



Testimony of Joshua Cherry-Seto, Chief Financial Officer

Blue Wolf Capital Partners, LLC

On Behalf of the Association for Corporate Growth (ACG)

Before the

United States House of Representatives Committee on Financial Services

Subcommittee on Capital Markets and Government-Sponsored Enterprises

Tuesday, May 17, 2016

Chairman Garrett, Ranking Member Maloney, Members of the Subcommittee: Thank you for this opportunity to testify today on important legislation, that if passed, could help provide meaningful regulatory clarity and more efficient compliance by private equity advisers.

My name is Joshua Cherry-Seto and I'm the chief financial officer of Blue Wolf Capital Partners. Blue Wolf is a midsize private equity firm that targets investments in high quality middle-market companies in niche industries. Although we often invest in companies that face challenges, we strive to create businesses that generate value and have a long term, positive impact on local communities through sustainable growth, innovation, meaningful employment and environmental responsibility. We take seriously our fiduciary responsibility to our investors as stewards of their capital and managers of our portfolio companies. We invest responsibly, and believe strongly in a culture of compliance and transparency.

Private equity is an important participant in our economy. It provides businesses with capital and strategic support to sustain and grow their companies, particularly in complex situations when public companies and the capital markets are unable or unwilling to provide the capital. On a personal note, this is something I care deeply about, as I began my career as a labor union organizer, and the ability of firms like Blue Wolf to be strategic partners and investors in creating and sustaining good jobs is what brought me to work in private equity.

Let me briefly share an example. Healthcare Laundry System is a leading provider of hospital grade laundry service to the Chicago-area spanning more than 550 healthcare providers, including more than 40 hospitals and employing more than 500 people. The company had challenges precluding it from raising capital from the public markets. Working in partnership with management, government, the employees

and the multiple unions representing them, we were able to provide capital and strategic support to create a stronger business with more quality and stable jobs. Having addressed these challenges, Healthcare Laundry System was later sold to a public company providing long term stability to the company and its employees.

I am also proud to be a member of the Association for Corporate Growth, a global trade association representing 90,000 M&A professionals within the middle market, including more than 1,000 private equity firms like ours, which invest in local communities and help create jobs throughout main street America. The organization has worked tirelessly to engage with policymakers and I am honored to be testifying on ACG's behalf.

I'm here to support draft legislation authored by Representative Hurt of Virginia and Representative Vargas of California that would modernize the Investment Advisers Act of 1940 ("1940 Act") so that the law better reflects the vast market and technological and structural changes that have taken place over the past 76 years.

The Investment Advisers Modernization Act of 2016 would make it more efficient for private equity advisers to comply with the Act and improve the efficacy of regulatory oversight by clarifying and focusing resources on reporting relevant to investor protections in today's economy, and staying true to the regulatory framework enacted by the Dodd-Frank Act. Due the 1940 Act's ambiguity, firms like ours spend many hours and significant dollars trying to comply with ill-fitting rules for our industry that don't further the intent to protect our investors, including spending investor resources on advisors and lawyers to try to interpret regulations not specifically written with our industry in mind.

An example of the bill's common sense approach is the advertising rule, an out dated provision from 1961 that is more appropriate for an investment adviser to retail clients. Private equity advisors advertise exclusively to accredited investors, qualified clients and/or qualified purchasers. Private securities have a robust private placement disclosure process for prospective qualified sophisticated investors which should continue to be regulated and reviewed. However, the 1940 Act did not contemplate and could not foresee how to regulate technology advances such as websites. Unlike the retail market, private equity websites are not aimed at investors, but instead used to more efficiently connect with companies and management teams in need of an investment partner. It is important to note that basic anti-fraud provisions of the federal securities laws, as well as the other portions of the advertising rule, would remain in effect for private fund advisers.

A second area for clarification in the 1940 Act is the Custody Rule. The Custody Rule applies to hedge funds and mutual fund companies that buy and sell shares of publicly traded companies, sometimes making hundreds of trades in a single day. Private equity firms like mine generally do not purchase shares of publicly traded companies. Instead, we invest a pool of dollars into private companies acquiring an uncertificated share of the business.

In two separate instances, the SEC through its practical experience with "privately offered securities" has already limited the application of the Custody Rule through interpretive guidance regarding certificated privately offered securities and investment special purpose vehicles. The proposed legislation will codify and further develop the guidance in modest ways to give clear legislative intent towards meaningful compliance and oversight.

Lastly, private equity funds are not systemically important and the specific provision of information to Form PF on underlying private portfolio companies is an unnecessarily burdensome requirement without added benefit to risk management.

The proposed legislation streamlines Section 4 of Form PF for private equity fund advisers, who will still report all of the information required in Section 1 of Form PF, which will provide the Financial Security Oversight Council the information that it needs to examine interconnected market structure and risk.

In closing, the proposed legislation would update an important handful of provisions in the regulatory framework for private equity advisers. If enacted, this bill would provide a win-win solution for investors and investment advisers alike. The proposed legislation provides a modernized, clear and rational regulatory framework for advisers to comply with, given current realities. This will allow for regulatory oversight that is efficient and meaningful, while allowing private equity advisers to continue to focus on growing companies, providing important returns to our investors, and most importantly, creating new jobs, now and into the future.

Thank you for your time this afternoon and I look forward to answering your questions.