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Oregon eyes expansion in redefined alternatives asset class

The \$95.5bn fund also plans to bring more public equity investment in-house

Dietrich Knauth | 16 Aug 2017

The **Oregon Investment Council** is planning to hire three new managers in a newly-defined alternatives asset class, seeking to bolster its investment in areas like infrastructure and real assets.

The council, which oversees \$95.5bn in assets and plans to nearly double its investment staff over the next two years, has separated private equity and real estate out of its alternatives portfolio. The fund wants to limit the asset class to investments that offer greater investment diversity and are less correlated with broader market.

The new alternatives class, which is underweight a 12.5% target allocation, includes investments like real assets, infrastructure, and timberland, according to spokesman **James Sinks**. Separating out real estate and private equity, whose valuations are more correlated to market swings, will allow the new alternatives class to provide a better hedge in the event of another downturn, Sinks said.

"This is one of the lessons learned from the global economic crisis in 2008 and 2009, when a lot of pension plans thought they were really well diversified," Sinks said. "In that particular event, stocks, bonds, real estate and private equity all went down."

Oregon plans to hire two additional alternative risk premia managers and one additional managed futures manager by the end of 2017, as part of its three-year plan to build out diversifying strategies in its alternatives portfolio. The dollar amount of those allocations is still to be determined, and Oregon is lining up finalists to make presentations before the investment council in September and November, Sinks said. Oregon currently has 5.9% of its assets invested in alternatives, far below its 12.5% goal, and the planned allocations will help address that disparity.

"Oregon, compared, to other public pension funds has always been heavily weighted toward private assets and alternatives, and that goes back to the 80s when Oregon was one of the first public pension funds to invest in private equity," Sinks said. "This is a recognition that while there's a commitment to be in that space, there needs to be more diversification."

Oregon did not conduct a formal request for proposals during the search, finding managers through referrals and its open door policy, Sinks said.

Oregon also plans to bring more of its equity investing in-house after getting a budget increase that will nearly double its investment staff.

"By having more in-house investment capacity, we're going to do more internal management on the public equity side," Sinks said. "We're looking for ways to manage our portfolio more efficiently."

The recently-passed budget, Senate Bill 5541, adds 27 new positions to the investment division over the next two years, bringing total division staff to 66 positions, and also bolsters agency cybersecurity and adds support staff.

The investment council oversees a portfolio that stood at \$95.5bn as of June 30, including the state's \$73.6bn pension fund and other funds like the **State Accident Insurance Fund**, **Oregon Short Term Fund**, and **Oregon Common School Fund**. Oregon currently uses external managers

to invest 78% of its portfolio, and bringing more of that work in-house will help reduce fees paid, the council said in an August 2 press release. By the end of 2017, the state plans to hire investment officers focused on private equity, real estate and other alternative investment strategies, as well as an officer-level position specializing in risks and opportunities connected to Environmental, Social and Governance (ESG) factors.

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