

Content Includes:

Preqin Special Report: JOBS Act

April 2014

How Will Alternative Asset Managers Respond to the JOBS Act?

We examine current fund manager opinions on the impact of the JOBS Act, and how firms expect to market under this legislation based on our survey of over 150 private equity and hedge fund managers.

Barriers to Marketing Under the JOBS Act

We take a look at the different obstacles preventing fund managers from marketing under the JOBS Act, and how this differs between managers of private equity vehicles and hedge funds.

Alternative Methods of Marketing Funds

We explore how fund managers are considering alternative ways of marketing their funds, and how Preqin Investor Network can help managers looking to get in front of potential new investors.





JOBS Act – How Will Alternative Asset Managers Respond?

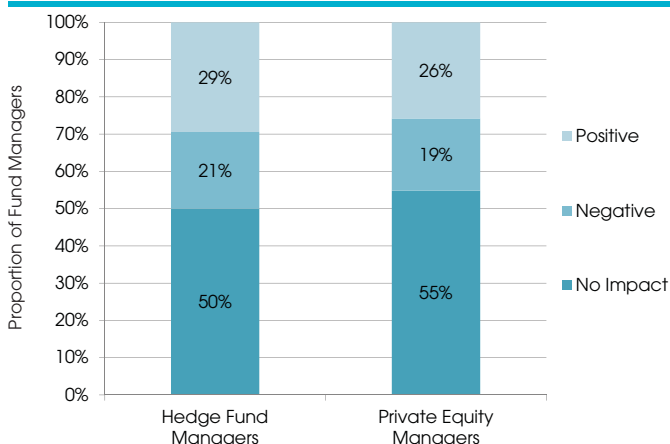
There has been a lot of speculation about how the Jumpstart Our Business Startups Act (JOBS Act) will affect the marketing activities of alternative investment managers since the final SEC requirements were signed in September 2013. The Act allows firms to advertise and perform general solicitations, 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 alternative 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 150 alternative investment 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.

Alternative 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. Both hedge fund managers and private equity managers in the US appear sceptical, with 50% of US-based hedge fund managers and 55% of US-based private equity managers feeling that the Act will have no significant impact on the industry (Fig. 1). Traditionally, fundraising in the alternative asset 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 alternative asset managers, large accredited institutional investors – is better reached through traditional methods of connecting and building relationships rather than through mass marketing.

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 alternative asset space, and some of these firms may seek to take advantage of this by advertising in a bid to attract new

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



Source: Preqin Fund Manager Survey, November 2013 & February 2014

*Only includes responses from US-based fund managers.

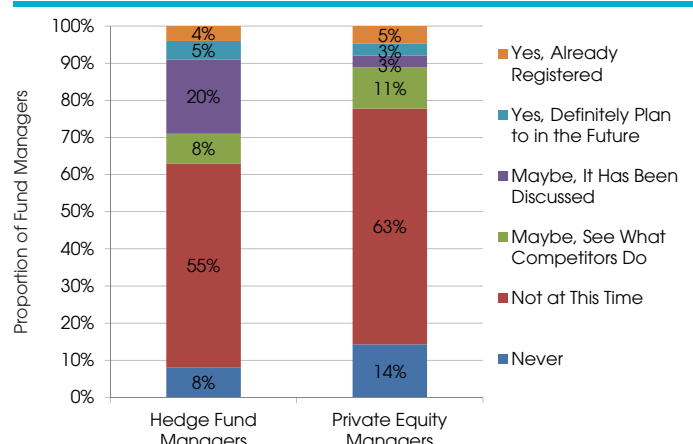
groups of investors. Smaller fund managers may find advertising more difficult as they are less well known and typically have fewer resources. Nevertheless, the Act could provide an opportunity for smaller firms that are less well known to get noticed by investors, which otherwise may have been inaccessible. 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?

Alternative investment managers have been slow to take advantage of the marketing opportunities presented by the JOBS Act, with just 4% of hedge fund managers and 5% of private equity managers stating that they have already registered under 506(c) which allows general solicitation (Fig. 2). Some firms have embraced the new regulation – \$4.3bn hedge fund manager 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.

Due to differences in how hedge funds raise capital compared to private equity funds, hedge fund managers appear to be more open to innovation in how they promote funds as compared to private equity fund managers. 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 compared to just 3% of private equity managers. Hedge fund managers are 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 otherwise move their money away from private funds towards regulated alternatives.

