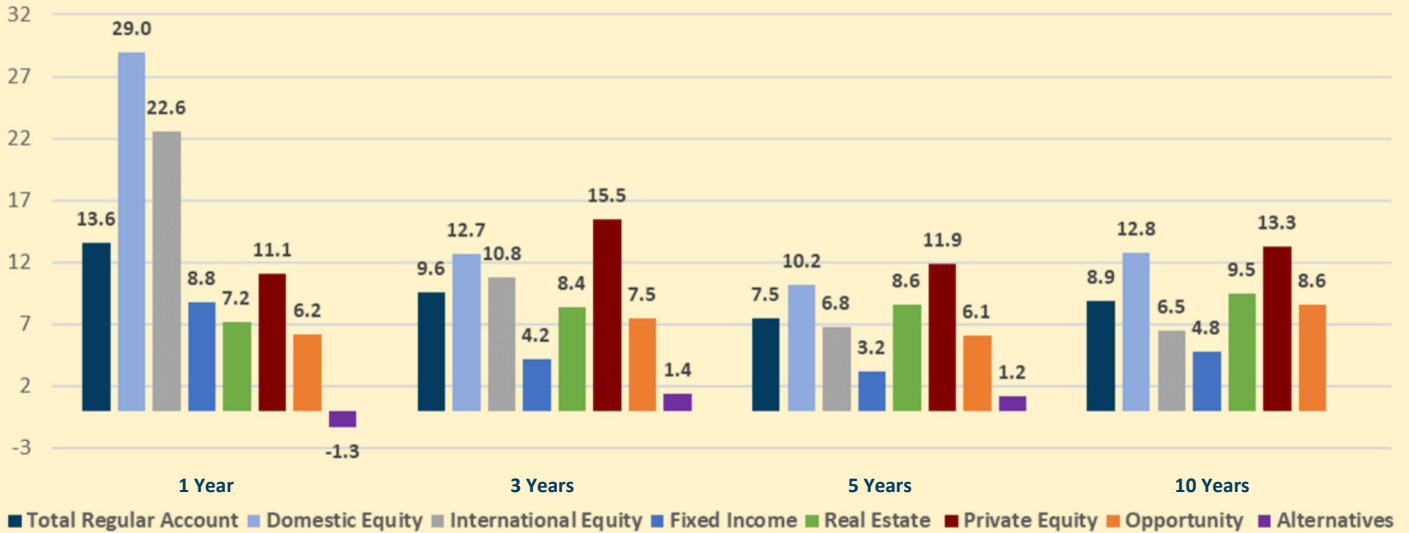
- Interviews with both outgoing and new Treasury Chief Investment Officers
- Year-end performance for OPERF and IAP
- Responsible Investing Highlights

## OREGON PUBLIC EMPLOYEES RETIREMENT FUND (OPERF) CALENDAR YEAR 2019 PERFORMANCE

OPERF belongs to beneficiaries of Oregon's public employee retirement system. Depending on initial hire date, PERS-covered workers are affected differently by OPERF performance. "Tier One" workers (hired before 1996) have some investment guarantees no matter what happens in financial markets, while most other PERS members earn "realized" or actual returns.

### How did the Oregon Public Employees Retirement Fund perform in 2019?

The total regular account for OPERF **ended 2019 up 13.6 percent**. Breakdowns by asset class are shown below along with historical performance for the past three, five, and 10 years.



### What investments make up the Oregon Public Employees Retirement Fund?

To support strong, sustainable investment returns over time, OPERF is diversified across an array of asset classes, markets, and investment strategies, including public company stocks, real estate, bonds, private equity, and alternatives like timberland and agriculture. The mix of these assets is intended to help the fund be resilient in different kinds of market conditions.

**PUBLIC EQUITY** (34.6% or \$27.4 billion)  
Shares of stock in publicly-traded companies in the United States and abroad.

**FIXED INCOME** (20.4% or \$16.1 billion)  
Income-generating investments such as corporate and government bonds.

**OPPORTUNITY PORTFOLIO** (2.2% or \$1.7 billion)  
Tactical or episodic investments designed to enhance returns and improve overall diversification.

