

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?

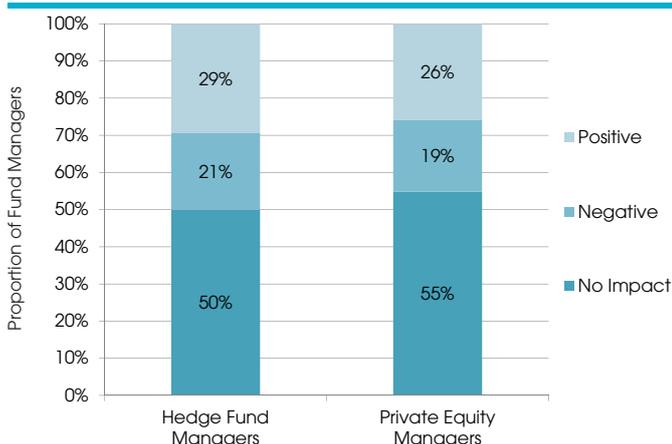
There has been a lot of speculation about how the Jumpstart Our Business Startups Act (JOBS Act) will affect the marketing activities of alternative investment managers since the final SEC requirements were signed in September 2013. The Act allows firms to advertise and perform general solicitations,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

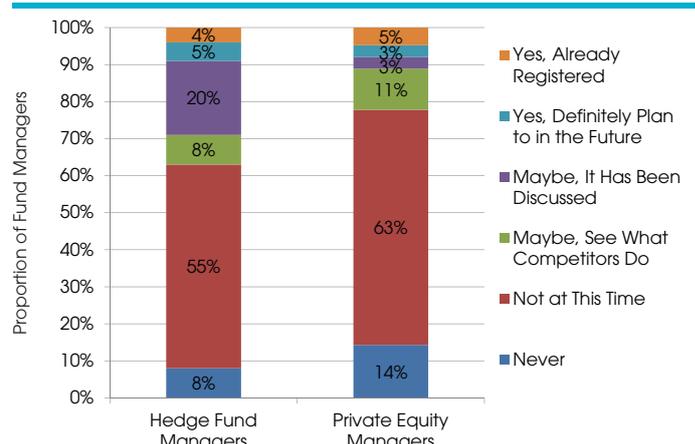
groups of investors. Smaller fund managers may find advertising more difficult as they are less well known and typically have fewer resources. Nevertheless, the Act could provide an opportunity for smaller firms that are less well known to get noticed by investors, which otherwise may have been inaccessible.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

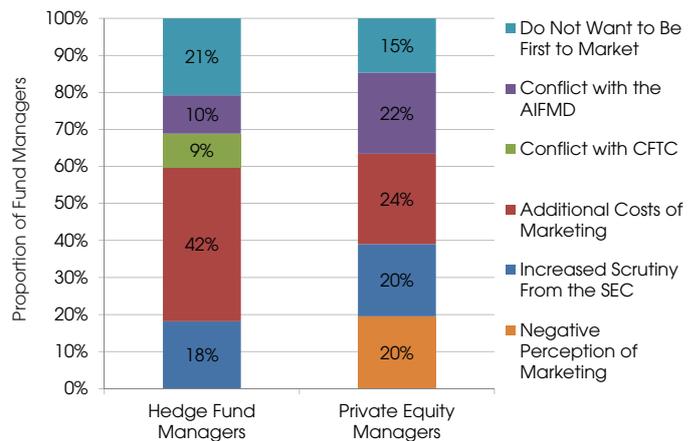
Managers cited a number of different obstacles that are preventing them from marketing funds under the JOBS Act. For hedge fund managers, the biggest factor cited was the additional cost, with 42% of respondents mentioning this as the key issue. This suggests that, on the whole, hedge fund managers feel 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.

Preqin's Online Services

Preqin provides a range of online services covering all aspects of the private equity, hedge fund, real estate and infrastructure industries, including fund managers, funds, investors, performance, deals, fund terms and more.

For more information, or to arrange a demo, please visit:

www.preqin.com

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



alternative assets. intelligent data.

Looking for new investors in 2014?

Preqin can help.

Find investors with Preqin's online services

Use Preqin's industry-leading **Hedge Fund Investor Profiles** and **Investor Intelligence** online services to:

- **Identify investors** looking for funds like yours.
- **Target specific investors** from our database of over 8,000 active investors in alternatives.
- **Contact key decision makers** at investors that are interested in your funds.

