OREGON STATE LEGISLATURE

August 3, 2026

Elizabeth Steiner, Oregon State Treasurer
Rex Kim, Chief Investment Officer of the Oregon Treasury
Michael Makale, Chief Audit Executive of the Oregon Treasury
Alline Akintore, Chair, Oregon Investment Council
Elmer Huh, Oregon Investment Council member
Tim Miller, Oregon Investment Council member
Pia Wilson-Body, Oregon Investment Council member
Kevin Olinek, Director of the Public Employees Retirement System and Oregon Investment Council member

Dear OPERF Fiduciaries:

We very much appreciate the willingness of Treasurer Steiner to meet last December with interested legislators about Treasury's efforts to address a serious imbalance between public and private equity allocations in Oregon Public Employees Retirement Fund (OPERF). We believe this imbalance would have been addressed much earlier if Treasury and the Oregon Investment Council (OIC) had conducted investment program audits as ORS 293.776 regularly requires.

Since 1967, ORS 293.776 has required a comprehensive audit of the investment program, investment policies and specific investments of the Oregon Public Employees Retirement Fund (OPERF) every four years at minimum. However, the last comprehensive OPERF investment program audit was conducted 10 years ago. (9.14.2016 OIC Regular Meeting Public Book pp. 146-185.)

In this open letter and its appendices, we provide our concerns with the delay, and outline specific issues we believe an upcoming comprehensive audit should address. See Appendix A below for concerns about the limitations of the recent private equity controls audit, Appendix B below for system-level investment risks to OPERF from climate change, and Appendix C below for the difference between a controls audit and the statutorily required investment program audit.

A rapidly changing economy presents new risks, and often potential new opportunities, from known sources whose impacts are not yet fully realized. In addition to how OPERF came to rely excessively on private equity, we believe that the new investment program audit should cover investment impacts from artificial intelligence and technology, energy transition and climate change, medical advances, new geopolitical threats, and biological threats.

Given the delay that has occurred and the importance of the issues, we believe it is imperative that, within the next 12 months, Treasury and the Oregon Investment Council (OIC) conduct and report a comprehensive investment program audit for OPERF.

We look forward to working with you to satisfy the requirements of ORS 293.776, and would appreciate your prompt response to this letter.

Very truly yours,

Representative Tom Andersen
House District 19

Representative Farrah Chaichi
House District 35

Senator Jeff Golden
Oregon Senate District 3

Representative Mark Gamba
House District 41

Senator Sara Gelser Blouin
Senate District 8

Senator Chris Gorsek
Senate District 25

Representative Susan McLain
House District 29

Representative Lesly Muñoz
House District 22

Representative Travis Nelson
House District 44

Senator Courtney Neron Misslin
Senate District 13

Senator Deb Patterson
Senate District 10

Senator Khanh Pham
Senate District 23

Senator Floyd Prozanski
Senate District 4

Representative Sue Rieke Smith
House District 26

Senator Kathleen Taylor
Senate District 21

Representative Andrea Valderrama
House District 47

Appendix A: Major Shortcomings of 2026 Private Equity Audit

We are heartened to see that a 2026 private equity audit took place regarding the basic investment processes of the OPERF private equity program. However, the audit objective was limited to "whether internal controls over the Private Equity Program are adequately designed and operating effectively."[1] It was not the comprehensive investment-program audit that ORS 293.776 requires (See Appendix C below).

This audit did not address the following important issues, including their validity, how they occurred, and what should be done to prevent similar problems from arising in the future:

Misallocations of private and public equity adversely impact OPERF returns

- According to the November 2024 *Capital Chronicle*, Oregon school districts were projected to pay $670 million more to the state's public employee pension program over the next two years, potentially wiping out all increases to school funding proposed by Governor Kotek. According to PERS Director Kevin Olineck, the increased tab was caused in substantial part by lagging private equity returns in OPERF investments.[2]
- A July 2025 series in *The Oregonian* reported that Treasury had two to three times the illiquid private equity allocation as the average of other public pensions; that lagging returns caused a PERS cash flow problem resulting in the sale of public equity assets as they steadily increased in value; that three former chairs of the OIC voiced concerns about the heavy allocation to alternative investments like private equity, citing their declining returns, the underallocation to public equity, and the liquidity problems they create. Treasury staff nevertheless reportedly remained "bullish" on private equity.[3]
- An August 2025 investigation by the Oregon Journalism Project, which ran in newspapers around the state, found that poor returns at OPERF could have been averted if Treasury had invested in accordance with OIC target allocation policy, which called for significantly less private equity and significantly more public equity than Treasury implemented. The investigation found that staff misallocation in these two areas adversely impacted OPERF by $1.4 billion in 2024 alone.[4]

Complex and opaque private equity fees charged to OPERF

We understand the issue of private equity fees and costs is knotty and fraught.

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[1] 4.15.26 OIC Public Book p. 129.

