

INVESTMENT ADVISER INDUSTRY SNAPSHOT 2023



A Snapshot of the Industry in 2022



15,114

SEC-registered
investment advisers



62.8%

provide asset
management for
individuals



61.9 million

clients



\$114.1 trillion

in assets



971,487

employees



91.7%

employ 100 or fewer people



INVESTMENT ADVISER ASSOCIATION

The IAA is the leading organization dedicated to advancing the interests of fiduciary investment advisers. For 85 years, the IAA has been advocating for advisers before Congress and U.S. and global regulators, promoting best practices and providing education and resources to empower advisers to effectively serve their clients, the capital markets, and the U.S. economy. The IAA's member firms manage more than \$35 trillion in assets for a wide variety of individual and institutional clients, including pension plans, trusts, mutual funds, private funds, endowments, foundations, and corporations. For more information, visit www.investmentadviser.org or follow us on [LinkedIn](#), [Twitter](#) and [YouTube](#).

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Investment Adviser Industry Snapshot 2023

Welcome to the third edition of the *Investment Adviser Industry Snapshot*. This report reimagines our *Evolution Revolution* report, which we published for the two decades through 2020.

We continue to add more charts, tables, and analysis to make it easy to see and understand the trends. For those who want to dive into the numbers, we have posted detailed data tables online, in downloadable Excel files.

This year's report again paints a picture of a vibrant and vital industry:

The industry was resilient in a difficult environment. Not surprisingly given the market conditions, assets under management declined by 11.1% in 2022, the first decline since 2008. However, the number of advisers climbed to a record high during the year, as did the number of non-clerical employees. See Part 1 | Size and Growth for more information.

Individual investors are increasingly seeing the value of the fiduciary advice offered by investment advisers. Investors are increasingly engaging investment advisers, which continuously provide investment management advice as fiduciaries, putting their clients' interests ahead of their own. Over the past 5 years, over 22 million more individuals have engaged an investment adviser for asset management – a rate of growth in both the number of individual clients and assets of roughly 12% per year. See Part 2 | Clients for more information.

Regulatory change looms large. Rule proposals from the SEC have the potential to lead to significant industry change. We highlight some of the many recent proposals that would, if implemented, have an impact on the data in this report. Perhaps most noteworthy is the safeguarding proposal, which would subject over 5,000 additional advisers – more than one-third of the industry – to custody requirements. See Part 6 | Business Insights for more information on the safeguarding proposal.

The environment remains in flux, with the outlook for the economy remaining cloudy amid unsettled markets. However, we believe that the past year illustrates the important role that the investment adviser industry plays, both by providing an essential service to investors and as a contributor to the economy.

We hope that this report adds to your understanding of this dynamic industry.



Karen Barr
President & CEO
Investment Adviser Association



John Gebauer
Chief Regulatory Officer
COMPLY

New and Noteworthy

Nearly 40% of advisers include performance information in advertisements. Advisers provided insights on their advertising practices in 8 new questions added to Form ADV as part of the SEC's Marketing Rule. Including performance information was the most common practice. See Part 6 | Business Insights for more information.

The number of clients using asset management services increased in 2022 to a record high of 54.3 million, a gain of 2.5%. However, the number of clients using other services, such as financial planning services, declined as digital advice offerings evolved and providers realigned their platforms. As a result, the total number of clients declined by 4.3%, to 61.9 million. See Part 2 | Clients for more information.

The number of offices in private residences rose sharply. The 25.6% increase in 2022 suggests that advisers are transitioning to a permanently remote or hybrid model. See Part 3 | Employees for more information.

Private equity funds are growing faster than hedge funds. Over the past 10 years, both the number of funds and assets under management have been increasing more rapidly for private equity funds than for hedge funds. Private equity funds now account for 44.2% of the number of private funds and 32.8% of private fund assets. See Part 5 | Investment Insights for more information.

Advisers are more likely to serve individuals than any other type of client. In 2022, 62.8% of advisers had individuals as clients (including 56.0% that serve non-high net worth individuals). See Part 2 | Clients for more information.

An Industry of Small Businesses

Many investment advisers are small businesses. In 2022:

- 91.7% of advisers employed 100 or fewer employees
- 70.2% of advisers managed less than \$1 billion in assets, and 88.5% managed less than \$5 billion
- Smaller advisers accounted for a high proportion of employees relative to their assets managed
- Advisers focused on individuals as clients were likely to be small, with an average of just 9 employees, 2 offices, and \$330 million in assets under management
- Advisers with less than \$1 billion in assets accounted for almost all of the new SEC registrations, with new registrants accounting for 10.0% of firms in this size range

Investment Adviser Industry Trends					
	2018	2019	2020	2021	2022
SEC-registered advisers	12,993	13,494	13,880	14,806	15,114
Provide asset management for individuals	63.6%	63.7%	62.4%	63.1%	62.8%
Clients	43.6 million	51.9 million	60.8 million	64.7 million	61.9 million
Assets under management	\$83.7 trillion	\$97.2 trillion	\$110.0 trillion	\$128.4 trillion	\$114.1 trillion
Employees	835,124	871,971	879,755	928,505	971,487
100 or fewer employees	93.0%	93.0%	93.0%	93.0%	91.7%

About the Data

The data in this report is drawn primarily from Form ADV Part 1A.

Investment advisers meeting certain criteria must file Form ADV with the SEC annually. Form ADV has three parts.

- In Part 1A, investment advisers registering with the SEC respond to specific questions and provide standardized data about the assets they manage, their clients, and their businesses. (Part 1B is used by advisers registering with state regulators rather than the SEC.)
- Part 2 has two components:
 - Part 2A is a narrative description of the investment adviser's qualifications, investment strategies, conflicts of interest, and business practices. It is often called the "firm brochure."
 - Part 2B is the "brochure supplement" containing information on specific individuals providing advisory services. (Part 2B is given to clients, but is not filed with the SEC.)
- Part 3 is Form CRS (client or customer relationship summary), which provides information about services and fees to retail clients or customers.

More information about Form ADV is available at sec.gov/about/forms/formadv.pdf.

Notes regarding the data in this report:

Sources. All data is from Form ADV Part 1A unless otherwise noted.

Advisers. The following advisers have been excluded from the data tabulations for the years 2011 through 2022:

- *Advisers using certain older versions of Form ADV.* In 2022, 66 advisers reported using versions of Form ADV earlier than the October 2021 version. These advisers managed \$55.4 billion in assets.
- *Advisers no longer eligible for SEC registration,* typically because their assets under management have fallen below \$90 million, meaning that they are now required to register with state regulators. In 2022, 125 advisers were no longer eligible for SEC registration. These advisers managed \$4.7 billion.

Note on Data Labeling

The *Adviser Snapshot* labels data with the date of the information that was reported in the Forms ADV being summarized. For example, the information in the Forms ADV on file with the SEC as of April 6, 2023, is almost entirely from 2022. This data is appropriately compared to 2022 data from other sources. Therefore, the *Adviser Snapshot* labels this data as "2022."

Please note that the *Investment Adviser Industry Snapshot* (first published in 2021) uses a different data labeling convention than the *Evolution Revolution* reports published from 2001 through 2020. The *Evolution Revolution* reports labeled data with the date that the Forms ADV were on file with the SEC. For example, data from Forms ADV on file with the SEC as of May 25, 2020, is labeled "2020" in the *Evolution Revolution* reports.

To summarize, all "2020" data from the *Evolution Revolution* reports appear as "2019" data in this report, and so on for all years prior to 2020.

Assets under management. More than one investment adviser may be involved in managing the same client assets. For example, a mutual fund may have both a primary investment adviser and a sub-adviser, or an investment adviser hired by an individual investor may invest that client's assets in funds managed by another investment adviser.

In accordance with Form ADV Part 1A's instructions, all of the investment advisers involved with a client's assets will include the assets they oversee in their Form ADV reporting. Therefore, the industry asset total in this report is significantly larger than underlying client assets.

The methodology for calculating assets under management in Form ADV Part 1A was standardized in 2011, to a measure called regulatory assets under management (RAUM).

Clients. Advisers with fewer than 5 clients in any category are not required to report client numbers in that category. Responses of "fewer than 5 clients" are excluded from the tabulations of clients in this report. Therefore, the total industry client figure is somewhat understated.

In 2017, the SEC significantly changed the Form ADV reporting requirements with regard to clients, requiring advisers to be more specific about the number of clients and the assets managed for them.

Comparability and reporting period. Because of changes in Form ADV, data for prior years may not be available or may not be comparable to data for the most recent year. Therefore, the appropriate period for historical analysis of Form ADV data is different for each question.

When analyzing multi-year trends, this report generally looks at the longest period of comparable data available, up to a maximum of 10 years.

Dates. Investment advisers must file an annual updating amendment to Form ADV with the SEC within 90 days of their fiscal year end. Advisers must also amend their Form ADV promptly if certain information becomes inaccurate.

Most questions in Form ADV Part 1A specify that the data reported must be as of the adviser's most recent fiscal year end. However, assets under management can be calculated at any time within 90 days of filing; in practice, most advisers report asset data as of the firm's fiscal year end.

For example, an investment adviser with a fiscal year end of December 31, 2022, must file Form ADV Part 1A by March 31, 2023, reporting data as of December 31, 2022, for most questions and reporting assets under management calculated within 90 days of March 31, 2023.

Data for any given year includes information from the most recent Forms ADV Part 1A filed with the SEC as of a specified date in the second quarter of the following year. For example, data for 2022 includes information from the most recent Forms ADV Part 1A filed with the SEC as of April 6, 2023.

Because most advisers have a December fiscal year end, this data is heavily weighted toward calendar year-end information. In 2022, over 95% of advisers had a December fiscal year end.

Responses. Assumptions with regard to responses are:

- Responses that appear to be in obvious error are adjusted or excluded from the tabulations.
- For yes/no questions, blank responses are assumed to be "no" responses.
- For other questions, blank responses are not included in the tabulations.

Certain questions are prone to error or misinterpretation. For example, instructions to Section 5.K.(2) of Schedule D state that advisers with \$10 billion or more in separately managed account (SMA) assets are to complete question (a) while advisers with \$500 million to \$10 billion in SMA assets are to complete question (b). However, some advisers mistakenly answer both questions. These questions may be omitted from this report, or the high incidence of apparent errors or misinterpretations is noted.

A Short History of Form ADV

The questions in Form ADV, the instructions for compiling the data reported, and the criteria for SEC registration have changed over time. All of these changes affect the availability of data and the comparability of that data.

This timeline summarizes key milestones in the evolution of investment adviser registration since 2001.

January 2001

Investment advisers begin submitting Form ADV Part 1 electronically, via the Investment Adviser Registration Depository (IARD).

September 2001

The SEC unveils the Investment Adviser Public Disclosure (IAPD) website, which makes Form ADV information readily available to the public.

