

News and Analysis

Investors | Pension Plans

Oregon CIO uncomfortable with adding more investment risk

The \$100bn fund's investment chief cautioned against taking more risk in an effort to close a \$22bn unfunded liability.

Dietrich Knauth | 07 May 2018

Oregon's investment chief would not recommend adding any more investment risk to the state's \$100bn portfolio, saying in a recent meeting that investment income alone will have a tough time bridging the state pension's \$22bn unfunded liability.

The **Oregon Investment Council**, whose pool of assets includes the \$76bn **Oregon Public Employees' Retirement Fund**, had a special meeting in late April to discuss board governance, policy, and its appetite for investment risk. CIO **John Skjervem** said at the meeting that he appreciated the desire to maximize risk-adjusted investment returns, but said that investment staff couldn't simply kick their strategies into higher gear.

"We don't have another gear to go to," Skjervem said. "This is as aggressive a portfolio as I feel comfortable managing, and I believe to a person my staff feels the same way."

Skjervem said he would prefer to manage a less risky portfolio, but believes that the current approach, which depends on equity markets for a significant portion of its investment returns, is the best way to close a \$22bn unfunded liability gap.

"If \$22bn fell out of the sky into my lap, we would de-risk the portfolio," Skjervem said.

Skjervem said that asset allocation and portfolio construction are the biggest factors in the pension plans' future success, far outweighing the "alpha" generated by investment managers that succeed in beating their benchmarks.

"If we were to wake up in 10 years down the road and be disappointed, the disappointment is going to come from something that we missed in portfolio construction - we went over the top in venture capital, or we didn't do enough in venture capital, [for example]," Skjervem said. "Those are the discussions that I think are the most important for the Council. The amount of money that we put in private equity, the amount of money that we put in venture capital versus LBOs versus growth, is going to determine long term where we are on that spread."

The council's investment consultant, **Allan Emkin** of **Pension Consulting Alliance**, also said that Oregon shouldn't put too much emphasis on alpha.

"The active managing component is a complete unknown, there is no evidence than anyone can consistently create alpha," Emkin said. "A 40 basis point advantage over public markets is extremely difficult to sustain You can't predict that. You can't bank on that. It just won't happen, no matter how smart you are."

Emkin discussed a range of investment styles pursued by other institutional investors, from the \$40bn Nevada pension system's all-passive, low-staff approach, to the active and sometimes-arcane investments pursued by the "cowboys" at Harvard's endowment fund before the 2008 financial crash. Oregon can't place itself on the extreme end of the active spectrum, because it can't afford to hire the types of in-house private markets consultants that that approach would require, Emkin said. And on the other

end of the spectrum, and all-bond portfolio would be low-risk on paper, but would fail to generate the investment returns needed to pay pensioner benefits, he added.

Council members also discussed the proper level of investment oversight, how best to represent constituents' wishes, and how best to engage with environmental, social, and governance factors in investing. Council members debated the appropriate level of delegation when investment staff decides to hire a particular manager, or whether to pursue specific investment strategies within approved asset allocations, or whether the council should be limit itself to "strategic" matters without getting involved in "transactional" activity. One council member said that he found it difficult to perform due diligence on things like manager hires without more resources, while others suggested that it was better to trust staff on that point and not try to duplicate the due diligence done at the staff level.

EXPORT

Investor Profile

Oregon (State of)

Topics

Allan Emkin **John Skjervem** **Oregon Investment Council** **Pension Consulting Alliance**

Recommended

Investors | Public DB | Searches & Hires

Oregon commits \$500m to private equity

The new strategy focuses on North American upper-middle-market companies in the healthcare, technology, digital media, consumer, industrial, and energy.

Dietrich Knauth | 11 Jun 2018 Pension Plans

0 - 12