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FOR IMMEDIATE RELEASE
Aug. 17, 2009

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OppenheimerFunds ordered to defend college savings plan lawsuit in Oregon state court

In failed legal maneuver, federal judge orders case back to Oregon court

EUGENE – Investment firm OppenheimerFunds Inc. has failed in its attempt to avoid the jurisdiction of Oregon state court after a ruling by US District Court Judge Michael Hogan.

In an unsuccessful effort to preempt Oregon state law and its courts, OppenheimerFunds sought to have the federal courts take control of litigation filed by Oregon State Treasurer Ben Westlund and Attorney General John Kroger against OppenheimerFunds for breaches of fiduciary duties and contract, as well as numerous securities law violations. The lawsuit, filed on behalf of the Oregon 529 College Savings Network, seeks at least \$36.2 million in damages.

Judge Hogan’s decision sends the case back to Oregon state court where the college savings plan will be allowed to take advantage of Oregon state law, which offers more significant protections from securities law violations than federal law.

“OppenheimerFunds had a fiduciary duty, a contract and an obligation to act in the best interest of Oregon families,” said Treasurer Westlund. “The company gave its word, and this key decision shows that they can’t avoid the responsibilities that they agreed to under Oregon state law.”

The State is seeking at least \$36.2 million, resulting from devastating losses experienced by Oregon families as a direct result of the company’s mismanagement of the Core Bond Fund, which was an underlying fund in many of the portfolios in the Oregon College Savings Plan.

The Core Bond Fund was represented to Oregon as a “capital preservation” fund and appropriate in portfolios for families with children in college or on the cusp of college. Yet unknown to Oregon and those families, the company changed the character of that fund and converted it to a risky speculative fund that was inappropriate for families seeking to preserve assets.

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.

The Oregon lawsuit was filed in Marion County Circuit Court in April after a three-month investigation by the Oregon Attorney General, which found that OppenheimerFunds represented that certain investments were appropriate for conservative and ultra-conservative portfolios -- but shuttled college savings instead into a hedge-fund like bond fund that took extreme risks in a search for speculative large returns.

The State attempted to engage in settlement talks with OppenheimerFunds prior to filing the suit but OppenheimerFunds refused to discuss settlement terms within a framework to which it had previously agreed.

Judge Hogan’s decision, filed Friday, moves the case back to Marion County Circuit Court.

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