Oregon SB 681
Proponent Testimony
Senate Committee on Finance and Revenue

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Chair Meek, Vice Chair McLane, and members of the Senate Committee on Finance and Revenue,

Thank you for the opportunity to submit written testimony regarding SB 681, which would prohibit the state treasurer from renewing investments in or making new investments in a private market fund if the managers of the fund have stated an intention to invest in fossil fuels, subject to fiduciary duties.

My name is Cathy Becker, and I am the Responsible Finance Campaign Director for Green America, a national nonprofit founded in 1982 to harness the economic power of consumers, investors, businesses, and the marketplace to create a socially just and environmentally sustainable society.

Green America is a strong proponent of SB 681. This legislation would place a five-year moratorium on new investments by the state's Public Employee Retirement System (PERS) into private equity funds that are over 10% exposed to fossil fuels. It would not affect current investments, but would affect investments moving forward. It also requires the state treasurer to report on actions to reduce climate risk and include just transition principles. The legislation would sunset after five years.

SB 681 is needed because so much of Oregon's public retirement funds are tied up in private investments. As of June 2024, around 60% of Public Employees Retirement Fund (OPERF) funds were invested in private equity, real estate, real assets, and other funds not traded on the public market. This is double to triple the recommended percentage, and well over the limit set by the Oregon Investment Council.

Private equity funds are often illiquid, meaning they are invested for a long period like 10 years and cannot be withdrawn or moved to something else. They are opaque and secretive. Because private equity is not traded on the stock market, the companies do not have answer to stockholders or file reports with the Securities and Exchange Commission. That makes it difficult for investors to know what private equity firms are doing.

Private equity funds are also heavily invest in the fossil fuel industry. According to a report by the Private Equity Stakeholder Project, the top 21 private equity firms have invested over $1 trillion in oil and gas projects, responsible for 1.17 billion metric tons of carbon emissions. Two projects that Oregon PERS recently invested in through private equity include $350 million in the Rio Grande LNG export terminal, and $200 million in the British Columbia LNG expansion project.

None of this is compatible with the Oregon State Treasury's own Net Zero Plan, which seeks to reduce the PERS portfolio emissions intensity 60% by 2035 and get the portfolio to net-zero emissions by 2050.

If all that was not enough, Oregon's private equity fund investments have not been performing well and are causing problems for pension payouts. The treasury reported a 1% return in second-quarter 2024, far short of its 2.5% benchmark, as private equity returns have slowed nationwide. Having so much of the portfolio tied up in private equity has threatened Oregon's ability to pay its retirement beneficiaries.

That's where the five-year moratorium on investing in private equity comes in. Pausing these investments for five years will give the state treasury time to evaluate the funds it manages and get them into compliance with Oregon Investment Council policies. This will reduce the climate-related risks in the PERS portfolio, helping to protect the retirement funds of teachers, firefighters, and other public servants.

A common misperception about responsible investing is that it results in lower returns. This is not true. Years of research studies show that responsible investing generates returns as good or better than conventional investing, especially over the long term. For example:

- Morningstar's 2022 Sustainable Funds US Landscape Report found that, "In 2021, most sustainable funds delivered stronger total and risk-adjusted returns ... than their respective Morningstar Category indexes."
- Morgan Stanley's Institute for Sustainable Investing study analyzed 3,000+ US mutual funds and ETFs, finding that sustainable equity funds outperformed non-ESG funds by a median of 4.3 percent in 2020.
- NYU Stern Center for Sustainable Business conducted a meta-analysis of 1000+ studies from 2015-2020: "59% showed similar or better performance for ESG funds relative to conventional investment approaches while only 14% found negative results."

Over 1600 institutional investors with over $40 trillion in combined assets have now divested from fossil fuels, according to the Divestment Database. Public pension fund managers in New York, Maine, Los Angeles, and Washington, DC, have all adopted fossil-free policies.

Oregon could one day join them, but this moratorium on private equity investments is the first step. We strongly support SB 681 and urge you to vote it out of committee.