December 2002

Digital advice-only platforms (relying on the “internet adviser” exemption) may register with the SEC, even if they are below the assets under management threshold.

December 2009

Additional questions about custody are added to Form ADV.

October 2010

Form ADV Part 2 changes from a check-the-box format to narrative responses, consisting of a brochure and brochure supplements.

June 2011

The SEC increases the asset size threshold for SEC registration to \$100 million from \$25 million. Private fund advisers (managing private fund assets over a specified threshold) are required to register as investment advisers and file Form ADV.

The calculation of assets under management in Form ADV Part 1 is standardized as “regulatory assets under management.” The new methodology requires advisers to calculate assets on a gross, rather than net, basis. In addition, advisers must now include assets that were previously excluded (such as family or proprietary assets), assets managed without compensation, and assets of foreign clients. Therefore, the change resulted in an increase in reported assets.

Overall, Form ADV is revised significantly. Advisers are required to provide more detail about (1) private funds they advise, (2) their advisory business (clients, employees, advisory activities), (3) potential conflicts of interest (affiliated brokers, soft dollars, compensation for referrals), and (4) non-advisory activities and financial industry affiliations.

Advisers are required to provide new and prospective clients with a brochure supplement (Form ADV Part 2B) that includes information about specific individuals who provide advisory services.

August 2016

The SEC adopts changes to Form ADV Part 1 that require advisers to provide additional data about separately managed accounts. In addition, advisers must disclose more information about their businesses, including data on clients, social media presence, branch offices, custodians, and outsourced chief compliance officers.

Umbrella registrations are permitted by filing new Schedule R.

June 2019

Advisers are required to provide retail clients with Form CRS (Form ADV Part 3) by July 2020. Form CRS provides brief summary information on services, fees and costs, conflicts of interest, required standard of conduct, and legal and disciplinary history.

March 2020

Due to the pandemic, the SEC temporarily extends the deadline for filing annual updating amendments to Form ADV by 45 days.

December 2020

In the new investment adviser Marketing Rule, the SEC mandates additional questions about advertising practices, which were added to Form ADV in 2022. All advisers must answer these questions in their next annual updating amendments to Forms ADV filed on or after November 4, 2022.

Technical Amendments

In addition to these significant changes, the SEC made technical amendments to Form ADV in July 2003, March 2006, January 2008, May 2017, and December 2020.



A Short History of the *Adviser Snapshot*

2001 *Evolution Revolution*, the predecessor to the *Adviser Snapshot*, is launched. The new report summarizes Form ADV Part 1 data reported electronically to the Investment Adviser Registration Depository for the first time.

2016 *Evolution Revolution* is expanded significantly to report on newly available client data.

2021 The *Investment Adviser Industry Snapshot* is published for the first time. The report reimagines *Evolution Revolution*, adding additional charts, tables, and analysis, together with downloadable Excel files.

1

Size and Growth

The number of SEC-registered investment advisers reached a record high in 2022, while assets declined as a result of market conditions.

At the end of 2022,

\$114.1 trillion in assets were managed by

15,114 SEC-registered advisory firms.

91.7% of advisers had 100 or fewer employees.

IN BRIEF

In 2022, assets managed by SEC-registered investment advisory firms declined by 11.1%, while the number of advisers grew by 2.1%.

Most investment advisers are small businesses. In 2022, 91.7% of advisers had 100 or fewer non-clerical employees, and 70.2% managed less than \$1 billion in assets, while 88.5% managed less than \$5 billion.

The industry is dynamic, with a significant number of advisers entering and exiting the industry each year. This turnover is concentrated in advisers with less than \$1 billion in assets. However, 90.6% of industry assets were managed by firms with more than \$5 billion in assets.

While the number of SEC-registered investment advisers has been steadily increasing for many years, the number of brokerage firms has been steadily declining.

Firms and Assets

In 2022, as a result of market conditions, assets managed by SEC-registered investment advisory firms fell by 11.1%.

Industry assets under management have increased in 19 of the past 22 years. Assets declined in 2002, 2008, and 2022.

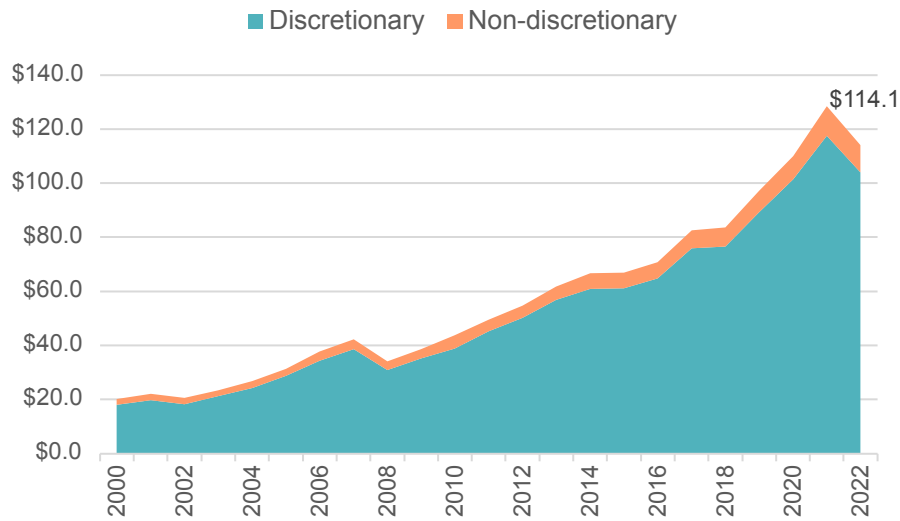
As in prior years, almost all assets were managed on a discretionary basis (91.2% in 2022).

For detail see Data Table 1A ([available online](#)).

FIGURE 1A

Assets Under Management Declined in 2022 for the First Time Since 2008

Total Industry Assets Under Management, \$ Trillions



In 2022, the number of SEC-registered investment advisory firms increased by 308 firms, or 2.1%, versus the prior year – reaching a record high of 15,114 firms.

The number of SEC-registered firms has increased in 20 of the past 22 years. Registrations declined in 2010 and 2011 when the minimum size threshold for SEC registration increased to \$100 million in assets under management (from \$25 million).

The compound annual growth rate in the number of advisers over the 22-year period was 3.8%.

Over two-thirds of advisers (71.1%) were structured as “pass-through” entities (limited liability companies, limited partnerships, limited liability partnerships, or partnerships).

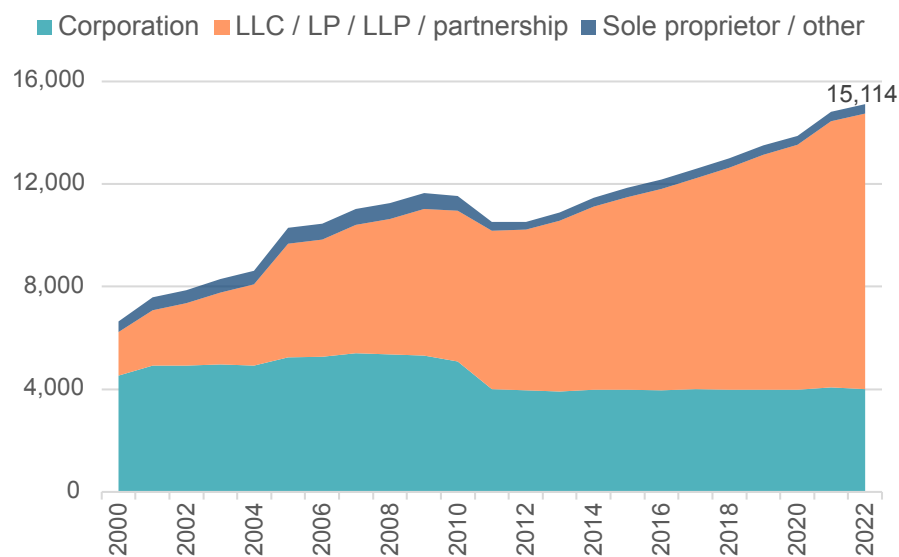
Advisers with longer tenure are more likely to be corporations. Nearly two-thirds of advisers registered with the SEC before 2000 are corporations; advisers registered after that date are much more likely to be pass-through entities.

For detail see Data Table 1B ([available online](#)).

FIGURE 1B

The Number of Advisers Reached a Record High in 2022

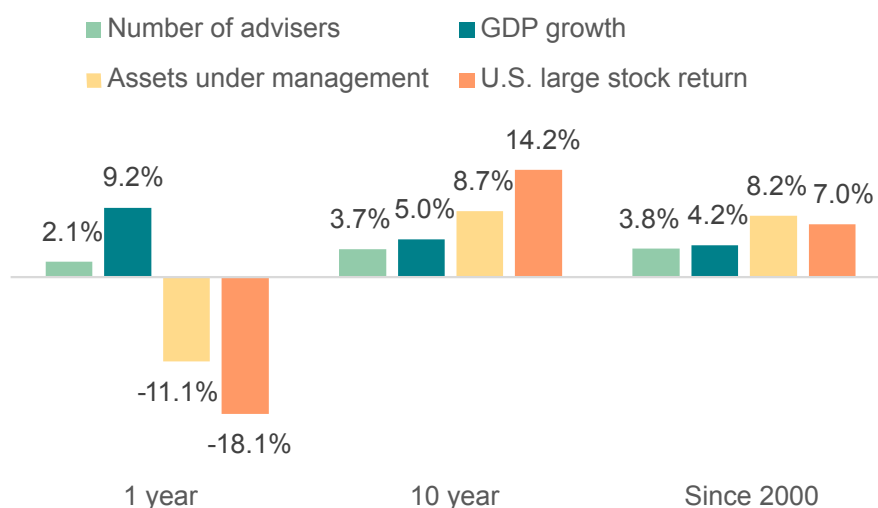
Number of Advisers by Form of Organization



Over the past 22 years, the growth in the number of SEC-registered advisers has been consistent with economic growth as measured by GDP. Growth in assets under management has been particularly affected by stock returns.

FIGURE 1C

Economic Growth and Market Returns Drive Industry Growth



Source: Form ADV Part 1A; Bureau of Economic Analysis; Duff & Phelps, CFA Institute Research Foundation and Morningstar, *Stocks, Bonds, Bills, and Inflation*

Measuring Investment Adviser Assets

Investment advisers are often categorized by the amount of assets that they invest, called *assets under management* or AUM.

The SEC has established a standardized methodology for calculating assets under management known as *regulatory assets under management* or RAUM. All advisers must report their RAUM in Form ADV Part 1.

Advisers must include in RAUM the value of all securities portfolios for which they provide “continuous and regular supervisory or management services.” To qualify as a securities portfolio, at least 50% of the value of the account must consist of securities, cash, or cash equivalents. Value is computed without considering liabilities. Included in RAUM are family accounts, proprietary accounts, accounts they receive no compensation for, and accounts of non-U.S. clients. As a general rule, the RAUM methodology includes only those accounts where the adviser has the authority to implement investment decisions through trading, either on a discretionary basis or with the client’s approval.

