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Navigating Overseas Markets: US Managers Fundraising Abroad

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The United States alternative funds industry has traditionally relied on domestic sources of capital for growth. However, the challenges associated with capital availability arising from issues such as falling US money supply, rising interest rates, and more broadly, de-dollarization highlight the need for diversification into overseas markets. Venturing into these foreign markets will require navigating various regulatory frameworks, cultural differences, and unfamiliar market dynamics, particularly for managers that are taking their initial steps offshore.

The US market is the largest capital market in the world, but it is also the most competitive, complicated further by the issues raised above. A sharply declining US money supply has put investment managers under greater pressure to secure the necessary funds for their portfolios. Furthermore, the challenging routes to exit in private markets is creating longer holding periods for private equity firms and lower liquidity, impacting capital-raising efforts for future funds. To combat these issues, managers are increasingly seeking opportunities in foreign markets, particularly the UK, Switzerland and the EU, which offer new prospects that are looking for opportunities, and geographical investor diversification.

Higher interest rates have introduced additional borrowing costs and are putting significant pressure on business models that were established in an era of easy money. This situation has caused a need for more capital than expected and subsequent delays to investment opportunities. Emerging managers are being disproportionately affected by these challenges, as they attempt to raise capital for new funds. While all US managers historically raised funds domestically, this has been particularly true for emerging managers, for whom domestic capital raising was the sole option due to the additional spending required when raising internationally. Now, with the impact of elevated borrowing costs and increased competition for a diminishing money supply, emerging managers need to focus internationally from the outset. By broadening their universe of potential investors to Europe, US emerging and established managers can access a deeper pool of capital.

At the risk of overstatement, the US dollar is declining as a dominant reserve currency, carrying significant geopolitical and financial implications over the long term. This includes growing limits on the US government's ability to spend money into existence, which in turn ultimately impacts flows into risk assets. Leaving aside the many other consequences of this, the relevant one to this article is the increasing scarcity of investment capital. Assessing international capital sources at an earlier point in the investment manager's life cycle allows managers to diversify their investor base and potentially grow faster.

Despite the capital raising advantages, venturing into foreign markets comes with its own set of challenges. US investment managers must navigate varying regulatory frameworks, cultural differences, and unfamiliar market dynamics. For example, accessing the EU by establishing a footprint onshore under the full weight of AIFMD or staying offshore and accessing specific markets using private placement. These choices have implications. The foundation of law underpinning your agreements will be different, in different languages thus introducing the potential for misunderstanding, speed to market, and additional costs. Thus, knowing each market and all the options to access that market will help instruct investment managers on which routes are best suited for them. Cross border – one size does not fit all.

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To lower hurdles in the capital-raising process for US managers, Jersey has implemented familiar legislation; for example, they have introduced LLC laws akin to those in the US and popular jurisdictions. This legislation aims to provide managers with confidence that, despite the ever-evolving regulatory environment, their business operations can persist uninterrupted. This offering is further bolstered by a robust professional services sector that underpins the stability and resilience of Jersey's offering.

The US alternative funds market is in a new era. To sustain growth and broaden their investor base, US investment managers must diversify into overseas markets. The journey may be complex, but the benefits of diversification and access to a larger pool of interested capital make it a sensible step for established and emerging investment managers alike.

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