

SPOTLIGHT

Butterfield Fulcrum's Niles on Why the JOBS Act May Not Increase Advertising Spending

Phillip Niles, director of client development at New York-based administrator **Butterfield Fulcrum Group Ltd.**, spoke to Bloomberg's Nathaniel Baker about the impact of the Jumpstart Our Business Startups, or JOBS Act on hedge fund advertising.

Q: Much has been made of the JOBS Act and how it allows solicitation by alternative investment managers. There are some expectations for a wave of advertising to come from hedge funds as a result. You don't share this view?

A: My contention is that the impact of the JOBS Act, though very well intended, will be somewhat diluted for a variety of reasons. One of the big reasons is that some of the largest investment managers simply don't need to advertise. They have an established base of investors who are confident in their abilities. In fact, some are turning away money. Another reason is with respect to spotlight. Many managers prefer to operate more privately. They don't like a great deal of spotlight shone on themselves, their employees, their firms, and their returns. Then there's the investor base. Managers have to think of the desires and needs of their investors. Would investors respond positively to their manager going out and advertising?

Q: Why would they respond negatively?

A: It may run afoul of some investors' desires for their own privacy and for the focus of the investment manager. Certainly funds wouldn't want to alienate an existing investor base to pursue an uncertain capital raise through advertising.

Q: Right.

A: Another reason is how the industry has operated up until this point. For decades there has been no general solicitation and much of the industry is built on existing relationships: networking, connections, etc. Just because somebody can do general solicitation doesn't mean they're going to abandon the tried and tested way of raising capi-

tal. Then you need to think of the cost associated with advertising. More than likely, any costs would be borne by the investment manager out of the management company and not out of the fund. We're living in an age where the costs of running an investment manager are rising: compliance costs, risk management costs, legal costs, fund overhead, infrastructure, technology – all of those costs are rising and all of those costs are borne by the investment manager. Many managers, I feel, would prefer to spend their finite dollars elsewhere. Advertising would probably fall a fair distance down the priority ladder.

Q: What about branding?

A: You have to remember that part of the allure of alternative investments is specifically their secrecy, their privacy and certainly a lot of managers employ black box trading strategies and things of that nature. Some managers may feel general solicitation or widespread advertising might dilute their brand if they're trying to build themselves as exclusive. The analogy I like to use is for cars: you see advertising for Ford everywhere, but you don't see much advertising for Bentley. There's a reason for that. Bentley is very protective of their brand as a high-end name. Some managers may choose to adopt the same methodology.

Q: What do you think about PR? Might that be something that would benefit?

A: Quite frankly, that's where I see this having a larger impact. A lot of investment managers have been pretty hesitant to speak with media because

they don't want to be seen as soliciting their fund. They may be more willing to conduct interviews or speak publicly because they don't have to worry to the same degree about general solicitation. They still need to be quite careful, but I do feel it will enable some managers to make themselves more known and to have more access to media.

Q: Which means more PR for me to deal with. Awesome. What about the chance that a new manager will choose to advertise just to gain a little traction, like when they're starting out?

A: I definitely feel that if you do see a notable increase in general solicitation it's going to be with smaller funds looking to increase their profile. Smaller startup funds that are just establishing a base and looking to wider their footprint may see this as an opportunity. It could be a very useful way for them to gain spotlight for their fund, to attract investors they otherwise wouldn't have access to.

Q: Might there be a bifurcation of the industry where you have smaller and/or newer managers targeting the retail audience?

A: It really does come down to the desires of an investment manager. What this does for me is it provides another tool for capital raising; to bring attention to your fund, to tell your story. But that's all it is; it's just another tool. Make no mistake: I don't want to be seen as the person who says 'this will have no impact' because it definitely will. My contention is just that the impact will be less than what a lot of people seem to think.

AT A GLANCE



Age: 29

Education: Wilfrid Laurier University (B.A.), University of Liverpool (MBA)

Hometown: Kitchener, Ontario

Residence: Waterloo, Ontario

Golf Handicap: 12

Favorite Restaurant: Del Frisco's, New York