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



Source: Preqin Fund Manager Survey, November 2013 & February 2014



However, at this time, there largely appears to be a lack of interest in marketing, with the majority of both groups of managers stating that they currently have no plans to market their funds under the JOBS Act. As Fig. 2 shows, 77% of private equity fund managers and 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

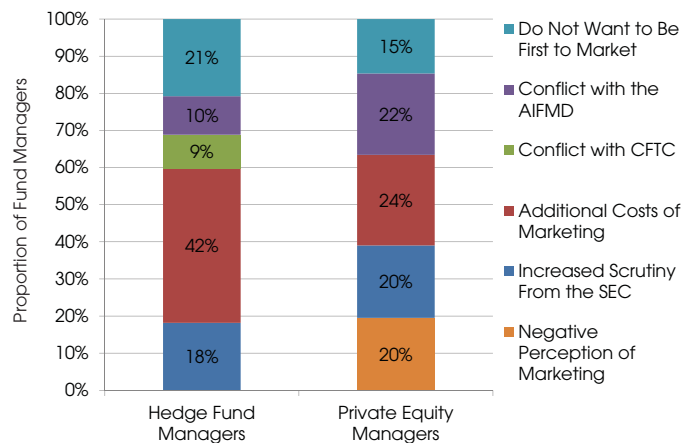
Managers cited a number of different obstacles that are preventing them from marketing funds under the JOBS Act. For hedge fund managers, the biggest factor cited was the additional cost, with 42% of respondents mentioning this as the key issue. This suggests that, on the whole, hedge fund managers feel 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 Topturn Capital being the first-movers in this space, we could see a change in hedge funds' attitudes 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 – alternative asset managers change their attitudes towards marketing in the future.

Private equity fund managers were split in their opinions on what the main barrier to marketing is under the JOBS Act. The additional cost of marketing was also the most cited obstacle by private equity managers, mentioned by 24% of respondents, while a similar number of respondents also have concerns about conflict with the Alternative Investment Fund Managers Directive (AIFMD), the increased scrutiny from the SEC and the negative perception of marketing. Funds that choose to advertise will be opening themselves up to closer scrutiny by regulators and more frequent audits, and fund managers may be concerned about the extra workload as a result. A notable 20% of managers stated that the negative perception of marketing is the main barrier, with some managers preferring to avoid being in the spotlight. An exclusive club of 5,000 or so institutional investors invest the largest proportion of capital in private equity funds; for many managers the idea of direct marketing may not appeal as it is not relevant to the group of investors they wish to target.

Preqin Investor Network

Although the JOBS Act does not look set to be adopted by a large number of alternative asset managers in the short term, fund managers are at least considering alternative ways to market their funds and showing an interest in what their competitors do. For many fund groups direct marketing under the JOBS Act may not be the right route to reach out to the audience they are targeting, but for those fund managers which are looking to cast the net further there are alternatives. With even the biggest and most recognized fund managers needing to discover new investors to accompany returning investors and with investors more proactive and demanding than ever before, fund managers can benefit from making fund information available for investors keen to find out more about their funds. Preqin Investor Network is used by 5,600 investment professionals at 3,300 institutional investment firms, who use the service to source overview and contact information

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



Source: Preqin Fund Manager Survey, November 2013 & February 2014

for all alternative investment funds which are open to investment. Investors are growing their alternative investment teams and becoming increasingly active in their searches for alternative funds and Preqin's Enhanced Fund Listings service allows investors to directly request confidential information from fund managers. Fund managers providing data to Preqin Investor Network are therefore putting themselves in front of the largest and most proactive base of accredited investors in alternatives in the world.*

Outlook

The Preqin survey of alternative investment managers shows that the uptake of the JOBS Act will be relatively low in the short term. The Act could provide some benefits to managers but these appear to currently be outweighed by a number of concerns including increased scrutiny of regulators, the negative perception of marketing and the additional costs that advertising would bring. However, many fund managers are 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 alternative asset funds – in particular hedge funds – begin to think of new ways to attract a different audience to their vehicle. 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 alternative asset managers think more broadly in how they market their funds. At this time, alternative asset 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.

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*Preqin Investor Network is fully compliant with the Lamp Technologies No-Action Letter, 1998.



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See the latest on buyout, venture capital and infrastructure deals and exits

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