

February 25, 2009

Testimony of Linda Burgin, President, Service Employees International Union Local 503, OPEU, Bart Lewis, President, Retiree Chapter, SEIU 503-OPEU, and on behalf of Tom Chamberlain, President, Oregon AFL-CIO to The Oregon Investment Council

Dear Council Members:

First of all, we want to thank you for your ongoing work as fiduciaries here at the Council. The members of SEIU and AFL-CIO sincerely appreciate the Council's efforts to steward the funds that provide a secure retirement for public employees in the state of Oregon.

As we are all aware, the United States is facing the most severe financial and economic crisis since the Great Depression. As a result, we are experiencing fundamental changes which challenge all of us to think in new ways. To give one example of how dramatically people are being pushed out of their comfort zones, last week the Financial Times of London reported Allan Greenspan, in an about face from the policies he promoted as Federal Reserve Chairman, saying, "It may be necessary to temporarily nationalize some banks in order to facilitate a swift and orderly restructuring (of the banking system)."

People throughout the country, including our members and workers across Oregon, are facing layoffs, furloughs, and foreclosures. 401Ks and personal savings have been decimated and critical services are suffering. Investors, including the OIC, have lost several trillion dollars of wealth. In the face of this situation, we are here today on behalf of our members and people in our home communities to open a dialogue with the Council about how you are planning to adjust your investment approach given these unprecedented circumstances.

We are encouraged by the debate at last month's OIC meeting about key issues such as corporate governance, risk management, and fee negotiations. We are also encouraged by conversations we've had with Treasurer Westlund and members of his team about how his office is exploring every available avenue to protect the interests of Oregon taxpayers and fund beneficiaries.

Inside our own organization, we're having conversations that have generated a series of questions for you that we hope you will consider in your due diligence work going forward.

1) Increased Communication:

All OIC stakeholders have a shared interest in making sure the fund is successful in its mission. We believe that a "Black Swan" event like we're going through requires a new level of dialogue to find the best policy solutions to difficult challenges. In this context, what steps are you planning to take as an institution to engage with the broad community of OIC stakeholders in the midst of this crisis? Are you planning special outreach to interested parties throughout the state (e.g. to fund beneficiaries, taxpayers, public officials)? For our part, we would welcome the opportunity meet with each of you individually to exchange ideas and learn more.

2) Investment Manager Accountability and Fee Structures

What are the Council's plans to follow up on ideas expressed during January's meeting, such as demanding new fee terms for individual managers, increased accountability for performance failures, and networking with other investors to develop market standards that favor investors, not failing managers?

3) Cash Infusions to Failing Managers

We have concerns about allocations of more cash to managers whose previous fund offerings are performing so poorly that they need to come back to the fund for cash. What steps is the Council taking to ensure that these cash infusions do not result in further losses?

4) Prioritize Flexibility and Risk Prevention

As you know, we have been raising issues with your board since August 2007 about Private Equity and, in particular, the Leveraged Buyout sector. We believe many of the concerns about LBO risk (i.e. lack of transparency, inability to accurately value assets, heavy dependence on leverage, etc.) we've communicated with you about have contributed to the current crisis. Perhaps it's time for an OIC "moratorium" on new investments in Private Equity until the fund has an accurate valuation of the current losses in its Private Equity portfolio and a clear understanding of what changes are needed to accurately measure risk for these assets in a this market environment?

5) Gearing up as an active owner

We believe it's vital that the OIC use every tool available to help minimize risk and embrace its opportunity to contribute to the re-establishment of healthy investment conditions. To that end, we want to learn more about your plans to ramp up your corporate governance work. A few questions in this area include:

- Are you working with other institutional investors to advocate for a new system of financial regulation that will protect investors from the excessive risk-taking, financial engineering and irresponsible corporate practices of recent years that led to this meltdown?
- Are you actively voting your proxies and demanding answers from companies and managers for failed strategies and governance policies that led to poor performance?
- And, as discussed at January's meeting: Are you determining ways to apply corporate governance standards to your large holdings in alternative areas such as Private Equity and Real Estate given the lack of transparency and governance standards in these asset classes?

6) Operating as a universal investor

If the Oregon economy is not healthy and beneficiaries and taxpayers are not working and cannot make contributions the OIC will not be healthy. If the overall economy is not healthy and the companies the OIC owns are hurting, the OIC will not be healthy. Are you considering new policies and strategies that ensure OIC investments contribute to a sustainable, healthy economy in which the assets you own can flourish here in Oregon and around the world and which will bring solid, steady returns across asset classes for the long haul?

As one of the largest US public pension plans and a universal investor in the economy, we believe that the Council has an opportunity to respond to the challenges of the current crisis in a manner that sets a strong standard for success over the long term. We look forward to your thoughts on the questions we've posed and to meeting with Council members or OIC staff to discuss these issues as you continue your critical work as fund fiduciaries. Thank you.