Let investors find you on Preqin Investor Network

Preqin Investor Network is used by **over 5,600 alternative investment professionals** to source investments from Preqin's database of over 13,100 funds open for investment. To take advantage of this proactive pool of investors:

- **Make sure Preqin's information on your fund and firm is up-to-date** by visiting: www.preqin.com/sharedata.
- **Register for an Enhanced Fund Listing** for free so investors can request key fund information directly from you.

For more information on Preqin's services and Preqin Investor Network, please get in touch:

www.preqin.com

New York
+1 212 350 0100

London
+44 (0)20 7645 8888

Singapore
+65 6305 2200

San Francisco
+1 415 635 3580

Preqin Special Report: JOBS Act

April 2014

Preqin: Global Data and Intelligence

With global coverage and detailed information on all aspects of alternative assets, Preqin's industry-leading online services keep you up to date on all the latest developments in the private equity, hedge fund, real estate and infrastructure industries.

Source new investors for funds and co-investments

Find the most relevant investors, with access to detailed profiles for over 8,000 institutional investors actively investing in alternatives.

Identify potential fund investment opportunities

View in-depth profiles for over 2,100 private equity, real estate and infrastructure funds currently in the market and over 11,000 hedge funds open to new investment.

Find active fund managers in alternatives

Search for firms active in alternatives. View information on key contacts, firm fundraising/AUM and performance history, key investment preferences, known investors, and more.

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

View details of more than 97,000 buyout, venture capital and infrastructure deals, including deal value, buyers, sellers, debt financing providers, financial and legal advisors, exit details and more. Identify forthcoming exits and expected IPOs.

Benchmark performance

Identify which fund managers have the best track records, with customizable fund performance benchmarks and performance details for over 15,400 individual named alternatives funds.

Examine fund terms

See the typical terms offered by funds of particular types, strategies and geographical foci, and assess the implications of making changes to different fees.

View detailed profiles of service providers

Search for active administrators, custodians, prime brokers, placement agents, auditors and law firms by type and location of funds and managers serviced.

Find out how Preqin's range of services can help you at: www.preqin.com

All rights reserved. The entire contents of Preqin Special Report: JOBS Act, April 2014 are the Copyright of Preqin Ltd. No part of this publication or any information contained in it may be copied, transmitted by any electronic means, or stored in any electronic or other data storage medium, or printed or published in any document, report or publication, without the express prior written approval of Preqin Ltd. The information presented in Preqin Special Report: JOBS Act, April 2014 is for information purposes only and does not constitute and should not be construed as a solicitation or other offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or as advice of any nature whatsoever. If the reader seeks advice rather than information then he should seek an independent financial advisor and hereby agrees that he will not hold Preqin Ltd. responsible in law or equity for any decisions of whatever nature the reader makes or refrains from making following its use of Preqin Special Report: JOBS Act, April 2014.

While reasonable efforts have been made to obtain information from sources that are believed to be accurate, and to confirm the accuracy of such information wherever possible, Preqin Ltd. does not make any representation or warranty that the information or opinions contained in The Proactive Investment Professional: Preqin Special Report: JOBS Act, April 2014 are accurate, reliable, up-to-date or complete.

Although every reasonable effort has been made to ensure the accuracy of this publication Preqin Ltd. does not accept any responsibility for any errors or omissions within Preqin Special Report: JOBS Act, April 2014 or for any expense or other loss alleged to have arisen in any way with a reader's use of this publication.

If you want any further information, or would like to request a demo of our products, please contact us:

New York:

One Grand Central Place
60 E 42nd Street
Suite 630
New York
NY 10165

Tel: +1 212 350 0100
Fax: +1 440 445 9595

London:

Equitable House
47 King William Street
London
EC4R 9AF

Tel: +44 (0)20 7645 8888
Fax: +44 (0)87 0330 5892

Singapore:

One Finlayson Green
#11-02
Singapore 049246

Tel: +65 6305 2200
Fax: +65 6491 5365

San Francisco:

580 California Street
Suite 1638
San Francisco
CA 94104

Tel: +1 415 635 3580
Fax: +1 440 445 9595

Email: info@peqin.com
Web: www.preqin.com