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Senate Committee on Finance and Revenue

Oregon State Legislature

RE: SB 681

Dear Chair Meek and members of the Committee,

My name is Connor Chung, and I am an Energy Finance Analyst at the Institute for Energy Economics and Financial Analysis, a nonprofit studying the transition to a diverse, sustainable, and profitable energy economy. In around 30 countries on 5 continents, our experts research trends in the global energy landscape.[1]

I would like to begin by noting the important leadership the state has demonstrated to date. A year ago, the State Treasurer presented a wide-reaching Net-Zero plan. In light of these important commitments, the Legislature recently took steps to guide the state's holdings away from coal. Oregon is right to recognize that climate risk is financial risk, and these steps will leave OPERF better prepared to address the impacts of a warming world.

Yet some unfinished business remains. Private markets have some of the highest carbon emissions intensities out of any part of OPERF's portfolio,[2] and, left unchecked, will continue to serve as a material source of exposure to climate-related financial risks.[3] Without a credible plan to manage carbon exposure in private markets, it is hard to see how the fund will be able to meet its net-zero goals — or to fully defend portfolio value.

To review the big-picture financial reality: fossil fuels are a shrinking sector in the stock market, and are losing relevance for long-term portfolios. Over the past decade, for example, the fossil fuel sector has delivered the *single lowest* returns and *single highest* volatility among all components of the Standard & Poor's 500 stock market index.[4] The sector would have done even worse had it not been for a temporary profit boost following Russia's invasion of Ukraine.[5] And though the sector made up almost 30% of the S&P 500 by value in 1980, it has shrunk to just 3.3% today.[6]

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[1] See ieefa.org for more. My biography and qualifications can be found at https://ieefa.org/people/connor-chung.
[2] Oregon State Treasury. A Pathway to Net Zero. February 2024, p. 33.
[3] For discussion of how climate-related risks can manifest in private portfolios, see e.g. IEEFA. Private equity in PJM: New risks for limited partners, private capital. October 2023.
[4] IEEFA. Another bad year — and decade — for fossil fuel stocks. January 2025.
[5] Ibid. See esp. Fig. 4.
[6] S&P Global. S&P 500 Factsheet. Accessed March 13, 2025.

A broadly similar story is at play in private markets, as investors begin to respond to the risks and uncertainties facing fossil fuels. Between 2009 and 2024, McKinsey reported an average 1.7% annual growth rate for energy sector private equity deals — well under the whole-market average of 13.6%.[7] Fifteen years ago, traditional energy made up almost 12% of the private equity market by deal volume. Today, that number sits under 7%.[8]

Looking forward, our research has identified increasing market headwinds that the fossil fuel sector appears ill-prepared to handle. It faces competition from low-carbon technologies that challenge its prospects in key markets like electricity and transport.[9] Its own low-carbon technologies like carbon capture and storage face significant hurdles to commercial viability.[10] And, with fossil fuel companies (such as BP) themselves acknowledging declining long-run demand prospects,[11] leading credit raters warn that the industry has yet to demonstrate a compelling plan for navigating the years to come.[12]

OPERF's private market investments seek to provide "the opportunity to achieve higher returns" than the public equity benchmark.[13] Oregon needs to take a hard look at whether fossil fuels are actually aiding in the fulfillment of this goal.

A range of major institutional asset owners (such as the New York City pension system[14] and the Harvard University endowment[15]) have decided that the answer is no, and have committed to shifting private market holdings away from fossil fuels. In doing so, they are demonstrating that a skilled asset owner can phase out existing fossil fuel holdings and avoid new ones without compromising expected returns — that such strategies, in other words, can be both prudent and practical.

Senate Bill 681 helps Oregon continue to build a record of leadership when it comes to confronting climate risk. There is strong financial rationale for shifting away from fossil fuels as part of a broader approach to climate risk.[16] And there is good reason why private market investments need to be part of the conversation.

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[7] McKinsey & Company. Global Private Markets Report 2025. February 2025, p. 8; 12.
[8] IEEFA. Private equity investments, climate change and fossil-free portfolios. March 2023. Most recent numbers: McKinsey & Company. Global Private Markets Report 2025. February 2025, p. 12.
[9] IEEFA. The Energy Transition: 2019-24 and Beyond. January 2025.
[10] IEEFA. The carbon capture crux: Lessons learned. September 2022.
[11] IEEFA. BP's retreat is a reality check for investors. October 2024.
[12] IEEFA. A Matter of Opinion. March 2024.
[13] Oregon State Treasury. Investment Policy Statement for OPERF. April 2024, p. 13; 15.
[14] Reuters. NYC comptroller Lander to end private market fossil fuel investments. October 2024.
[15] Harvard University. Climate Change: Update on Harvard Action. September 2021.
[16] For more, see IEEFA's discussion of how attention to private market funds could catalyze positive change in the private equity sector: IEEFA. Private equity, part of the fossil fuel problem, can play a role in its solution. December 2021.