The EB-5 Marketplace is a complex niche in the U.S. Economy and the world of investment funds. It's relatively small size and enigmatic structure make it an unusual choice for a young asset management company to launch a fund. Gib Dunham, CFA, Bridgeway Wealth Partners' Chief Investment Officer discusses with Jason Orlosky, the Head of Bridgeway Asset Management, why he is focused on the EB-5 Marketplace and how he is taking a different approach than most in managing these assets.

Gib: I honestly have heard very little about EB-5 in my career. Most recently, when I was Chief Investment Officer for the U.S. arm of a Chinese family office, I heard some discussion of the program. I am guessing that most professionals and the average investor have not heard of this program. Can you give me a quick overview?

Jason: Absolutely. The EB-5 Program was created in 1990 by the Immigration Act of 1990 and is overseen by the U.S. Citizenship and Immigration Service (USCIS). It provides for eligible immigrants to become green card holders in exchange for investing in the U.S. Economy. This investment must create at least 10 jobs in the U.S. and has historically had a minimum investment of $500,000 per applicant. The immigration process through this program generally took five to seven years, partly due to the steps within the program and partly due to the cap of 10,000 visas offered each year. To support this program, a network of more than 1,000 EB-5 Regional Centers (RCs) or New Commercial Enterprises (NCEs) have emerged around the United States to support the investment requirements of the program.

Today, the program has over $25bn in investments in the U.S. Economy. While the requirement for each applicant's investment to create at least 10 new jobs has not changed, some of the other key points of the program have. Currently, the minimum investment has risen to $900,000 to $1.8 million. Additionally, a cap on the number of visas granted based on the national representation of each nationality came into effect in the last decade. This was due to a couple of factors. Until the early part of the past decade, the program was not at its maximum of 10,000 visas per year, in fact far from it. As this level was reached and demand continued to climb, the limits on immigration per country also became a factor. This country-based quota system was intended to provide ample opportunity for immigrants from all countries. Secondly, there became a high concentration in applicants coming from China, South Korea, Taiwan, and the United Kingdom. As a result, the timeline to complete the program has extended to more than 15 years for some nationalities.

Gib: Definitely an interesting program and one that is designed to stimulate the U.S. Economy in the process. What types of investments do these applicants tend to make?

Jason: These investments traditionally were made in real estate development projects. This was done for a number of reasons. First, it is relatively easy to calculate the number of new jobs created with each project as most commercial development projects are required to submit an economic impact assessment as part of their application process with the local government. Additionally, the development timeline for a real estate project tended to match fairly well with the EB-5 Program's timeline. For example, a significant amount of the development for Hudson Yards in New York City was financed with EB-5 Capital.

Gib: That makes a lot of sense and has a direct economic impact as a result of the investments. This sounds like a fairly mature market and one that is saturated with many options. Why choose this area to develop an investment fund?

Jason: Good question. The challenge for the Regional Centers and their underlying investors, the EB-5 Immigrant Applicants, has been the extending timeline to complete the program. Until the past couple of years, every applicant in the program generally completed the immigration process by the time that their initial investment was complete. Currently, this length of time can be much longer than the initial investment's time horizon. As a result, the RCs and their investor are faced with the challenge of "redeployment".

Gib: Why don't these investors just sit in cash until they complete the immigration process?

Jason: The requirements for the EB-5 program are that the capital continues to be directly invested in the U.S. Economy. This prohibits holding the proceeds from the initial investment in cash until the immigration process is complete. Additionally, stocks and bonds are not eligible as they generally do not represent direct investment in the U.S. Economy, but rather ownership.

Gib: Given the history of this program and the RCs' ability to source real estate development projects, why don't the applicants just invest in another project and continue to re-invest until they complete the program?

Jason: They certainly can, and many applicants are doing just that. Although, there can often be a mismatch through this reinvestment process. It may be challenging to find another attractive real estate development project that satisfies the requirements of the EB-5 program and starts close enough to the liquidation date of the first investment. This is important, as proceeds that are not invested for more than 90 days are considered "not at risk" according to the guidelines from the USCIS.