**PRIVATE EQUITY** (21.9% or \$17.3 billion)  
Ownership interests in privately-held companies, buyout funds, and venture capital investments.

**CASH RESERVES** (0.1% or \$91 million)  
Cash from employer contributions and investment distributions, dividends, and income held in the Oregon Short Term Fund to pay benefits or re-invest.

**REAL ESTATE** (11.0% or \$8.7 billion)  
Ownership interests in real property assets in the United States and abroad.

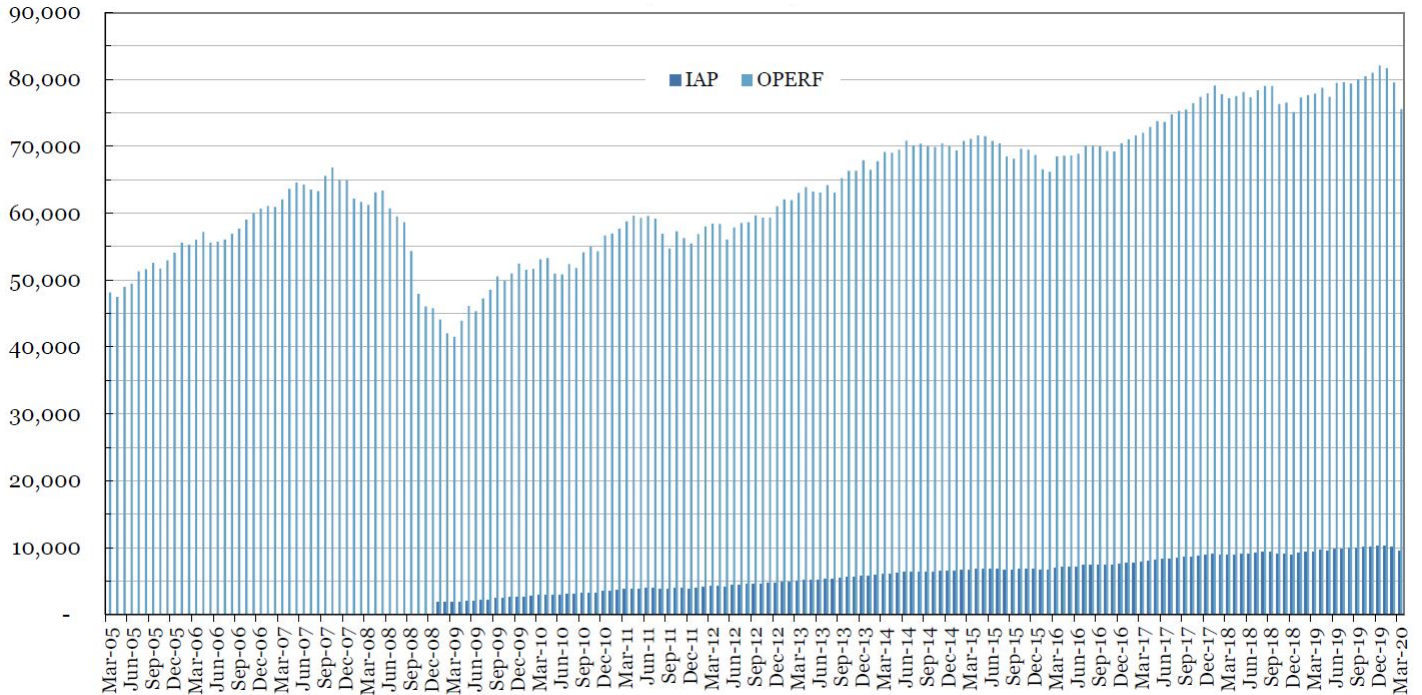
**ALTERNATIVES** (9.7% or \$7.7 billion)  
Public market strategies and ownership interests in real assets such as infrastructure, timberland, mining, agriculture, and royalties.

### What investments make up Individual Account Program Target-Date Funds?

The IAP is an account balance-based, defined contribution-style retirement program for active PERS members. This benefit is different from and in addition to your PERS pension benefit.

