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We, the undersigned organizations, are deeply concerned about the possibility that restrictions on the State Pension Fund's investments in private equity and hedge funds may be reconsidered and eliminated in favor of investment in these asset classes.

Despite the deepening financial crisis, some public and private employee pension funds around the world are devoting increasing allocations to these investments. We find this disturbing for three reasons.

First, the deepening financial crisis has demonstrated the extreme fragility of investment instruments based on extensive leverage. Hedge funds are delivering negative returns, closing, and failing at record rates, taking with them an ever-widening circle of investors. The above-market returns promised investors (but only rarely delivered, in fact) has historically only been achieved through heavy leverage, and leverage cuts two ways, insuring that losses are heavily amplified. Recent events have demonstrated that the counter-cyclical performance claims of these funds do not hold up. Hedge fund activity has been at the heart of all recent financial crises.

The same holds true for private equity buyout funds. It is well known that the buyout funds deliberately obscure their activities by organizing themselves as "Venture Capital" associations when true start-up investments form only an exceedingly small (less than 5% in Europe, for example) and shrinking part of their activities. The vast majority of the buyouts inn Europe and globally have targeted mature companies with stable, predictable cash flows. They have frequently left behind mere shells.

This mode of investment has, predictably, come to a crashing halt, and the funds are having major difficulties. The buyout model depends on liquidity in credit markets and rising public equity values in order to deliver its promised returns.

There exists a substantial body of evidence to show that these returns, deflated for fees etc., and taking longer-term performance into account, are in fact no higher than historical returns from public equity markets, and arguably inferior. But the essential point is the fragility of the business model. Loading up with debt the companies acquired through a leveraged buyout leaves them susceptible to instant failure in the event of rising interest rates or restricted credit, increases in raw material prices, sales downturns etc. This is why, for example, some 25% of all UK companies exited by private equity investors in the UK are now technically or legally bankrupt, and why 55 of the recent 57 major defaults in the US were the result of private equity ownership or exposure to LBO debt. All observers predict an inevitable wave of bankruptcies and defaults, throwing many thousands of employees out of work and creating new strains on public finances.

Second, we wish to draw your attention to the systemic risks generated by leveraged buyout activity. The current breakdown in financial markets is only partially the result of the collapse of complex financial instruments linked to the global securitization of US mortgages. Behind the subprime crisis there stands an accumulation of dubious LBO-related debt which is also rapidly collapsing. The trillions of dollars spent on acquiring companies and taking them private during the global LBO boom was financed through offloading the risk onto global markets through massive securitization. This debt amounts to trillions of dollars, and like the subprime-based paper it has entered into the furthest and darkest reaches of global financial markets. Just as leveraged buyouts add stress to the individual companies acquired by the funds, the buyout business adds massive stress to global financial markets. The consequence can only be a wave of defaults and massive losses for investors, including pension funds, as well as additional stress on a tottering global financial system. And as always, it is working people who will pay the price.

Third, we believe that the destructive employment and social impact of investment in leveraged buyout funds violates the principles of socially responsible investing which have guided the State Pension Fund and made it, in the eyes of many trade unionists around the world, a model of its kind. The most comprehensive study to date of the employment impact of leveraged buyouts, the report commissioned by the World Economic Forum and carried out by Harvard Business School, concluded that "the net [employment] impact on existing establishments is negative." The WEF study confirmed what trade unions have experienced first hand for many years. The WEF study shows that: workplaces taken over by PE have 7% fewer employees after 3 years and 10.3 % less 5 years following the takeover than in the control group; companies taken over by private equity have higher rates of closure, opening, acquisition, and disposal of workplaces; and in the 2 years following a PE takeover, 24% of employees will have seen their workplace closed, sold or downsized.

The collapse of global financial markets following years of frenzied speculative activity has had as its counterpart declining investment in the global capital stock, highlighting the urgent need for patient, long-term socially responsible investment. Capital markets have failed to deliver on this key task, and have instead been diverting huge amounts of wealth into socially destructive forms of investment. And private equity and hedge funds have been built on the systematic exploitation of tax arbitrage and offshoring, further adding to the global drain on public revenues.

Investment in private equity and hedge funds would take the State Pension Fund into areas which violate its basic principles, add to global financial instability, impact negatively on working people's lives and livelihoods and undermine the standard-setting role of the Fund. We strongly believe that opening even a limited percentage of the Fund's investments to these "alternative assets" would have a destructive impact globally.

Any discussion of lifting the existing restrictions on investment in "alternative assets" - which we understand to be ongoing - calls for extensive, wide-ranging public debate which can take into account the many-sided impact, today and tomorrow, of these investments. We do hope that any reconsideration of existing policy in this area will be immediately communicated to the public.

Best regards

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