

State vs. OppenheimerFunds; assets lost in Oregon College Savings Plan

by Bend_Weekly_News_Sources

Oregon 529 College Accounts Suffered as a Result of Alleged Breach of Contract, Negligence

SALEM, Ore. — Oregon Treasurer Ben Westlund and Attorney General John Kroger announced on Monday a major legal action by the State of Oregon. Acting on behalf of families whose college savings were dramatically devalued, the Attorney General filed suit for the State Treasurer against OppenheimerFunds Inc. and two affiliates to seek the repayment of lost assets in the Oregon College Savings Plan. In the lawsuit, filed in Marion County, Ore., the State Treasurer and Oregon 529 College Savings Board allege violations of Oregon securities law, breach of contract, breach of fiduciary duty, negligence and negligent misrepresentation. OppenheimerFunds is the investment manager of two plans under the Oregon 529 College Savings Network, including the Oregon College Savings Plan, which is marketed directly to the public and is the state's most popular college savings option. The State estimates that college savers in Oregon plans lost at least \$36.2 million as a direct result of Oppenheimer's alleged negligence and breaches of contract and fiduciary duty. "We are taking action on behalf of Oregon families whose college accounts were battered -- and their financial futures jeopardized -- because of OppenheimerFunds," said Treasurer Westlund. "Families were doing the right thing and saving for college, but unknown to them or Oregon, their money was invested in ways that were plainly inappropriate for those saving for college or already in college." Monday's filing comes after a three-month investigation by the Oregon Attorney General, which found that Oppenheimer Funds represented that certain investments were appropriate for conservative and ultra-conservative portfolios -- but shuttled college savings instead into a hedge-fund like investment fund that took extreme risks in a search for speculative large returns. "We intend to use the full legal power of the State of Oregon to make sure Oregon families' dreams of a college education are fulfilled," said Attorney General Kroger. With the lawsuit, Oregon becomes the first state to take legal action against Colorado-based OppenheimerFunds Inc., for company-exacerbated losses in college savings programs. The lawsuit focuses on the Oppenheimer Core Bond Fund, which was part of five age-based portfolios in the Oregon College Savings Plan. The character of the OppenheimerFunds Core Bond Fund changed in 2007 and 2008, the lawsuit alleges, and yet neither the state nor investors were alerted that the fund had become significantly more aggressive and risky. The Investment Policy for the Oregon College Savings Plan provided that "Ultra-Conservative/In College" and "Conservative/1-3 Years to College" portfolios had the primary investment objectives of "protection of principal" and "income." OppenheimerFunds agreed to manage these portfolios by "preserv[ing] capital" and seeking "minimal income growth by investing primarily in bond Underlying Funds to maintain stability." While the Core Bond Fund lost a total of nearly 36 percent for the year 2008, its benchmark index was actually up 5 percent for the year. Through March 2009, the Core Bond Fund lost another 10 percent while the index remained virtually even. Morningstar Inc., an investment rating firm, gave OppenheimerFunds a grade of "F" in February for failing to communicate with its investors about the true nature of its funds. Also named in the suit are OppenheimerFunds Distributor Inc. and OFI Private Investments Inc. Both are based in New York. The Oregon 529 College Savings Board voted in January to remove the Oppenheimer Core Bond Fund from the state 529 portfolio. That meeting was the first as Oregon 529 Board chairman for Treasurer Westlund, who was sworn in on Jan. 5. The Core Bond Fund was replaced on March 27 with a different fund. The Board also

voted to terminate another fund, the Oppenheimer Limited Term Government Bond Fund. That fund is not part of the lawsuit. However, the Attorney General is continuing to look at the Limited Term Government Bond Fund and may amend the complaint in the future. The Oregon 529 College Savings Board also voted to solicit proposals to administer the Oregon College Savings Plan. The contract with OppenheimerFunds runs through December. The State is seeking a jury trial in the case. In addition to seeking the \$36.2 in damages, the State is also seeking repayment of attorneys' fees and interest.

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