PERS members' IAP accounts are invested in one of several Target-Date Funds that correspond to the date members are likely to retire. Under Target-Date Funds, younger workers have more exposure to growth-oriented investments such as stocks. Workers at or near retirement age see a greater percentage of their corresponding fund invested in bonds and other lower-risk investments. The mix of investments gradually changes over time. You can see the specific mix for the fund you're invested in at [oregon.gov/iap](http://oregon.gov/iap). And check out page 3 for details on how you'll be able to choose a different fund for 2021.

**OPERF AND IAP PERFORMANCE OVER TIME**  
**Net Asset Values for 15 Years Ending March 31, 2020**  
**\$ in Millions**



**YOUR QUESTIONS & ANSWERS**

**What's new with IAP in 2020?**

**NEW TARGET-DATE FUND:**

The Oregon Investment Council added a new **2065 Target-Date Fund** for younger workers who've entered the system. The Council also consolidated the **2020 Target-Date Fund** into the **Retirement Allocation Fund**.

**MEMBER CHOICE:**

In 2019, the Oregon Legislature passed SB 1049, which will allow IAP participants to revise their own investment approach by choosing a different IAP Target-Date Fund. Currently, your IAP TDF is automatically assigned based on your birth year. Beginning in 2021, you may choose to invest your IAP balance in a Target-Date Fund that is more reflective of your own risk tolerance than the default based on your age.

Later this year, PERS will inform members of an optional investment choice sign-up window, during which you can choose a different Target-Date Fund for your IAP investments.

To learn more about [IAP member choice](#) and the other changes approved by the Legislature in [SB 1049](#), visit the Oregon Public Employees Retirement System website.

**How did IAP Target-Date Funds perform in 2019?**

	2019 RETURN	BIRTH YEAR
IAP 2060 Target Date Fund	16.93%	1993 -
IAP 2055 Target Date Fund	16.90%	1988-1992
IAP 2050 Target Date Fund	16.78%	1983-1987
IAP 2045 Target Date Fund	16.75%	1978-1982
IAP 2040 Target Date Fund	14.01%	1973-1977
IAP 2035 Target Date Fund	14.19%	1968-1972
IAP 2030 Target Date Fund	14.74%	1963-1967
IAP 2025 Target Date Fund	13.58%	1958-1962
IAP 2020 Target Date Fund	10.49%	1953-1957
Retirement Allocation	9.84%	Before 1953

*Annual earnings credited to PERS member accounts are different than the amount earned by investments. This is due to administrative expenses and reserving requirements provided in PERS' statutes, administrative rules, and PERS Board actions.*

# New CIO Rex Kim Takes the Helm



**Rex begins his Treasury tenure as the financial markets continue to react dynamically to the COVID-19 pandemic.**

*You moved from the Oregon Investment Council overseeing investments to the front lines. How will you approach your new role? And what have you learned as an OIC member that will be helpful to you as you lead Treasury's investment division?*

My time on OIC was a very positive experience, especially since I generally felt like a well-taken care of client: staff kept me well-informed and my requests were taken seriously. I hope to continue that high quality of service to all of our clients. The key difference will be the deeper discussions and analysis into the investments that come as part of the CIO job, as opposed to the policy discussions that I focused on while on the OIC. I am super excited for that change, having been in the investment space for more than 25 years.

*You started at Treasury on April 2 during one of the most uncertain and challenging times in recent American history – and the financial markets certainly reflect that. What's the top priority for the investment team as we face the many effects of COVID-19?*

First off, Treasury took the pandemic threat seriously, and we've been working from home or working with plenty of social distance since March 13. That was the right call to make, but if I can be a bit selfish for a moment, it's lonely sitting in my office with so many empty spaces around me. It would definitely be more challenging to take on the CIO role without the existing relationships that I have with the team.

Still, we're making it work, and our number one objective is continuing to keep everyone healthy and safe for their own benefit but also for the good of our communities. From an investment perspective, in this kind of volatile, uncertain environment, sticking to our core investment beliefs is really important – the central tenets of which are intellectual honesty and rigor.