However, RAUM may understate the adviser’s role in providing holistic financial planning advice. For example, if the adviser provides recommendations to clients on allocations in their 401(k) plans – advice that the clients must implement themselves – those retirement assets are not included in the adviser’s RAUM.

Assets that fall outside the definition of RAUM are often referred to as *assets under advisement*.

While advisers must use RAUM in Form ADV Part 1, they may include assets under advisement in Form ADV Part 2A. In 2022, 644 advisers (4.3%) indicated that they used a methodology other than RAUM to report assets under management in Part 2A.

A Varied and Dynamic Industry

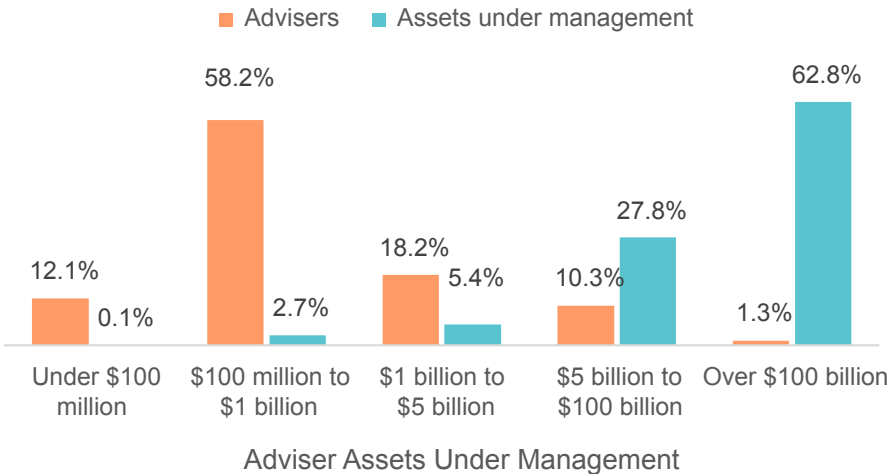
SEC-registered investment advisers range in size from local Main Street businesses to multinational corporations.

In 2022, 88.5% of advisers had less than \$5 billion in assets under management, with more than half having between \$100 million and \$1 billion.

By contrast, in 2022, 90.6% of industry assets were managed by firms with more than \$5 billion in assets under management, with 62.8% managed by the 190 largest firms.

For detail see Data Tables 1C and 1D ([available online](#)).

FIGURE 1D
Most Advisers Are Smaller, While Larger Firms Manage Most of the Assets
 Percentage of Advisers and Assets Under Management, 2022



The category of advisers with more than \$100 billion in assets under management experienced the strongest growth over the past 10 years, with compound annual growth in assets of 10.1%. More than half of this growth was the result of firms moving up into this size category during a period of generally favorable markets. The remainder was due to other factors, such as market-driven appreciation in the value of assets under management, merger and acquisition activity, or organic growth (from increased investor demand for products and services offered by these advisers).

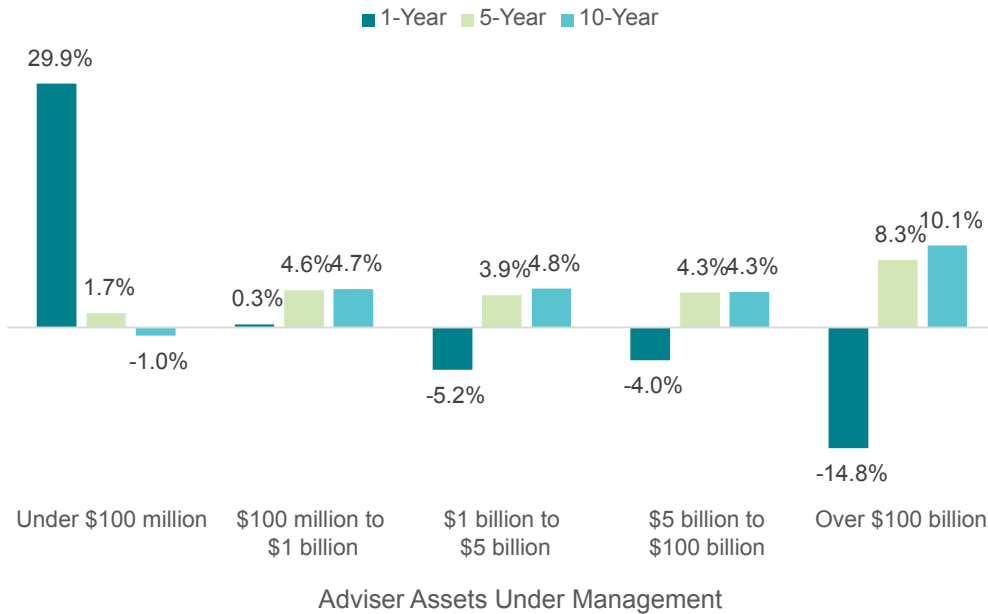
However, in the unfavorable market environment of 2022, advisers with over \$100 billion experienced the sharpest decline in assets under management, as securities values fell and firms moved out of the category.

Conversely, in 2022, on a net basis, firms moved into the under \$100 million category, and assets in this category increased dramatically in percentage terms. Longer term, the assets under management in this size category have been flat because firms in this size range generally either move into larger size categories or terminate SEC registration.

FIGURE 1E

Asset Growth Has Generally Been Strongest for the Largest Firms, Though Not in 2022

Percentage Change in Assets Under Management



The investment adviser industry is dynamic, with a significant number of advisers entering and exiting the industry each year. For example, in 2022, there were 1,142 new advisers and 834 advisers that terminated their registrations with the SEC, for a net addition of 308 firms.

With regard to new advisers, some may be formed as part of new business initiatives (such as licensed professionals starting their own firm) or to support new fund launches. Other new advisers (especially larger new advisers) may be created as the result of mergers or other reorganizations. Advisers may also switch their registration from the state regulatory authorities to the SEC.

Advisers may terminate their SEC registration because they are switching their registration to the states or because they have exited the investment advisory business.

SEC-Registered Advisers in Context

In the United States, investment advisers are generally required to register with either the SEC or state regulatory authorities.

Advisers that manage at least \$100 million in assets must register with the SEC (absent an exemption). In addition, certain smaller advisers must register with the SEC, such as advisers that manage registered funds. Some other smaller advisers have the option of registering with the SEC, such as those providing advice solely through digital platforms (using the “internet adviser” exemption).

For detail see Data Table 1E ([available online](#)) on the reasons for SEC registration.

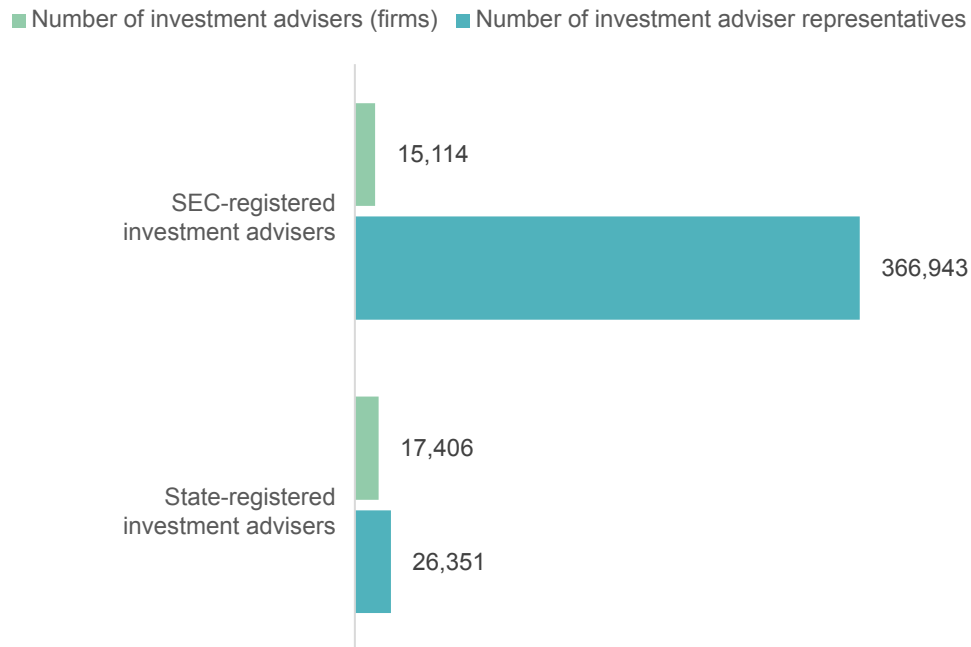
Investment advisers that are not eligible to register with the SEC must register in the states where they have a place of business and/or have more than a *de minimis* number of clients. Though there are fewer SEC-registered advisers than state-registered advisers, they account for most of the assets managed by investment advisers. In addition, SEC-registered firms account for most of the investment adviser representatives in the industry.

This report focuses on SEC-registered investment advisers. For more information on state-registered advisers, visit www.nasaa.org/industry-resources/investment-advisers/.

FIGURE 1F

The Relative Size of SEC-Registered and State-Registered Advisers

Number of Firms, Number of Representatives, 2022



Note: Number of state-registered investment advisers courtesy of NASAA. Number of SEC- and state-registered investment adviser representatives estimated.

In addition to SEC-registered and state-registered investment advisers, investors commonly use brokerage firms as a source of financial advice.

Brokerage firms are not fiduciaries to their clients; instead, they are subject to a standard of conduct defined in Regulation Best Interest, which requires that brokers act in their retail customer's best interest at the time they make a securities recommendation to the customer. Brokerage firms must meet specified disclosure, care, conflicts, and compliance obligations with respect to their customer recommendations. Firms may be dually registered as both a brokerage firm and an investment adviser.

In 2022, there were 3,378 brokerage firms and 15,114 investment advisers.

TABLE 1A

Number of Brokerage Firms and SEC-Registered Investment Advisers

Year	Brokerage Firms	SEC-Registered Investment Advisers
2017	3,726	12,578
2018	3,607	12,993
2019	3,517	13,494
2020	3,435	13,880
2021	3,394	14,806
2022	3,378	15,114

Note: Number of SEC-registered investment advisers and brokerage firms at year end.

Source: Form ADV Part 1A; *FINRA Industry Snapshot 2023*.

Licensed Financial Professionals

Most financial professionals who work with members of the public must be licensed. Here's a brief look at the 3 most common types of licensed financial professionals:

Registered representatives. Often called “brokers” or “financial advisors,” registered representatives work for brokerage firms. To become a registered representative, a financial professional must pass an exam and register with FINRA.

