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Oregon aims to build world-class investment culture

The state's \$100bn fund is making 27 new hires as it aims to create a stronger and more diverse investment staff

Dietrich Knauth | 03 Nov 2017

When **John Skjervem** joined the **Oregon Investment Council** as CIO five years ago, he was surprised to find out that the nearly-\$100bn system had long been operating with what he called “a skeleton crew.”

The system had been successful, but its small staff, antiquated equipment, and its division into two physically separate offices, all posed long-term risks, according to Skjervem. After making his concerns known, the Oregon state legislature responded this summer by passing a budget that adds 27 positions to the investment division over the next two years, for a new total of 66 positions.

“When I was hired, I was surprised to learn that we were managing a portfolio of such size and such complexity with such limited staff,” Skjervem told *MMR*.

The new hiring authority will help the investment division build a world-class investment culture, Skjervem said, even in a relatively small market like Tigard, Oregon (population 52,000), where the investment division is housed. The new hires will create a stronger and more diverse investment staff, and build on previous improvements, like the consolidation of office space and the installation of new technology, Skjervem said.

"It's like a do-over," he said. "You get a brand-new office, you get essentially to double the staff, so you get to inject it with the types of people that you think are going to be most energizing and complement the existing staff in terms of diversity and inclusion. It's really exciting to think about building a culture that's unique to the Oregon investment division and a culture that people want to be a part of, that's stimulating and inspiring so they want to come to work every day."

Recruiting will be the biggest challenge, since the investment division will have to look nationwide to build a larger and more diverse staff in a small market with little local talent to draw upon, Skjervem said.

"It's not a talent pool here, so much as a talent puddle," Skjervem said.

The ESG priority

The first priorities for Oregon are hiring a senior investment analyst for environmental, social and governance (ESG) concerns and an investment officer for its alternatives portfolio. The Oregon state treasury has posted job ads for both positions, and intends to conduct a search until late November.

The ESG analyst will help Oregon incorporate ESG principles into the broader portfolio. To make that work, the new hire will have to have bona fide investment experience, so that they will be comfortable and credible when working with Oregon's investment officers.

"I don't want a token ESG carveout that we can point to for political purposes," Skjervem said. "Done well, the application of ESG principles will be accretive to our long-term investment returns, so we are exclusively focused on a total fund implementation."

The first order of business for the ESG analyst will be to sort through a dizzying array of ESG ideas and advocacy, helping the investment division form a coherent strategy for its portfolio. One ESG initiative that Oregon has already put its weight behind is the sustainability metrics promulgated by the Sustainability Accounting Standards Board, but there's no shortage of other ideas to pick through, Skjervem said.

"I can't emphasize enough how difficult it is for a large, particularly public, asset owner right now, when every day there's a new group popping up telling us you've got to do this, you've got to do that, all in the name of ESG," Skjervem said. "More than anything, we need agreement at a high level about which are the best practices, which are the most viable in terms of implementation, which are ultimately the most constructive in terms of accretive long-term investment returns."

Skjervem expects ESG investment concerns to gain more clarity as investors become more experienced, but for that to happen, big public plans will have to start saying "no" to some ESG activists.

"We have to just start shutting down some of these ancillary groups and requests," Skjervem said. "There's no way that all of them add value. A lot of them are just distractions."

Alternatives, private equity and real estate

The alternatives investment officer position, which was posted before the ESG analyst opening, will be the third member of Oregon's alternatives team, which focuses on illiquid real assets like timber, agriculture, minerals, mining and infrastructure, and liquid strategies that are designed to be non-correlated to public equity and long-only fixed income. Oregon, unlike many public plan sponsors, does not include private equity or private real estate in its alternatives portfolio, treating those asset classes as their own separate categories.

"Alternatives comprises 12.5% of our portfolio, and it's really designed to be a diversifying part of our portfolio," Skjervem said.

Oregon also plans to use the new hiring authority to bring in new investment officers for real estate and private equity in 2017. Although the investment division has plans to manage more public equity investments in-house, the new hires will be more heavily weighted to overseeing skill-based investments that the fund does not plan to in-source.

"We have no interest in insourcing investment management mandates for which the application of skill is an integral component," Skjervem said. "By definition, public markets are very scalable, so the majority of the resources are going to private markets in private equity, private real estate and alternatives."

For Oregon's external managers, the increased staffing level won't necessarily lead to more and/or different opportunities, but it will help Oregon perform important tasks like due diligence, underwriting, and monitoring the progress of hundreds of investment partnerships.

"More bodies in private markets will enable us to do a better job with existing general partners we work with," Skjervem said. "It's not really a story about doing more, it's a story about doing what we currently do, a lot better."

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