*Before coming to Treasury, you worked exclusively in the private sector. Why was working in the public sector important to or interesting to you?*

It's certainly a change, and I have a lot to learn about being in the public sector, but that's exciting to me, and I'm looking forward to it. My family and I have lived in Oregon for 17 years. We love it here! And now, we're a family of public servants. My wife is one of those saints who teaches 8th graders at a public middle school. I think the work that we here at Treasury do for Oregon and public employees is important. So, I get to serve Oregon while doing what I love—investing.

## HOW WE'VE MADE YOUR RETIREMENT FUND MORE RESILIENT

- We've **reduced and re-balanced risk** across the portfolio.
- We've lowered the amount of capital allocated to private equity, and made changes to OPERF's fixed income and real estate investment strategies so that they play more **pronounced, defensive roles**.
- For publicly-traded stocks, we've moved toward low-cost index funds and **stocks that are less sensitive to market fluctuations**. We've also increased the amount allocated to strategies designed to produce positive returns with less dependence on the broader stock market.
- We've **reduced operating expenses** by increasing the proportion of assets managed internally by Treasury staff.
- We've increased our corporate governance activities to ensure that our investment practices pursue strategies that produce **strong, sustainable long-term results**.

# An Interview with Former CIO John Skjervem

Treasury's chief investment officer ended his tenure with the state on March 31. We caught up with John about his time heading up the Oregon Public Employees Retirement Fund.

*You headed up Oregon Treasury's investment division for more than 7 years. That's a long time for a chief investment officer at a public pension fund.*

Yes, the average tenure of a state-plan CIO in the U.S. is four years. I've been here 7-1/2 years, so I guess I'm a bit of an outlier. But the job has been, without a doubt, the highlight of my professional career.

*You came to Oregon in late 2012 as we were climbing out of a recession that had erased more than a third of the OPERF portfolio. During your tenure, we saw big gains between 2012 and 2019, before the coronavirus hit. Are you surprised by how the portfolio has performed?*

I'm not. In fact, I'm encouraged. So far, OPERF's performance is largely tracking the risk/return profile the team and I carefully designed and implemented over the last several years. Along the way, and with consistent, unwavering support from the Oregon Investment Council, we've also built a world-class investment organization that is second to none among our U.S. public plan peer group.

Our single most important objective was to re-design and reconstitute OPERF to become more resilient in the face of market volatility. The OPERF portfolio I inherited in 2012 was much different than today's. Specifically, I inherited a high-risk, high-reward fund that shot the lights out during bull markets, but, as was painfully revealed during the Great Financial Crisis, got crushed during bear markets.

Today, OPERF is designed to perform well in bull markets, but outperform on a relative basis in bear markets. We have tried to design and implement a portfolio with positive "skew" that limits the number of future home runs we will hit in exchange for a disproportionate drop in the number of times we strike out. In investment speak, we are trying to minimize "tail events," both positive and negative, in exchange for more consistency and more resiliency. That doesn't mean OPERF will never lose money. On the contrary, there is no way to inoculate OPERF from market volatility while simultaneously seeking a long-term positive rate of return. However, the skew we have embedded should limit OPERF's losses *relative* to any given bear market scenario without compromising the fund's long-term, positive return trajectory.

Back to a baseball analogy: we used to hit for power, now we hit for average. And while an empirical verdict is still

premature from a strict statistical perspective, our pivot to a deliberately skewed portfolio appears to be working, as we've seen the last calendar years.



*The longest economic expansion in the country's history appears to have met an abrupt end due to the coronavirus. How is OPERF positioned for these uncertain times?*

Maintaining long-term OPERF solvency requires us to take risks and seek long-term positive returns from asset classes like stocks, private equity, and real estate. In the current environment, however, that risk is manifesting sharply on the downside as all risk-based assets re-price lower (and in many cases, much lower!) to reflect the economic consequences of the coronavirus pandemic.

As I mentioned earlier, OPERF is still not immune to financial market losses, but the defensive tilt we have engineered should limit the losses relative to the damage that would have otherwise accrued had we kept the previous portfolio structure in place.

