



Investment Management and Hedge Funds –

What's Happening Now?

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November 25, 2014



- Blue President
- Red Congress
- Red Senate ...

What Does It Mean?

History of Obama's First Six Years --

1. 2008 Recession and its Aftermath
 - Quantitative Easing
 - TALF
 - TARP

2. Dodd Frank Reform Act
 - Return to Glass-Steagall?
1933 U.S. Banking Act that Separated Commercial Banking and Securities Firms
 - Repealed in 1999 Gramm-Leach-Bliley Act
 - Volcker Rule – “Glass-Steagall Lite”?

History of Obama's First Six Years --

3. Jobs Act

- Bipartisan Effort to Acknowledge the Internet Explosion in Crowd Funding
- Reduce Influence of Intermediaries
- Promote new IPOs

4. Obama Care

- Upheld as a Tax
- Pool of Investible Assets – why asset managers care
- Moderating of Costs for Employers

Constitutional Constraints

- A. Senate and House Must Pass Same Bill.
- B. President Can Sign or Veto.
- C. If Veto, Need 2/3's of House and Senate to Override.
Red is Less Than 2/3's.
- D. As Chief Executive, President Can Act and Direct Interpretative Regulations to be Drafted by Executive Departments.

Several Rules That Wrangle

1. Mortgage Rules

- Debt to income ratio cannot exceed 43%
- Points and costs cannot exceed 3%
- Bank must independently verify that a borrower can pay

2. Volcker Rule

- Implementation deadline July 21, 2015
- Abandoning of U.S. market by big banks

3. Obama Care Medical Device Tax

- Al Franken and Elizabeth Warren (both Blue) are in Blue States that do not like the tax
- Raises \$30B in taxes; repeal would blow a huge hole in the budget

Several Rules That Wrangle

4. Obama Care Risk Corridors

- Bailout for the insurance industry?
- Republicans think it's a bailout of insurance companies.
- Eliminate risk corridors will raise premiums.

5. Obama Care Employee Mandate

- Lower costs
- Most troubling of all

Market Constraints

1. Equity Markets (Dow, S&P 500 and Nasdaq) all at all-time highs.
2. Energy costs are at lows not seen for several years.
 - Supply glut
 - Tempering of demand
3. Boomers are in final savings stretch for retirement; lots of “sticky assets.”
4. Housing has “come back.”
5. Banks are stronger and better capitalized.

Market Constraints



6. Student loan debt is at all time high.
7. Consumer debt has moderated.
8. Mortgage debt is comparable but new mortgages are harder to come by.
9. Employment is stagnant and wages are flat.
10. Corporate profits are way up (driving #1).
11. Inflation is officially low – why does it seem that everything is SO expensive?
12. Airports are packed and restaurants are full

Crystal Ball Prognostications

1. Debt ceiling will fracture the Republicans in the House once again: there will be no meaningful entitlement reform since debt will have been monetized.
2. Volcker Rule will be delayed ... again.
 - “sleeves out of your vest” legislation
3. FSOB will be reined in a bit and jurisdiction focused.
4. There will be a small correction in market in next 12 months and that will be used to justify further erosion of Obama care.
5. Tax reform will not occur until after 2016 election.



6. An effort will be made to force US companies to repatriate offshore cash (and either subject to tax or distribute as dividends).
7. States will make an effort to regulate securities markets resulting in a call for greater SEC standardization.
8. SEC budget will be slashed and enforcement will become more of a collection of “bounties.”

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