



JOBS Act – How Will Hedge Fund Managers Respond?

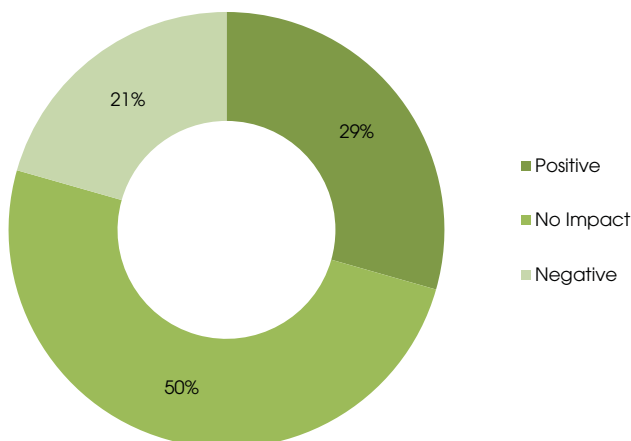
Following the recent release of [Preqin Special Report: JOBS Act](#), Graeme Terry looks at the impact this regulation will have on hedge fund managers based in the US.

There has been a lot of speculation about how the Jumpstart Our Business Startups Act (JOBS Act) will affect the marketing activities of alternative investment managers since the final SEC requirements were signed in September 2013. The Act allows firms to advertise and perform general solicitations, such as posting private offering documentation on their websites for public viewing, which allows them to showcase their funds to a larger number of potential investors. Despite this offering an opportunity for managers to more freely market their funds, many hedge fund managers are sceptical about the benefits of the Act and, as a result, fund managers have been slow to take advantage of the changed regulations. Preqin recently conducted interviews with more than 100 hedge fund managers in order to ascertain their outlook on how the JOBS Act will affect the industry and what the landscape for marketing funds in the future could look like.

Hedge Fund Manager Opinion on the Impact of the JOBS Act

Fund managers surveyed by Preqin were asked for their opinion on how the JOBS Act is impacting the industry. Hedge fund managers in the US appear sceptical, with 50% of such managers feeling that the Act will have no significant impact on the industry (Fig. 1). Traditionally, fundraising in the hedge fund industry has been built on forming relationships and connections rather than direct marketing, something which differentiates alternative funds from traditional investments. Many managers believe that the audience they target – for many hedge fund managers, large accredited institutional investors – is better reached through traditional methods of connecting and building relationships rather than through mass marketing.

Fig. 1: Hedge Fund Manager Opinion on the Impact of JOBS Act on the Industry



Source: Preqin Fund Manager Survey, November 2013

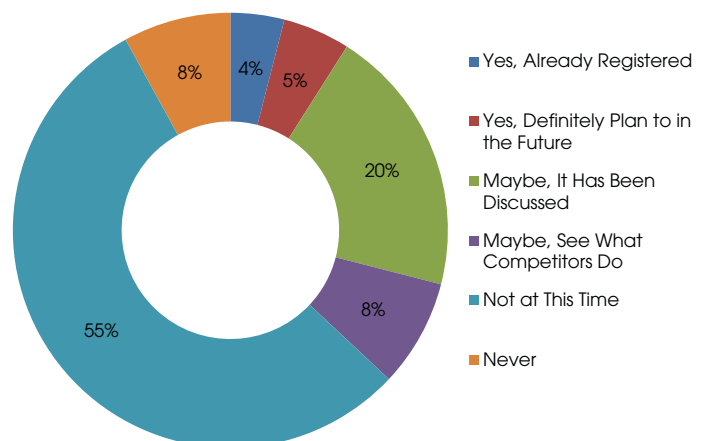
Some of the larger fund managers, in particular, may feel that advertising is not worthwhile as they are already able to attract their desired investor audience through other means. However, the largest fund groups already have a well-established brand in the hedge fund space, and some of these firms may seek to take advantage of this by advertising in a bid to attract new groups of investors. Smaller fund managers may find advertising more difficult as they are less well known and typically have fewer resources. Nevertheless, the Act could provide an opportunity for smaller firms that are less well known to get noticed by investors, which otherwise may have been inaccessible. For these firms, new opportunities to build a brand, which allows them to communicate their core values to a wider audience, may have positive implications on fundraising in the future.

Will Fund Managers Market Under the JOBS Act?

Hedge fund managers have been slow to take advantage of the marketing opportunities presented by the JOBS Act, with just 4% of managers stating that they have already registered under 506(c), which allows general solicitation (Fig. 2). Some firms have embraced the new regulation – the \$4.3bn Balyasny Asset Management is one notable example with its recent advert – but there is no evidence that this will lead to the majority of managers following suit in the near future. Funds choosing to advertise would be opening themselves up to closer scrutiny from regulators, and many are yet to be convinced that there will be sufficient benefits to make this extra compliance worthwhile.