[2] https://oregoncapitalchronicle.com/2024/11/13

[3] https://www.oregonlive.com/politics/2025/07/5

[4] https://www.oregonjournalismproject.org/private-equity

The 2026 private equity audit summary said it looked at the reasonableness of investment manager fees. There is no detailed discussion of fee or cost amounts, what managers do to earn their fees and costs, common and less common fees and costs, the potential for hidden fees and costs, and how OPERF's fees and costs compare to those paid by best-practices public pension funds.

One hidden fee can involve so-called "zombie funds." These are dormant or dead private equity funds with a paper life whose main function is to collect annual management fees on the ostensible value of unsold and so far unsellable assets. One practitioner advises that any fund with a vintage year before 2014, and unsold assets, is a zombie suspect.[5] OPERF's website lists approximately $1.3 billion in unsold values for pre-2014 private equity funds.[6] A 2% yearly management fee would total $26 million annually. This indicates to us that the potential presence of OPERF zombie funds is worth examination and should be included in a statutory audit.

ESG risk consideration

The executive summary of the private equity audit report says it evaluated the effectiveness of controls over ESG and climate-related risk consideration.[7] However, the report contains no analysis.

At a minimum, a statutory audit of ESG issues should also examine Treasury's screening and substitution process for avoiding problems that are reasonably possible or likely to compromise the long-term value of investments. Recent examples may be Treasury's investments in Geo Group and CoreCivic, ICE detention center contractors; and Palantir, provider of surveillance technology used against US citizens. If there is a process, an audit should describe what it is and analyze its financial effectiveness. If there is no process, an audit should examine why not. In either case, an audit should make appropriate recommendations.

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[5] https://pensionwarriorsdwardsiedle.substack.com/p/zombie-fund-billions-at-calpers

[6] OPERF-Private-Equity-Portfolio-Quarter-4-2025

[7] 4.15.26 OIC Public Book p. 138.

Appendix B: Climate Risk

Climate change is a system-level risk that has the potential to widely affect the economy and substantially impair OPERF values.

In 2021, Treasury contracted with international financial consultant Ortec, who reported that a failed energy transition would likely damage OPERF investment values by 40% from a climate-change-free baseline over the next 40 years.[8]

A 2026 Columbia Law School article, by the former chief legal counsel of the Wisconsin Investment Board and a University of Oregon expert on trust law, stated:

> Unfortunately, system-level risks cannot be avoided through diversification of fund assets because they have impacts across asset classes and sectors. As a result, use of system-level risk-management practices may be the only practical option for managing a fund's exposure to [general market condition] risks. Attention to system-level opportunities can also lead to improved investment performance.
>
> We are now seeing adoption by a growing number of large investors of fund management practices aimed at reducing system-level risk exposures and capturing the upside of system-level risk solutions.[9]

Appendix C: Purpose and Elements of a Statutory Audit

A 1967 overhaul of PERS allowed the Treasury for the first time to assume greater risk, and seek higher returns for OPERF, by investing in equities. A key part of that change established the OIC to supervise and report on these new investments.[10] An integral part of that oversight, ORS ORS 293.776, sets out a comprehensive scope for frequent statutory investment-program audits for OPERF and other state investments.

The statute says "The Oregon Investment Council **shall provide for an examination and audit** of the investment funds investment program, and for submission to the council of a report based on the examination and audit, **at least once every four years and at other times as the council may require"** (emphases added).

The statute requires an evaluation of investment policies and practices; whether specific investments are making OPERF as productive as possible–subject to the prudence appropriate to a long-term pension fund, as well as to the duties of loyalty and impartiality owed to PERS beneficiaries of all ages and stations; and of other criteria as may be

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[8] Oregon State Treasury's Climate Risk/Scan Report

[9] State Attorneys General Must Correct Investor Fiduciary Duty Guidance

[10] Oregon PERS History pp. 14-15.

appropriate. It also requires recommendations about investment policies and practices, and about specific investments.[11]

OIC Investment Policy 209 describes the statutory audit as "a comprehensive operational review of OST's investment management practices," along with a comparison of investment management practices used by similar institutional investors. Investment Policy 209 distinguishes the comprehensive statutory audit from annual audits of internal control structures for making investments. (OIC 10.23.2024-Public-Book.pdf p. 105[12])

[11] According to the ORS 293.776, "The examination and audit, and the report based thereon, **shall include** an evaluation of current investment funds investment policies and practices and of specific investments of the investment funds in relation to the objective set forth in ORS 293.721 (General objective of investments), the standard set forth in ORS 293.726 (Standard of judgment and care in investments) and other criteria as may be appropriate, and recommendations relating to the investment funds investment policies and practices and to specific investments of the investment funds as are considered necessary or desirable (emphasis added)."

[12] Investment policy 209 says the Treasury will perform the statutory audit on *one asset class* every four years. This does not satisfy ORS 293.776, which requires a *full program audit* every four years. Since OPERF has 7 asset classes, this provision would result in only one full audit every 28 years.