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Hearing on the Treasury Investment and
Climate Protection Act of 2023. (HB 2601)

Hello and thank you for giving me the opportunity to share my thoughts with you in support of HB 2601.

My name is Chris Abbruzzese, I am Chief Investment Officer at Rain Capital Management in Portland. Prior to my current work, I spent 15 years in senior risk management roles at various global investment banking firms. My work included risk advisory support for various central banks, development banks and pension funds, including Norway's Government Pension Fund Global and Kuwait's Public Institution for Social Security. I am speaking here, however, as a private citizen.

I am not here to talk to you about whether climate change is real. It doesn't matter. What matters is that society and markets are already reallocating resources as if it is.

Mark Carney, the former Governor of the Bank of England and the Chairman of the Financial Stability Board, first described climate change as a "Tragedy OF the Horizon," not because it is a threat that sits far away ON the horizon, but because the impacts of climate change will be felt well beyond the traditional horizons of most actors – imposing a cost on future generations that the current generation has no direct incentive to fix. It goes beyond the business cycle, beyond the political cycle, beyond the credit cycle and beyond the horizon of most technocratic authorities like central banks.

In this tragedy, perhaps the character in the most difficult position is a state treasurer who is charged with running a pension fund. Why? Because in Oregon they are elected officials who serve one or two short 4-year terms but are fiduciaries for assets that go on essentially in perpetuity. Pension funds are specifically vulnerable to climate risk because of the types of financial consequences and the likely impacts over the time frame they must operate. As much as these fiduciary actors may want to do the right thing as it relates to climate-vulnerable investments, they may not always do so by virtue of their relatively short horizon. This is why you, as legislators, are so important in this story. **You are in a unique position to solve this problem because you have the longest time**

horizon of all; should OPERF fail to meet its funding obligations, you will be charged with dealing with the shortfall, whether through higher taxes, diminished benefits and services, or otherwise.

Fiduciary duty has meaning beyond the need to act solely in the interest of beneficiaries. I want to give you a few examples of how current climate-vulnerable investments may already be compromising the Treasurer and OIC's ability to act as long-term fiduciaries in 4 of the 6 core responsibilities.

<u>1, The Duty of Impartiality:</u> is with respect to the various beneficiaries of the trust. **How might the Treasury be failing its duty?** Climate-related risk will likely affect the funds available for future beneficiaries more than current beneficiaries. A lack of consideration of longer-term climate-related risks in the portfolio represents an unreasonable bias that favors short-term gain at the expense of long-term sustainability. This is perhaps the most emphatic implication of the Climate Risk Assessment reports that other speakers have referred to.

<u>2 & 3. The Duties to Inquire and Monitor:</u> require the Treasury to investigate and consider the prudence of investment and management decisions. This can be done by evaluating how an investment, as part of the portfolio, presents a risk of loss or an opportunity for gain. The duty to monitor is a duty to reevaluate investment decisions and change course if appropriate. **How might the Treasury be failing its duty?** Should an investment be deemed imprudent, it must be disposed of in a reasonable amount of time. As early as 2016, Moody's Investor Service identified coal as a sector that was highly exposed to carbon transition risk, warning that material credit impacts and rating adjustments were already being felt in the market. As we have recently seen, the American coal industry has collapsed, with many of the largest coal companies having declared bankruptcy. To this day, OPERF inexplicably has approximately $1 billion in coal investments.

<u>4. The Duty of Loyalty</u> is to act solely in the interests of beneficiaries. **How might the Treasury be failing its duty?** In as much as 60% of the portfolio, the third-party investment managers that OPERF uses are compensated based on the performance of their fund. These performance incentives often misalign with what is best for the fund (rewarding short-term gains), particularly when balancing short-term risks against long-term stability in a climate context. This is especially true in the hedge fund and private equity funds that likely hold the lion's share of OPERF's carbon-related

investments. To add insult to injury, most of these investment commitments are locked in for 10 years or more.

As legislators, you are responsible at once for both the careful stewardship of taxpayer monies and the obligation to make good on our collective promise to provide a safe retirement for our public employees, past, present and future. You are the fiscal bridge between the taxpayer and society's unfunded liability. In that sense, you are the ultimate long-term fiduciary. That makes you the actor in this story who can best appreciate the need for better transparency and to remove these investments that may appear seductive in the short run but that pose a high risk of damage to OPERF beneficiaries in the medium term. Thank you.