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NEW SEIU REPORT ON SOVEREIGN WEALTH FUNDS AND PRIVATE EQUITY CALLS FOR MORE TRANSPARENCY OF SWF INVESTMENTS IN U.S. BUYOUT FUNDS

(Wednesday, April 23, Washington, D.C.) “Sovereign Wealth Funds And Private Equity: Increased Access, Decreased Transparency,” a new report released today by the 1.9 million member Service Employees International Union (SEIU) to coincide with tomorrow’s (April 24) U.S. Senate Committee on Banking, Housing and Urban Affairs Hearing on sovereign investments, calls on Congress to equip itself and the public with the tools necessary to make informed decisions about sovereign wealth fund (SWF) investment in United States private equity firms.

Current U.S. rules exempting private equity from many disclosure requirements, coupled with gaps in laws concerning foreign ownership, have inadvertently left a door open for virtually unregulated foreign ownership of American assets, which could have a broad effect, according to the SEIU report.

“Families are working hard to make their house payments and to send their kids to college. When a private equity firm and its foreign government partners swoop in, the public should know who is making the decisions and what immediate and long-term impact these deals could have on their lives,” said Stephen Lerner, director of SEIU’s Private Equity Project.

The SEIU report also comes as the U.S. Department of the Treasury is proposing new regulations to the Committee on Foreign Investment in the United States (CFIUS) rules for assessing foreign investments in U.S. companies. Though these regulations make clear that stakes less than 10 percent are not automatically exempt from government scrutiny, the guidelines continue to depend principally on voluntary disclosure by potential U.S. partners of foreign entities to determine critical control issues.

Given that these and other U.S. regulations were largely designed to address foreign entities taking a direct ownership interest in domestic assets, indirect ownership structures that characterize private equity remain unaddressed. Since 1950, the process for evaluating foreign ownership has expanded as the global economy has transformed, and regulations should follow suit.

SWFs have provided capital to teetering publicly traded U.S. financial houses, including Citigroup, Merrill Lynch and UBS, and although they are not new, investment in U.S. private equity firms has grown exponentially since 2007. Through private equity firms such as the Carlyle Group, the Blackstone Group, and Apollo Management, SWFs are investing in blue chip U.S. firms and strategic American industries.

The private equity industry’s ubiquitous presence in the U.S. economy presents an appealing opportunity for sovereign funds to acquire ownership stakes in current and future holdings as diverse as energy and power, technology, manufacturing, public infrastructure, and government contracts that serve critical infrastructure needs. Even as the Carlyle Group negotiated its partnership with Abu Dhabi, the buyout firm was in the process of acquiring several companies with important contracts in the defense and infrastructure sectors.

“As SWFs continue to be a growing presence in the U.S. economy, it is time to take a step back and to examine how we can ensure that measures are in place to guarantee disclosure and public accountability that is up to par with what direct investment in U.S. public companies requires,” said Lerner.

According to the report, the buyout industry has become an avenue for SWFs to invest increasing oil profits and other resources while avoiding U.S. government scrutiny. In 2006, the Abu Dhabi Investment Authority, thought to be the largest SWF today, took a stake in Apollo Management; in May 2007, China's State Foreign Exchange Investment Corp. bought just fewer than 10 percent of the Blackstone Group and this past September, Abu Dhabi's Mubadala Development Co. bought a 7.5 percent stake in the Carlyle Group.

To address these concerns, SEIU proposes that:

- The beneficial ownership structure of the general partnership/management company and/or limited partnerships controlling funds must be disclosed—particularly if their portfolio companies contract for the U.S. government;
- There be mandatory CFIUS investigation of all proposed mergers, acquisitions and takeover deals involving private equity firms and SWFs;
- Aspects of new SEC rules concerning Form D should be rescinded, specifically those that end requirements to disclose significant investors in private equity investment funds; and
- All representatives of a sovereign wealth fund, including advisers, fund managers, or others acting on its behalf, must register under the Foreign Agent Registration Act.

The full SEIU report can be found online at www.CarlyleExposed.org.

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