Investment adviser representatives (IARs) work for investment advisers. (“Investment adviser” or “registered investment adviser” refers to the firm, while “investment adviser representative” refers to an individual working for that firm.) IARs generally must be registered in the states where they work. (All 50 states currently require that IARs be licensed, though some states base the registration requirement on the number and type of clients in that state.) States generally require that individuals pass a credentialing exam before they can be licensed.

Note that individuals are often *dually licensed* as both a registered representative and an investment adviser representative, generally with affiliated brokerage firms and investment advisers. For example, an individual may be licensed as an investment adviser representative through an investment adviser that is part of a larger corporation and also be licensed as a registered representative through a brokerage firm owned by that same corporation.

Insurance agents work for insurance companies. They are licensed by the states.

While there are fewer brokerage firms than investment advisers, brokerage firms are significantly larger than investment advisers in terms of employment of licensed professionals, both in total and on average. At the end of 2022, brokerage firms employed 620,882 registered representatives, or an average of 184 per firm, while investment advisers employed 393,294 investment adviser representatives, or an average of 12 per firm.*

TABLE 1B
Number of Licensed Financial Professionals

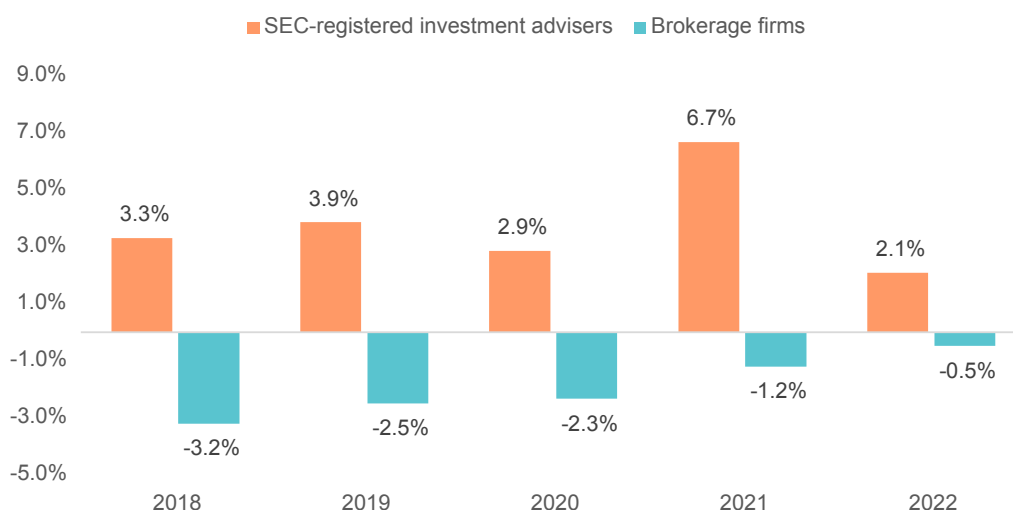
Type	2019	2022
Investment adviser representatives	65,514	80,977
Dually registered representatives	296,677	312,317
Registered representatives	328,997	308,565

Note: Number of investment adviser representatives and dually registered representatives includes representatives for both SEC-registered and state-registered investment advisers. Number of investment adviser representatives, dually registered representatives, and registered representatives at year end.

Source: *FINRA Industry Snapshot 2023*.

The number of SEC-registered investment advisers has been steadily increasing for many years, while the number of brokerage firms has been steadily declining.

FIGURE 1G
Diverging Trends | Investment Advisers and Brokerage Firms
Percentage Change in Number of Firms



Note: Number of SEC-registered investment advisers and brokerage firms at year end.

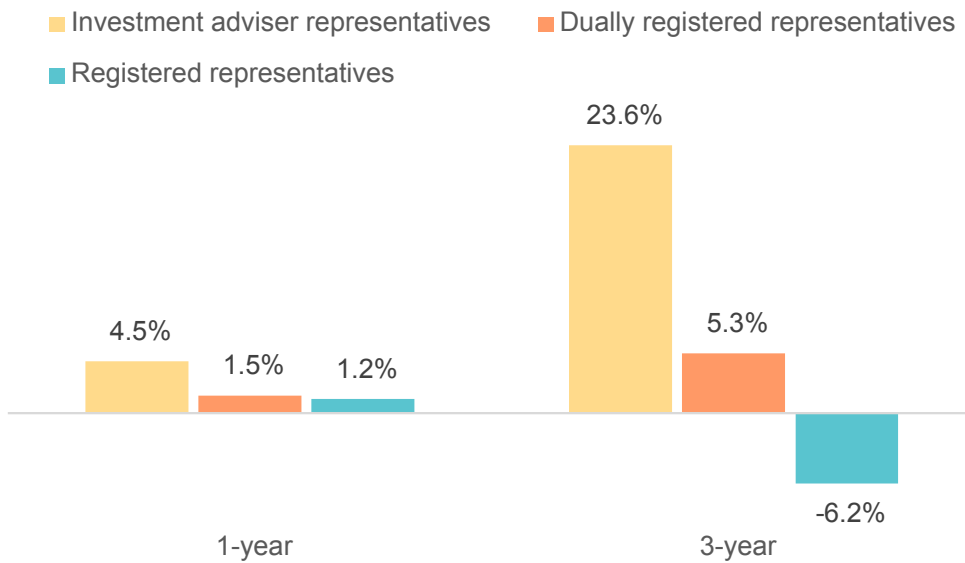
Source: Form ADV Part 1A; *FINRA Industry Snapshot 2023*.

*Includes state-registered advisers.

Similarly, over the past 3 years, the number of professionals licensed as investment adviser representatives (including professionals dually licensed as both an investment adviser representative and a registered representative) increased. By contrast, the number of professionals licensed solely as registered representatives declined over the 3-year period, despite an increase in 2022. The number of dually registered representatives now exceeds the number of registered representatives.

The shift toward investment advisory firms and investment adviser representatives has resulted from investors increasingly seeing the value of the fiduciary advice offered by investment advisers.

FIGURE 1H
Growth in the Number of Investment Adviser Representatives Has Been Strong
 Percentage Change in Number of Licensed Financial Professionals, Periods Ended 2022



Note: Number of investment adviser representatives and dually registered representatives includes representatives for both SEC-registered and state-registered investment advisers. Number of investment adviser representatives, dually registered representatives, and registered representatives at year end.

Source: FINRA Industry Snapshot 2023.

A Fiduciary Responsibility to Clients

Investment advisers stand in a special relationship of trust and confidence with their clients. Put another way, they are fiduciaries to their clients.

As fiduciaries, investment advisers have an affirmative duty to act in the best interest of their clients with care, loyalty, honesty, and good faith. Fiduciary duty is overarching, broad, and applies to the agreed-upon advisory relationship.

An adviser's duty of care includes:

- The duty to provide advice that is in the best interest of the client.
- The duty to seek best execution of a client's transactions.
- The duty to provide advice and monitoring over the course of the relationship.

The duty of loyalty requires that an investment adviser must not place its own interest ahead of its client's interest. In other words, the adviser must put its clients' interests first.

To meet their duty of loyalty, investment advisers must make full and fair disclosure to clients of all material facts relating to their advisory relationship, including conflicts of interest. Full and fair disclosure of a conflict means that the disclosure should be designed to put the client in a position to be able to understand and provide informed consent to that conflict.

In addition, advisers must ensure that their conflicts do not prevent them from acting in their clients' best interest or otherwise compromise their advice. In some cases, this will require advisers to eliminate conflicts and in others to modify practices to reduce or mitigate conflicts, but advisers always need to identify conflicts, determine how best to manage them, and fully disclose them.

In addition to the duty of care and loyalty, advisers have other obligations under the fiduciary duty, including, for example, having a compliance program and keeping client confidences. Advisers may also have obligations under relevant state and ERISA (*i.e.*, retirement) law.

Source: SEC, "Commission Interpretation Regarding Standard of Conduct for Investment Advisers" (June 5, 2019)

Appendix | An Industry of Small Businesses

Most SEC-registered advisers are small businesses.

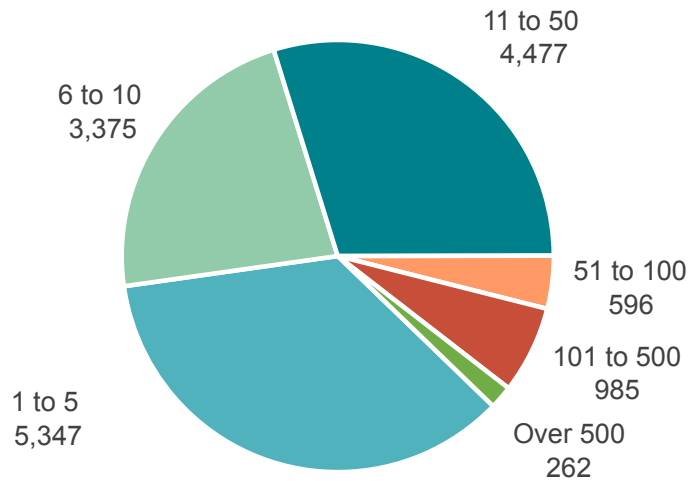
In 2022, 91.7% of advisers employed 100 or fewer people. Only 1.7% had a workforce of over 500 people, while the median investment adviser employed 8 people.

For detail see Data Table 1F (available online).

FIGURE 11

Most Advisers are Small Businesses

Number of Advisers by Number of Non-Clerical Employees, 2022



Note: Excludes advisers reporting zero employees.

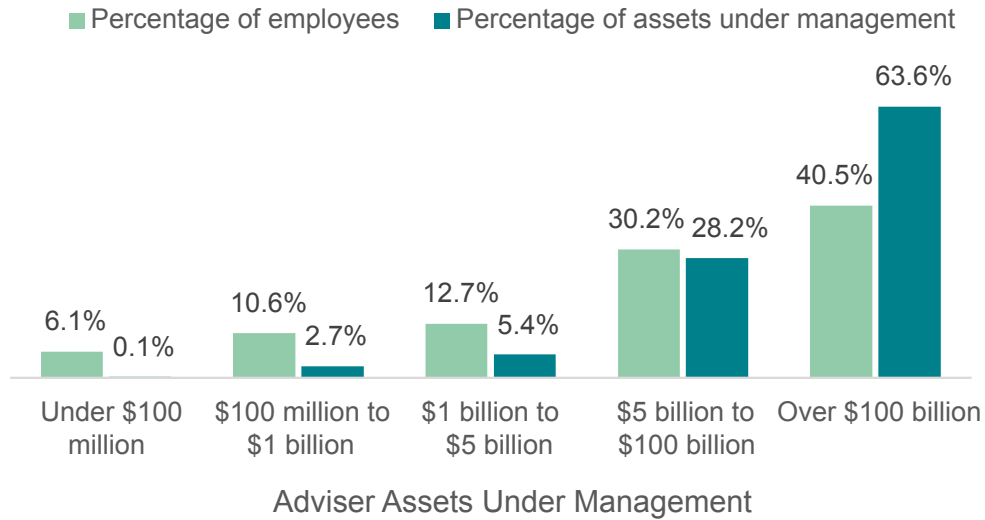
In 2022, 70.2% of advisers managed less than \$1 billion in assets, and 88.5% managed less than \$5 billion.