Another consideration is that in the final 24 months of the program, applicants complete a residency requirement. Reinvesting their proceeds from the first investment into another one that has a five to seven-year lock-up or longer is a bit of a mismatch. We are actually starting to see the USCIS question the appropriateness of providing only long-term investment options for applicants that are in the last 24 months of the program.

Gib: Definitely a fairly complex issue. What are the ramifications if the capital is not redeployed correctly or within that tight timeframe?

Jason: Unfortunately, a non-compliant investment can have a detrimental impact for the applicant and the RC. While the RC may be subject to a fine or penalty, the applicant can potentially be sent back to the beginning of the process. Essentially, they lose their place in line within the program and have to start over.

Gib: That sounds like some high stakes for making a incorrect redeployment investment decision. Are there other shorter-term options available to the RCs and their applicants?

Jason: There really isn't much out there. That is why we decided to create a fund to fill this need in the EB-5 space.

Gib: Sounds like a compelling opportunity. Given the focus on real estate development, is your fund focused on development projects as well, but with shorter timeframes?

Jason: No, we are actually focused on municipal bonds. The USCIS has provided some guidance around municipal securities. In essence a very specific type of municipal bond, which must be purchased at a precise time in its lifecycle can be a qualifying investment within the EB-5 program.

Gib: That can be a bit daunting. How different is it from a municipal bond portfolio that many clients purchase today?

Jason: It is fairly different as our focus is more on compliance with the USCIS guidelines than anything else. Fortunately, the municipal bond market is very broad and provides us with ample bonds to construct a fund designed for EB-5 applicants. Additionally, due to the breadth of the market, we can offer a fund that provides much higher liquidity terms. Our fund today offers monthly liquidity after a six-month lockup period.

Gib: That does sound much better than the long-term lockups in the real estate development investments. Why are you just focused on redeployment? Why not focus on new investors as well?

Jason: We thought about that, but there are a number of reasons why it doesn't make sense. First, after the initial investment is completed, we know that the jobs creation requirement for the program has been satisfied. This allows us to focus more on the other qualifying requirements of the investment. Secondly, although most importantly, there is an entire ecosystem around the start of the EB-5 applicant's process. The RCs provide a key role in supporting this process, from the initial conversation through the completion of the program. There is a large amount of work early on that is needed to organize applicants and assistance as they enter the program. Most of this work has nothing to do with the investing requirement of the program.

Gib: That makes a lot of sense. I can see why you identified this area as one segment to focus on for our asset management business. I wish you and the team luck with the new fund.

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Chief Investment Officer, Managing Partner

Mr. Dunham has over two decades of experience in banking, asset management, private equity and hedge funds. He was previously a Managing Director at Hywin Capital, a $20 billion Asian institution where he oversaw all portfolio allocations. Prior to that he was the Chief Investment Officer at Alternative Capital Advisers. He began his career in investment banking at Bear, Stearns & Co., Inc. and has also worked at a $4 billion multi-family office. He has earned the CFA, CAIA, CMT, QFA and CIC designation and has the Series 7, 66 and 79 licenses. He is on the Investment Committee for the COTE endowment was the CIO for a non-profit organization; the Carter Burden Network. Mr. Dunham received a B.A. from Dartmouth College.

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Jason Orlosky is the Head of Asset Management and Chief Market Strategies for Bridgeway. Prior to joining Bridgeway Mr. Orlosky was the Director of Thematic Strategies and a member of the Investment Strategy Group for Stifel. At Stifel Mr. Orlosky was responsible for the development, implementation, and ongoing management of model equity portfolio strategies and the Tactical ETF Strategies. He also served as a member of the Tactical Asset Allocation Investment Committee. Prior to that Mr. Orlosky was at BPG Group where he served as the CIO for the Equity Strategies and Senior Portfolio Manager of the ETF and High Dividend Equities Strategies. Prior to that Mr. Orlosky was Head of Thematic Portfolio strategies and the ETF Tactical Allocation Portfolios for Barclays. He received a B.S. from Babson College in Babson Park, Massachusetts.