

## Effects of Obama's Proposal on Alternatives Industry Significant

### Many banks are major backers of funds; Banks also own important fund manager and fund of funds manager operations

President Obama's statement calling for banks to be banned from "owning, investing in or sponsoring" private equity and hedge funds could have a very significant impact on the alternatives industry.

Preqin has analyzed its industry-leading databases of investor information and fund manager data in order to reveal the contribution that banks and investment banks make to the US private equity industry. It is important to note that any effects of this proposal would also be felt further afield, with many US institutions also investing in European and Asian funds. It would also affect the many European investors in funds managed by US banking institutions.

#### Within Private Equity:

- US banking institutions managing private equity funds and fund of funds have raised a total of 60 funds since 2006, with a total value of over \$80bn.
- US banking institutions currently have a total of 18 new private equity funds currently in marketing mode, seeking an aggregate \$18bn.
- In total, banks have \$50bn in private equity dry powder (i.e. capital available to them to spend on new investments).
- Although many banks have spun out their merchant banking operations in recent years, there remain some significant players in this market. The most prolific banks in this area include: Goldman Sachs, Credit Suisse, Morgan Stanley and Citigroup.
- Banks also play an important role as backers of private equity funds. They account for 5% of investors in the US by number, and represent around 9% of the capital invested in the asset class.
- In addition, there are 16 banks with fund of funds divisions currently managing private equity investments worth \$94bn. Hundreds of limited partners in funds of funds managed by US banking institutions could also be affected by the proposal.

#### Within Hedge Funds:

- US banks are relatively small direct investors in hedge funds, representing 0.9% (approximately \$10bn) of the total capital coming from US investors.
- However, the wider effects of the proposal could potentially be much greater. Preqin monitors 19 fund of hedge funds units of major US banking institutions, all of which could be affected by these restrictions. These funds of funds represent over \$180bn in assets, or approximately 16% of all US capital flowing into hedge funds.
- Restrictions on banks from managing such fund of funds will not only significantly impact the hundreds of hedge funds (both US based and international) which are backed by these fund of funds subsidiaries of US banks, but also the hundreds of institutional investors (such as US public pension funds, endowments and insurance companies) which have their assets invested in such funds.
- Large US banks in the hedge fund industry which could be heavily affected by Obama's proposals include Goldman Sachs, Bank of New York Mellon, Credit Suisse and JP Morgan.

#### Comment:

"Although the full implications of Obama's statement remain unclear, the potential disruption that such widespread reform could bring to the alternatives industry is significant, and could affect hundreds of banking institutions in the US investing in alternatives. Furthermore, there would be a knock-on effect for the hundreds of investors in funds and funds of funds managed by these firms. Although it could be argued that banks are 'serving their own customers', and would therefore be exempt, the situation is currently very unclear, with one possible outcome being a widespread spinning out of alternative assets divisions within banks.

Whatever role banks had in the financial crisis, one thing is clear: it was not the banks' ownership of or investment in private equity and hedge funds that caused the problems." **Tim Friedman, Spokesman**

#### About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests. Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: [www.preqin.com](http://www.preqin.com)

#### Note to Editors:

- Please note that Preqin has completely replaced Private Equity Intelligence as the official company name.
- Preqin is spelled without the letter 'U' after the 'Q'.

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