Smaller advisers accounted for a disproportionately high percentage of industry employment relative to their assets under management. For example, in 2022, advisers with \$100 million to \$1 billion in assets under management (58.2% of firms) managed 2.7% of total industry assets but accounted for 10.6% of employment.

FIGURE 1J

Smaller Advisers Account for a High Proportion of Employees Relative to Assets Managed

2022



New SEC registrants are likely to be small. In 2022, 92.7% of the new SEC registrants had less than \$1 billion in assets under management; these new firms accounted for 10.0% of the firms in the 2 smallest size categories (under \$100 million and \$100 million to \$1 billion).

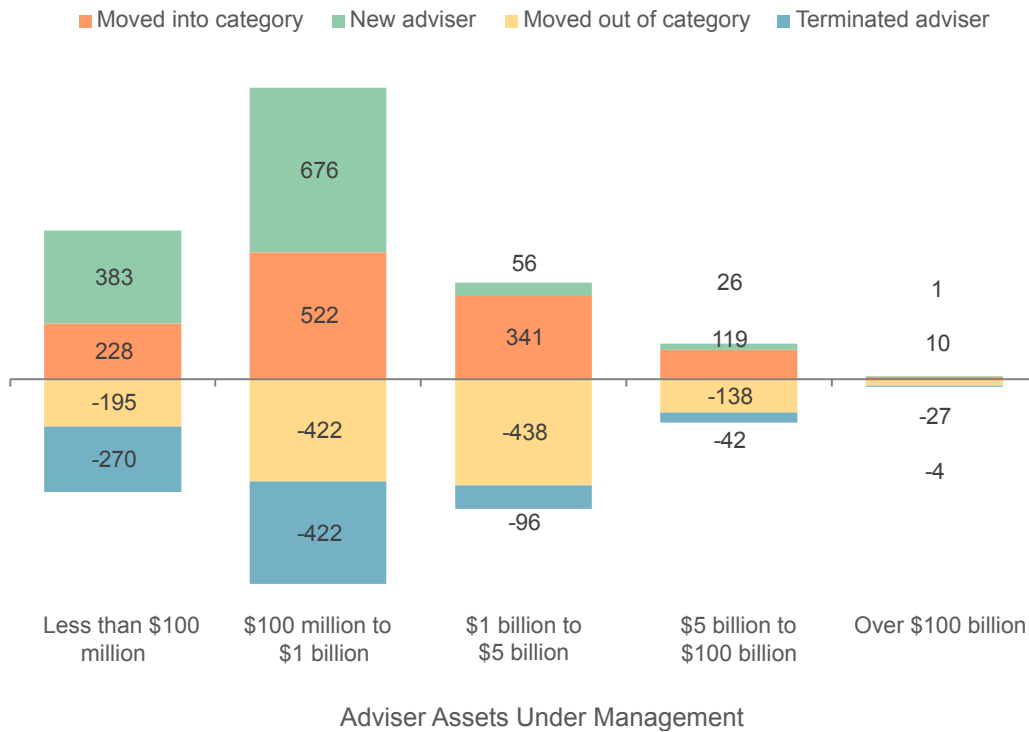
Changes in the number of advisers in the over \$100 billion size category were almost entirely due to firms experiencing an increase in assets under management and moving up into this category.

For example, in 2022, 12 firms moved into the over \$100 billion category. Of these 12 firms, 11 were in other size categories in the previous year; only 1 was a new SEC registrant (a large non-U.S. firm that registered in the United States in 2022). Of the 31 firms that moved out of the category, 27 firms moved into a smaller size category, while 4 terminated SEC registration (all 4 of these advisers were non-U.S. firms).

FIGURE 1K

New SEC Registrants Are Likely To Be Small

Number of Firms, 2022



Overall, the data highlights that most advisers are quite small, although there are a few very large advisers. For example, while over half of advisers have just 1 office, and 90% of advisers have no more than 5 offices, the adviser with the largest number of offices has 14,976 of them.

TABLE 1C

Most Advisers Are Small Businesses

2022

	Median	Top Quartile	Top Decile	Average	Range
Number of employees	8	20	65	64	0 to 36,687
Assets under management	\$373 million	\$1.4 billion	\$6.2 billion	\$7.5 billion	\$0 to \$6.6 trillion
Number of clients:					
Individuals	65	314	888	3,432	0 to 6.6 million
Pooled vehicles	0	4	14	8	0 to 2,368
Institutions	0	6	27	121	1 to 868,482
Number of offices	1	2	5	9	1 to 14,976

2 Clients

The number of asset management clients of SEC-registered investment advisers grew 2.5% in 2022, reaching a record high.

In 2022, investment advisers served

61.9 million

clients, including 54.3 million asset management clients.

62.8%

of advisers provided asset management services for individuals.

IN BRIEF

In 2022, the number of asset management clients served by SEC-registered investment advisory firms increased by 2.5%. However, because the number of non-asset management clients fell sharply, the total number of clients fell by 4.3%. Over the past 5 years, the total number of clients has grown at an average rate of 9.5% per year.

Advisers serve a broad range of clients in three groups: individuals, pooled vehicles, and institutions. Over the past 5 years, growth in both the number of clients and assets under management have been strong in all 3 groups, though growth in the number of clients has been especially strong in the individual client group.

A broad range of advisers has evolved to serve this broad range of clients. Therefore, the profile of the “typical” investment adviser varies significantly with its client focus.

A Growing Client Base

Investor demand for asset management services continued to grow in 2022, despite the difficult market conditions. The number of asset management clients increased by 2.5% in 2022, reaching a record high of 54.3 million.

However, the number of non-asset management clients declined during the year. These clients did not use asset management services but received other types of advisory services, such as model portfolios or financial planning advice. The number of these clients fell to 7.6 million, a decrease of 34.9%.*

This decline is attributable to a sharp drop in the number of non-asset management clients at a single digital advice platform. This firm was the adviser for over one-third of the industry's clients in this category in 2021, and the decrease resulted from a change in the criteria for including accounts in this category.

As a result of the decline in non-asset management clients, the total number of clients declined by 4.3% in 2022, to 61.9 million. Even with this decline, growth in the number of clients has been very strong over the past 5 years, with an average annual increase of 9.5%.

FIGURE 2A

The Number of Asset Management Clients Reached a Record High in 2022

Number of Clients, Millions



*The number of non-asset management clients for 2017, 2019, 2020, 2021, and 2022 exclude multiple apparent instances of over-reporting. Many of the errors relate to model portfolios; advisers are often unclear about the model portfolio clients to include in this category.

Advisory Services Offered to Clients

The primary service offered by investment advisers is portfolio management. In 2022, 97.3% of advisers offered portfolio management services.

However, 60.8% of advisers offered other advisory services to their clients as well.

The most common of these services is financial planning, which was offered by 43.5% of advisers in 2022, versus 43.2% in the prior year.

However, the number of financial planning clients dropped significantly in 2022, to 3.8 million from 4.8 million in 2021. The decrease is largely attributable to a single adviser that provides services to individuals exclusively through a digital advice platform.

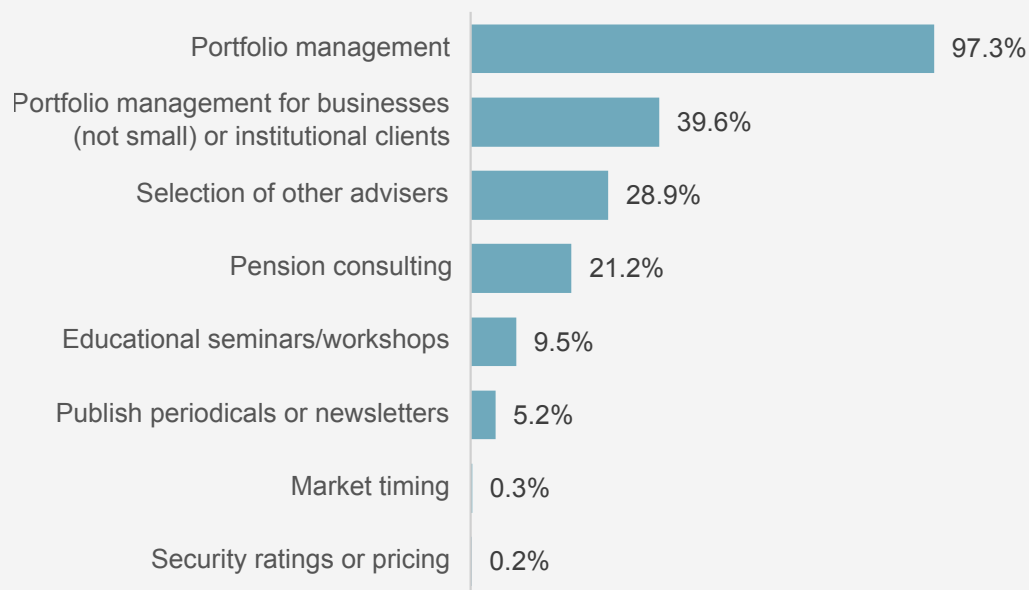
After financial planning, the most common additional services offered by investment advisers are advice on the selection of other advisers and pension consulting. Both were offered by over 20% of advisers in 2022.

For detail, see Data Table 2A ([available online](#)).

FIGURE 2B

Many Advisers Go Beyond Portfolio Management

Percentage of Advisers Offering Service, 2022



Note: Portfolio management includes portfolio management for individuals, businesses (including small businesses), investment companies, and/or business development companies.

A Broad Range of Clients

Investment advisers serve 3 groups of clients:

- Individuals
- Pooled vehicles, including investment companies and private funds
- Institutions, such as pension plans and corporations

Clients not using asset management services are not classified by client type and, therefore, are not included in this discussion. In 2022, over one-quarter of advisers (26.4%) had at least one client not using asset management services.

In 2022, individuals were the largest client group when measured by number of clients (51.9 million).

For detail, see Data Tables 2B and 2C ([available online](#)).