A number of hedge fund managers are at least considering marketing under the JOBS Act in the future; 20% of hedge fund managers said they have discussed the possibility of advertising. Managers

Fig. 2: Do Hedge Fund Managers Plan to Market Under the JOBS Act?



Source: Preqin Fund Manager Survey, November 2013



have been seeing growing competition from the liquid alternatives space as well as from traditional mutual funds over recent years. For smaller fund groups the potential to market to retail clients under the JOBS Act may become an increasingly attractive way to gain the attention of clients, which could move their money away from private funds towards regulated alternatives.

However, at this time, there largely appears to be a lack of interest in marketing, with the majority of managers stating that they currently have no plans to market their funds under the JOBS Act. As Fig. 2 shows, 63% of hedge fund managers stated to Preqin they will never, or not at this time, market under the JOBS Act.

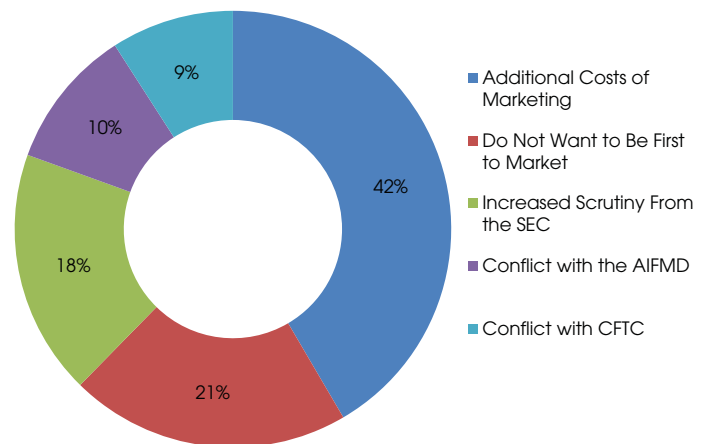
Barriers to Marketing Under the JOBS Act

Managers cited a number of different obstacles that are preventing them from marketing funds under the JOBS Act. The biggest factor cited was the additional cost, with 42% of respondents mentioning this as the key issue. This suggests that, on the whole, hedge fund managers feel the extra costs associated with advertising their funds on mainstream outlets would not be worthwhile, especially if they feel that money could be better spent elsewhere. As fund managers come under increased scrutiny in terms of their fees, there is also the question of where these costs are charged. A notable 21% of hedge fund managers stated they do not want to be the first to market and this suggests that more managers may be tempted into advertising if this is a step taken by their competitors. With hedge funds such as Balyasny and Top Turn Capital being the first movers in this space, we could see a change in attitude in the future, as private funds begin to act in this new environment and take small steps towards building better brand awareness. It will be interesting to see how, and if, hedge fund managers change attitudes towards marketing in the future.

Outlook

The Preqin survey of hedge fund managers shows that the uptake of the JOBS Act will be relatively low in the short term. The Act could

Fig. 3: Largest Obstacles Preventing Hedge Fund Managers from Marketing Under the JOBS Act



Source: Preqin Fund Manager Survey, November 2013

provide some benefits to managers but these appear to currently be outweighed by a number of concerns including increased scrutiny of regulators and the additional costs that advertising would bring. However, many fund managers were wary of being the first movers in this space, and with the first adverts already printed, we could see a shift in attitude in the future, as hedge funds begin to think of new ways to attract a different audience to their fund. As the challenges of competing not only with other alternative asset managers, but also against the growing numbers of alternative mutual funds, continue to become more significant, we will see hedge fund managers think more broadly in how they market their funds. At this time, managers are being rather conservative in their attitude towards direct marketing; however, only time will tell how the industry will embrace the opportunities that JOBS has opened up for private funds and it will be interesting to see how this sector develops over the next five years.

Data Source:

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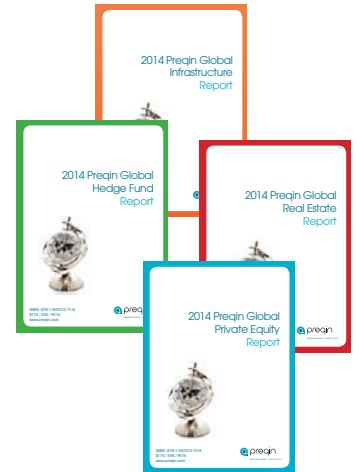


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