*What's a common misconception about OPERF and how it's invested?*

Most Oregonians don't realize how truly big and complex our portfolio is – we own thousands of securities, have limited partnership interests in thousands of private companies and real estate properties, and we own investments all over the world. Even though we're sitting in a relatively small office in Tigard, because the fund is so large, and because we place a premium on strategic and deliberate diversification, we actually own a little bit of everything, everywhere.

*What's been your biggest accomplishment while heading up investments at Oregon State Treasury?*

I inherited a division where all of the investment officers were men, the only women were in administrative roles, and all but two members of the team were white. We're a much larger team now, and we prioritized diversity and inclusion at each step of our growth. That emphasis has really changed not just how the team looks, but how it thinks and works together. So I can point to a lot of "firsts" – which have translated to better gender equity, more youth, more ethnic diversity, etc. – but what those firsts ultimately mean is that we've deepened and expanded the team's diversity of thought and perspective, and the team, and various portfolios we manage, are all better for it.

# Responsible Investing: Recent Highlights

Oregon State Treasury has dedicated staff working on what are commonly referred to as ESG – environment, social, and governance – issues. Driving this work is our commitment to being responsible shareholders. We know that when companies do the right thing – for example, when they reduce risks, improve diversity, support their employees – they are more likely to be successful over the long-term. And that’s good for both their performance and our portfolio performance over time.

Some recent highlights:

## PROXY VOTING

So far this year, as shareholders in publicly-held companies, we’ve voted on 11,139 proposals at 1,401 annual and special meetings in 47 countries. How we vote is shaped by policies implemented by Treasurer Read to support strong environmental, social, and governance practices in public companies, which in turns supports long-term sustainable returns for OPERF beneficiaries.

In the first four months of 2020, the Treasurer’s ESG voting policy resulted in a changed vote on more than 350 proposals in support of auditor and board member refreshment, board diversity, greenhouse gas reduction, and linking executive compensation to sustainability metrics. With shareholder meetings underway this spring, we’ll be busy with proxy votes through June.

## COALITION BUILDING

In early April, as COVID-19 continued to affect businesses worldwide, Treasurer Read signed an investor statement with 275 investors representing more than \$7.7 trillion in assets under management. The statement urges the business community to take what steps they can to provide paid leave, prioritize health and safety, maintain employment, maintain relationships with suppliers and customers, and exercise financial prudence in response to the public health crisis and ensuing market stress.

## RISK REDUCTION

On the climate front, earlier this year, Oregon State Treasury signed on to the CDP, a global climate disclosure effort that works with investors, companies, and governments to quantify and report on climate change, water security, and deforestation.

Last but not least, Treasury has been working with an outside firm to evaluate risks to real estate holdings. The analysis includes the review of risks associated with hurricanes, flooding, sea level rise, water stress, and heat stress. Initial results were presented to the Oregon Investment Council in October 2019, and the review will continue to drive discussions on risk mitigation plans and other steps to reduce risk to physical properties.

## WHO TO CONTACT

I have questions about my PERS benefits or retirement options.

Public Employees Retirement System  
[www.Oregon.gov/PERS](http://www.Oregon.gov/PERS)  
 888-320-7377

I have questions about the IAP and my personal account balance.

Public Employees Retirement System  
[www.Oregon.gov/PERS](http://www.Oregon.gov/PERS)  
 888-320-7377

I would like to know more about the Oregon Savings Growth Plan.

[www.growyourtomorrow.com](http://www.growyourtomorrow.com)  
[osgpcustsvc.PERS@state.or.us](mailto:osgpcustsvc.PERS@state.or.us)  
 800-365-8494

I have questions about the Oregon Investment Council.

Oregon State Treasury  
[www.Oregon.gov/Treasury](http://www.Oregon.gov/Treasury)  
 503-378-4000

I would like to communicate with the State Treasurer.

Office of the State Treasurer  
[www.Oregon.gov/Treasury](http://www.Oregon.gov/Treasury)  
[Oregon.Treasurer@ost.state.or.us](mailto:Oregon.Treasurer@ost.state.or.us)  
 503-378-4329

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