FIGURE 2C

Individuals Are the Largest Client Group by Number of Clients

Number of Clients, Thousands, 2022

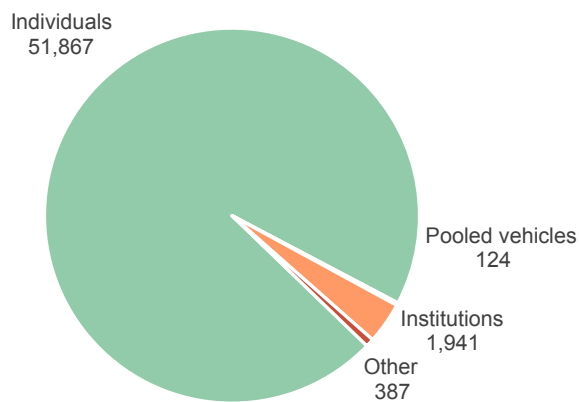
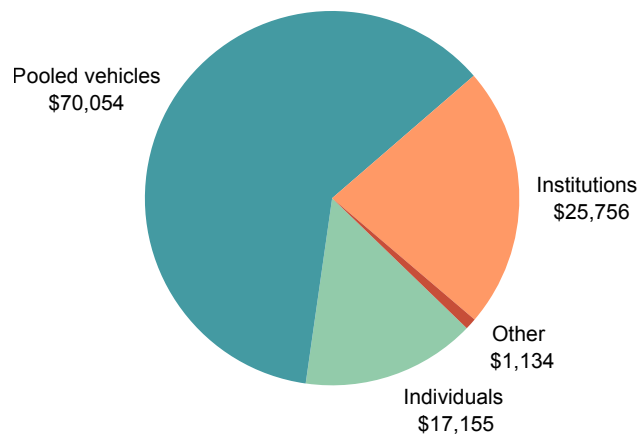


FIGURE 2D

Pooled Vehicles Are the Largest Client Group Based on Assets Under Management

Assets Under Management, \$ Billions, 2022



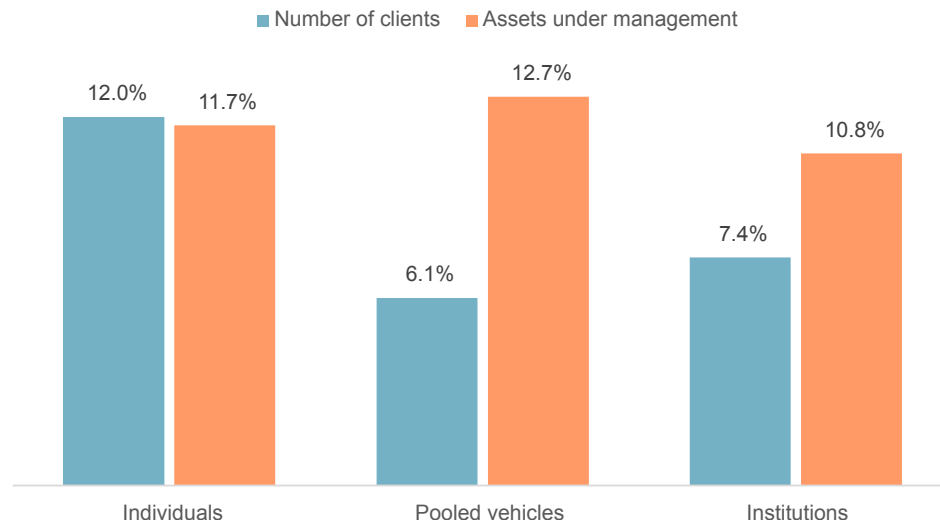
Pooled vehicles were the largest group when measured by assets under management, with \$70.1 trillion or 61.3% of the industry total.

Over the past 5 years, growth in both the number of clients and assets under management have been strong in all 3 groups. However, growth in the number of clients has been especially strong in the individual client group, with roughly equivalent gains in the number of both high net worth and non-high net worth individuals.

FIGURE 2E

Growth in the Individual Client Group Has Been Especially Strong

Annualized Percentage Growth, 5 Years Ended 2022



Of the 3 client groups, advisers are most likely to have individual clients. In 2022, 62.8% of advisers served individual clients, with 56.0% serving non-high net worth individuals.

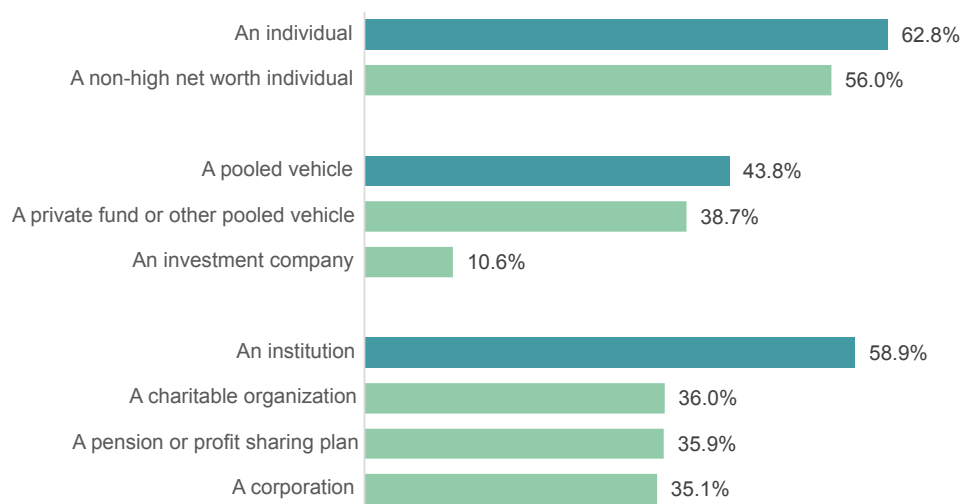
After individual clients, advisers were most likely to have institutional clients. The 3 most common types of institutional clients are charitable organizations, pension and profit sharing plans, and corporations, with over one-third of advisers providing services to each of these client types.

Advisers are least likely to have pooled vehicles as clients. Only 10.6% of advisers have an investment company as a client.

FIGURE 2F

Percentage of Advisers That Have at Least One Client Who Is . . .

2022



Individuals

In 2022, investment advisers provided asset management services to 51.9 million individual investors.

The bulk of these clients (85.8%) were non-high net worth individuals. Generally, these are individuals with less than \$1.1 million in assets under management with an adviser or with a net worth of less than \$2.2 million, excluding the value of a primary residence.*

On the other hand, 62.1% of the assets managed for clients in this group were from the 14.2% of individual investor clients who were high net worth individuals.

FIGURE 2G
Non-High Net Worth Individuals Are the Largest Client Type in Terms of Numbers . . .
 Number of Clients, Millions

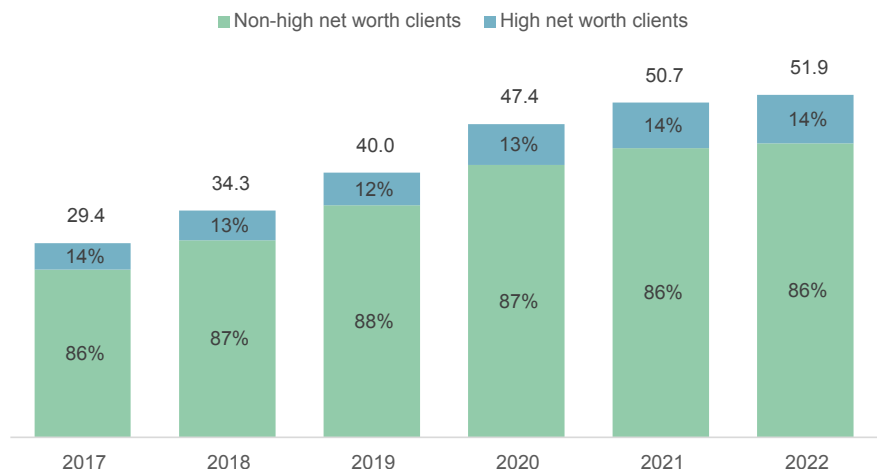
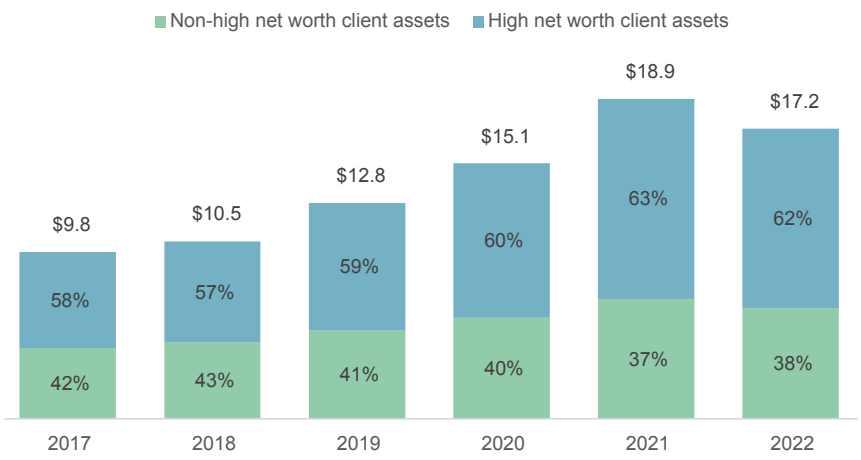


FIGURE 2G
. . . While High Net Worth Individuals Account for the Majority of Assets
 Assets, \$ Trillions



*The SEC raised these threshold amounts in August 2021. All else being equal, raising these threshold amounts increases the number of non-high net worth clients and decreases the number of high net worth clients.

An Increasingly Digital Industry

Like all other businesses, the investment adviser industry is tapping into the power of technology to better serve clients. By lowering costs, the increased use of technology has made it possible for less wealthy clients – including many younger clients – to benefit from investment advice.

Digital advice platforms enable advisers to provide personalized advice through websites and apps, moving away from the model of one-on-one interaction between adviser and client. These digital platforms are being built and deployed both by existing firms and by new entrants.

Advisers operating only through digital advice platforms are eligible to register with the SEC even if their assets are below the threshold for SEC registration. This is known as the “internet adviser” exemption. Without it, small digital platforms would likely need to register in at least 15 states before becoming eligible to register with the SEC by using the multi-state exemption.

In 2022, 263 firms filed Form ADV using the internet adviser exemption. These firms are small:

- They managed a total of \$17.1 billion in assets, and 134 managed no assets at all.
- The average internet adviser had a staff of just 10 non-clerical personnel.

Importantly, the presence of digital advice in the industry goes far beyond these 263 firms. Successful digital platforms often stop using the internet adviser exemption, since they are eligible to register with the SEC based on their assets under management. In addition, existing firms with traditional distribution approaches are incorporating digital advice platforms into their services.

Pooled Funds

The pooled fund group includes:

- Investment companies, including traditional open-end funds, closed-end funds, and exchange-traded funds (ETFs)
- Business development companies
- Private funds, such as hedge funds and private equity funds, and other pooled funds, such as collective investment trusts and European UCITS funds

In 2022, investment advisers provided asset management services to 124,332 pooled funds with \$70.1 trillion in assets. Private funds and other pooled funds were the most common client type in this group, while investment companies accounted for over half of assets.

FIGURE 2I

Private Funds and Other Pooled Vehicles Are the Most Common Pooled Vehicle Client Type . . .

