

Greetings,

The statement below pertaining to the expenses and income parameters of small investment advisors was prepared by a constituent of mine with approximately \$1,000,000 under management.

She has explained to me that based on consultation with her attorney and her accountant, she believes that the compliance costs of the new registration requirements would equal roughly half of her income.

Best regards,

Will Brownsberger
State Representative

STATEMENT FROM CONSTITUENT OF REPRESENTATIVE WILLIAM N. BROWNSBERGER, 24TH MIDDLESEX DISTRICT

Eliminating the qualified purchaser exemption for private investment funds puts a disproportionate compliance burden on funds with lower assets under management, such as those just starting up or those investing solely for a family.

Figures from experienced fund attorneys and accountants put the initial registration cost between \$22,685 and \$30,685. Maintaining registration costs around \$15,000 annually.

	Legal Fees	Balance Sheet Certification	FINRA exams	MA State Fee	\$10,000 Surety Bond	TOTAL
One-time registration	12,000 to 20,000	10,000	135	350	\$200	22,685 to 30,685
Annual	5,000	10,000	0	350	\$200	15,550

Fund managers derive their income from performance fees. These fees are paid out on the fund's annual gain, and managers usually do not receive performance fees in a year with losses. Assuming the industry standard performance fee of 20%, the manager's income would be as follows:

Assets Under Management

	500,000	1,000,000	2,000,000	3,000,000	5,000,000
<i>Performance</i>					
-20%	-	-	-	-	-
-10%	-	-	-	-	-
0%	-	-	-	-	-
10%	10,000	20,000	40,000	60,000	100,000
20%	20,000	40,000	80,000	120,000	200,000
30%	30,000	60,000	120,000	180,000	300,000

If a two million dollar fund has a good year and with a 20% return, 19% of that income will go to compliance costs. If the same fund loses 10% in a year, that \$15,000 for compliance costs will have to come from the general partner's capital or other external sources.

These compliance costs were quoted as the bare minimum and would be higher for larger or more complex funds.

Increasing fixed costs through mandatory regulation raises the barriers to entry and protects large, established funds from new, innovative competitors. Sustaining a competitive industry in Massachusetts gives investors the opportunity to choose a fund that best meets their needs.