Number of Clients

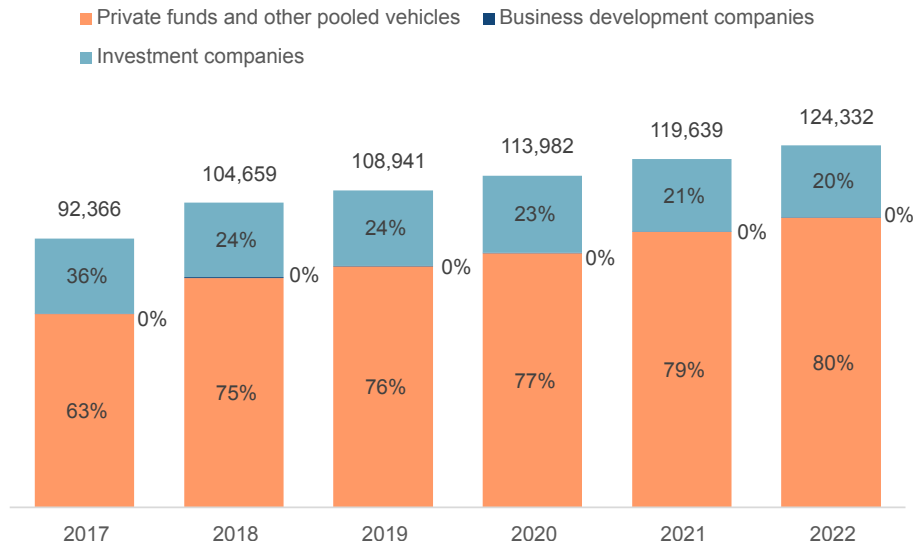
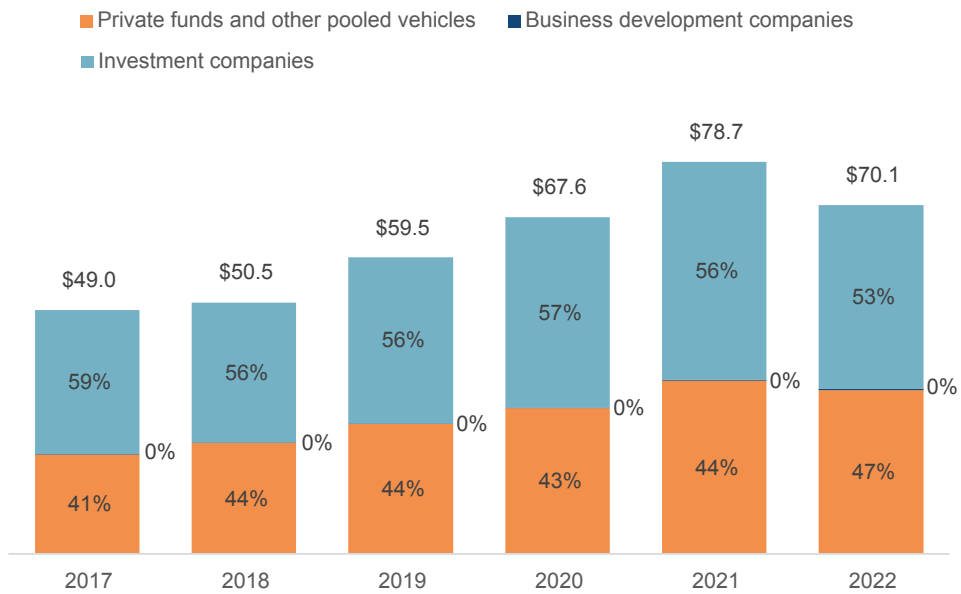


FIGURE 2J

. . . But Investment Companies Account for Over Half of Assets

Assets, \$ Trillions



Communicating with Clients

Investment advisers are increasingly using multiple social media platforms to connect with clients and prospective clients.

The number of advisers using multiple websites or social media platforms rose to 62.9% of advisers, from 43.3% in 2017. A small number of firms (201 or 1.3%) have 20 or more websites, with one firm reporting 1,150 sites. Many of these advisers describe themselves as “networks of independent wealth management firms,” each of which operates its own website.

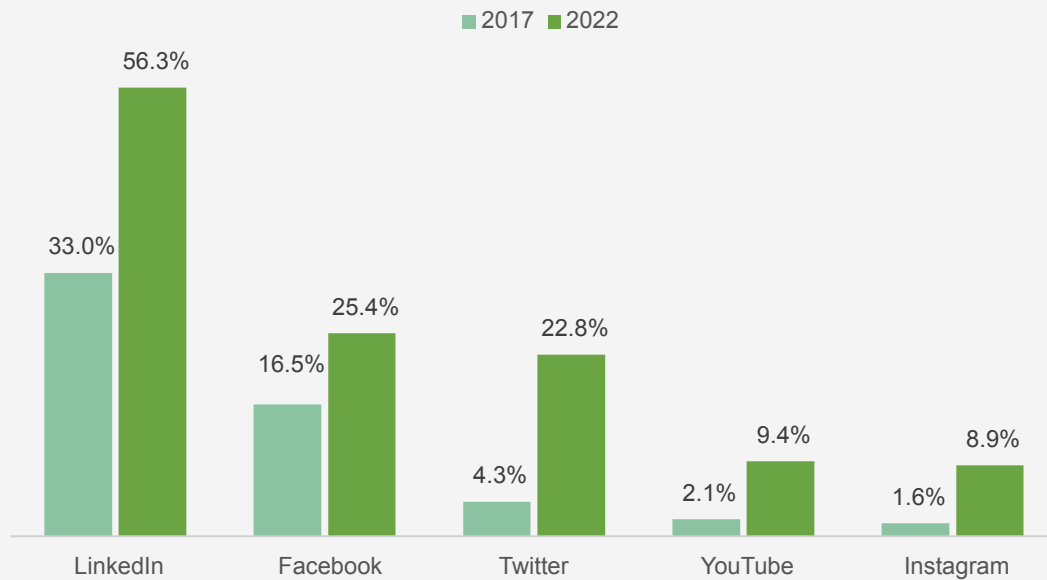
Social media use continued to increase in 2022. Among the social media platforms, LinkedIn was most likely to be used by advisers, followed by Facebook and Twitter.

Only 8.9% of advisers reported no online presence in 2022. For comparison, in 2017, 12.0% of advisers reported no online presence.

FIGURE 2K

Advisers' Social Media Use Continues to Climb

Percentage of Advisers With Presence on Platform



Note: Most commonly used social media platforms.

Institutions

The institutional client group includes:

- Banking and thrift institutions
- Pension and profit sharing plans
- Charitable organizations
- States and municipalities
- Other investment advisers
- Insurance companies
- Sovereign wealth and other foreign official accounts
- Corporations and other businesses

Half of the clients in this group are other investment advisers. In these relationships, one investment adviser directs client assets to be managed by another investment adviser, typically as a sub-adviser or through a managed account or model portfolio arrangement.*

More than 95% of the other investment adviser clients are clients of a single adviser that provides services to retirement plans, including model portfolios and asset allocation services.

The number of other investment adviser clients declined slightly again in 2022 for the second year in a row, partly reversing strong growth in 2019 and 2020.

The second most common client type in the institutional group is pension and profit sharing plans, accounting for over one-quarter of clients. The number of pension and profit sharing clients increased in 2022, more than reversing a decline in the previous year.

Corporations and other businesses ranked third in the institutional group, with almost one-fifth of clients in the group. The number of corporate clients declined in 2022.

Charitable organizations are the fourth most-common client type. The number of clients in this category increased by 28.5% in 2022, largely as the result of an increase at a single brokerage firm.

With regard to assets, pension and profit sharing plans and insurance companies combined accounted for over half of the assets in this group. Corporations and other businesses and states and municipalities together accounted for one-quarter of assets.

Sovereign wealth funds and other foreign official institutions are the largest institutional clients, with average assets of approximately \$1.2 billion. Insurance companies are second-largest, with average assets of roughly \$500 million.

*Not all model portfolio relationships are reported in Form ADV. They are generally not included if the adviser does not have either discretionary authority or the responsibility for arranging purchases and sales.

FIGURE 2L

Institutional Clients Are Concentrated in a Few Client Types . . .

Number of Clients, Thousands, 2022



FIGURE 2M

. . . As Are Institutional Client Assets

Assets, \$ Trillions, 2022



A Global Industry

Many SEC-registered investment advisers provide services to clients outside the United States.

In 2022, 37.9% of advisers reported that they had non-U.S. clients or assets from non-U.S. sources. Assets from non-U.S. sources were \$27.7 trillion or approximately one-quarter of total industry assets.

For these advisers, 39.0% of clients and 28.1% of assets were sourced outside the United States in 2022. A few advisers (472 or 3.1%) have exclusively non-U.S. clients or assets.

Advisers to private funds are particularly likely to have non-U.S. clients or assets (61.3% of private fund advisers).

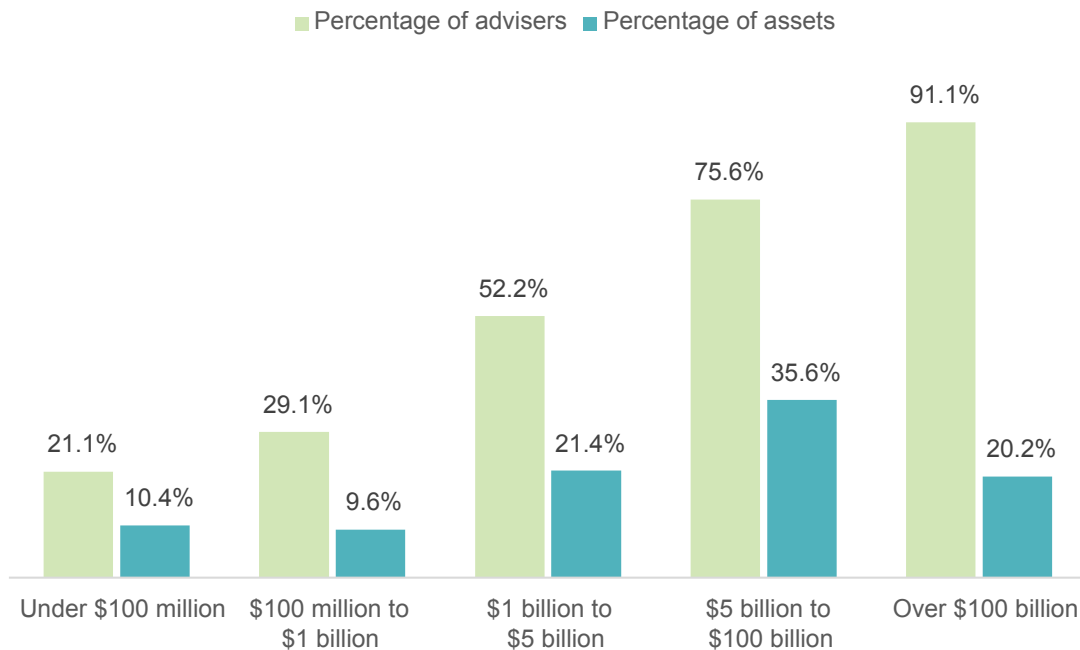
Non-U.S. clients are important to firms of all sizes. While larger firms are most likely to have non-U.S. clients or assets, more than one in 5 of even the smallest firms have a global reach.

Non-U.S. assets as a percentage of total assets are also significant for firms in all size categories, but especially for firms in the \$5 billion to \$100 billion range. This may result from the higher-than-average representation of private funds in this size range.

FIGURE 2N

Advisers of All Sizes Have Non-U.S. Clients and Assets From Non-U.S. Sources

Percentage of Advisers with Non-U.S. Clients, Percentage of Assets from Non-U.S. Sources, 2022



A Broad Range of Firms

The investment adviser industry has a broad range of firms to serve this broad range of clients. The profile of an investment adviser tends to vary significantly with its client profile.

For example, advisers that manage money primarily for individuals are likely to be small businesses with, on average, 9 employees, 2 offices, and approximately \$330 million in assets under management (34.4% of advisers).

On the other hand, advisers with pooled vehicle clients and at least 10 institutional clients tend to be large, with an average of 286 employees, 19 offices, and \$52.3 billion in assets under management (7.5% of advisers).

In 2022, over 90% of advisers fell into one of the following 4 categories in terms of client focus:

- Pooled Vehicles and Institutions Together
- Individuals and Institutions
- Pooled Vehicles Focus
- Individuals Focus

TABLE 2A

Adviser Profile Varies With Client Profile

2022

Pooled Vehicles and Institutions Together

(Average for 1,137 firms)

- \$52.3 billion assets under management
- 286 employees
- 19 offices
- 14,865 individual clients (73.8% of the firms in this category have individual clients)
- 49 pooled vehicle clients
- 462 institutional clients

Individuals and Institutions

(Average for 2,168 firms)

- \$3.6 billion assets under management
- 139 employees
- 42 offices
- 9,714 individual clients
- 590 institutional clients

Pooled Vehicles Focus

(Average for 5,188 firms)

- \$7.5 billion assets under management
- 45 employees
- 2 offices
- 3 individual clients
- 12 pooled vehicle clients
- 1 institutional client

Individuals Focus

(Average for 5,192 firms)

- \$330.4 million assets under management
- 9 employees
- 2 offices
- 2,476 individual clients
- 2 institutional clients

Notes: Criteria for categorization:

- Pooled Vehicles and Institutions Together: Pooled vehicle clients. More than 10 institutional clients.
- Individuals and Institutions: More than 100 individual clients. No pooled vehicle clients. More than 10 institutional clients.
- Pooled Vehicles Focus: Pooled vehicle clients. No more than 100 individual and 10 institutional clients.
- Individuals Focus: Individual clients. No pooled vehicle clients. No more than 10 institutional clients.

In 2022, 90.5% of advisers were included in 1 of these 4 categories.

Is There a “Typical” Adviser?

The wide range in adviser size and client focus makes it difficult to define a “typical” adviser.

While there are many possible approaches, here is one way to describe the typical adviser:



68% of advisers

manage **\$1 billion or less** in assets with **50 or fewer** non-clerical employees.



The average adviser in this group manages assets for:

385 individual clients,

2 mutual funds, private funds, or other pooled vehicles, and

8 institutional clients.



On average, this group of advisers has:

8 employees and

\$293 million in assets under management.

3 Employees

Employment in the industry reached a record high in 2022.

In 2022, the number of employees at SEC-registered investment advisers grew by

4.6%

to reach

971,487

non-clerical staff.

IN BRIEF

In 2022, employment in the investment adviser industry grew by 4.6% to reach a record high of 971,487 non-clerical staff. Employment growth has been strongest in firms with more than \$100 billion in assets.

The investment adviser industry is a Main Street profession, with a presence in all 50 states, the District of Columbia, and Puerto Rico.

Growth in the number of investment advisers has been strongest in the South and in states that have not been traditional financial centers.

Most investment advisers have only 1 or 2 offices.

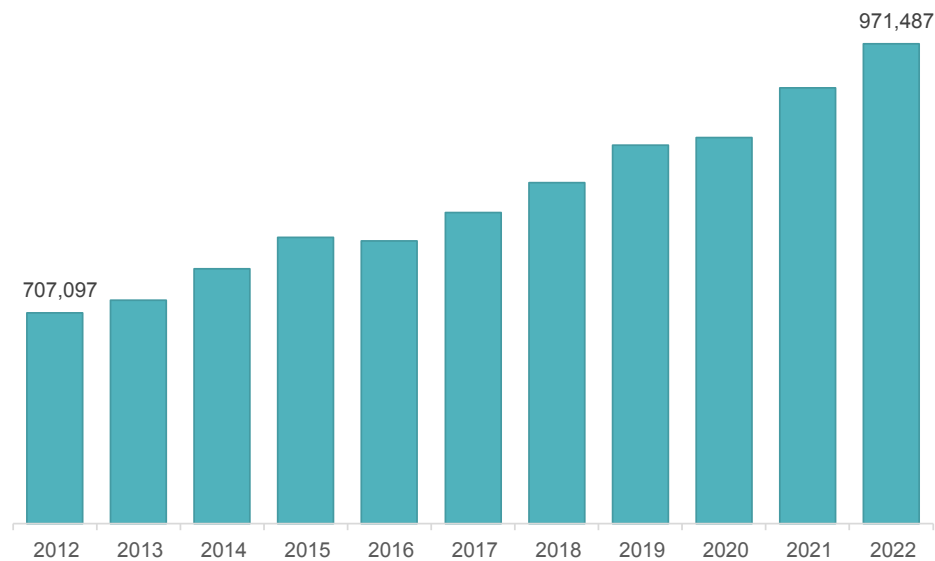
A Growing Employer

In 2022, employment in the investment adviser industry reached a record high. The industry added 42,982 jobs (an increase of 4.6%) to reach total non-clerical employment of 971,487.

This was the sixth consecutive year of increases in the number of jobs in the industry. Job gains since 2012 have averaged 3.2% annually.

FIGURE 3A

The Number of Non-Clerical Employees Reached a Record High in 2022



Over half of employees perform investment advisory functions.

A significant proportion of adviser employees were licensed with regulatory authorities as registered representatives of a brokerage firm, investment adviser representatives, or insurance agents.

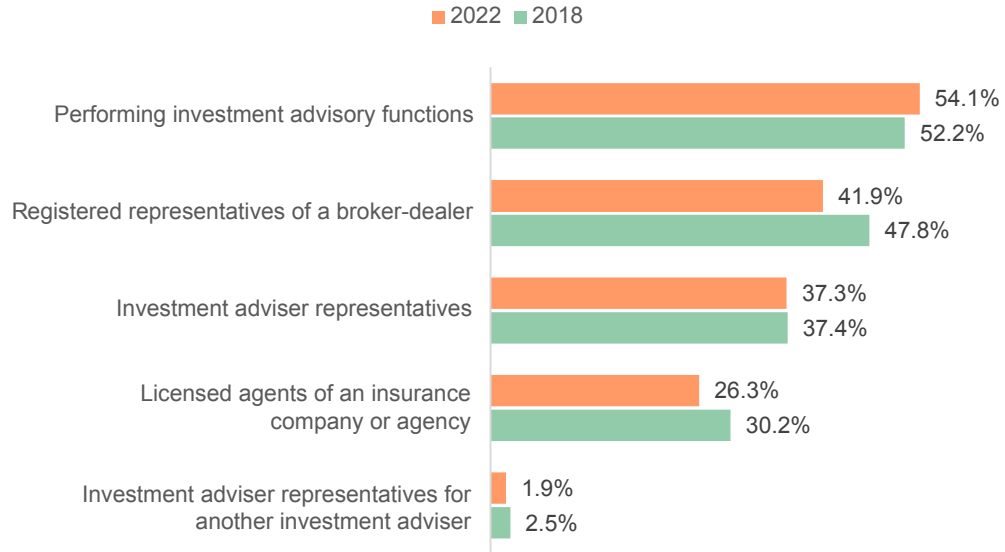
The percentages of employees licensed as brokerage firm registered representatives or insurance agents have declined significantly over the past 4 years. However, the absolute number of registered representatives increased over the period.

For detail see Data Table 3A ([available online](#)).

FIGURE 3B

The Majority of Employees Are Involved in Providing Investment Advice

Percentage of Non-Clerical Employees



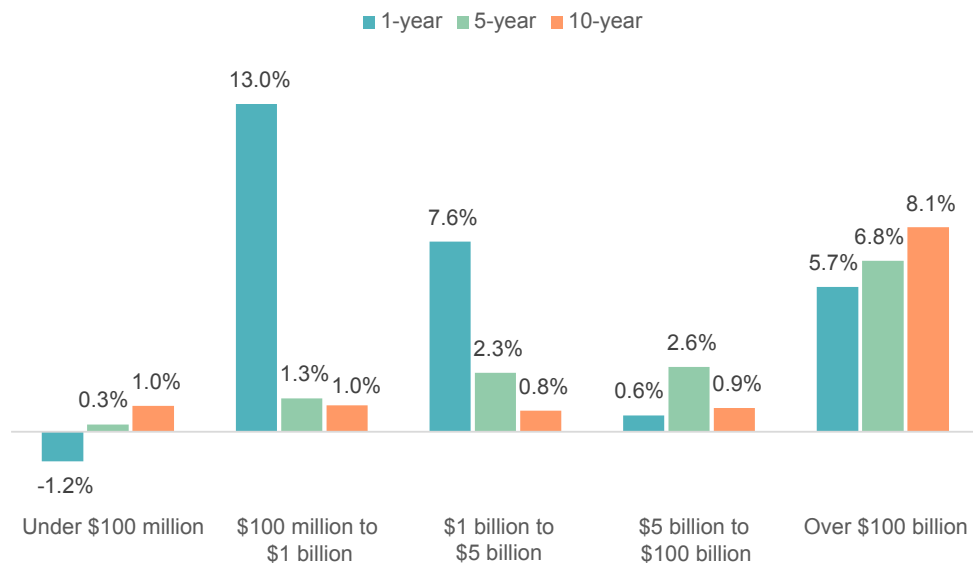
Over the longer term, growth in employment has been strongest at the largest firms. Since 2012, non-clerical employment rose 8.1% annually at firms with over \$100 billion in assets under management.

In 2022, the biggest percentage gains in employment were seen at firms with \$100 million to \$5 billion in assets, as advisers moved down into these categories as assets declined in the difficult market environment. However, the largest advisers also saw strong employment growth.

FIGURE 3C

Employment Growth Has Been Strongest at the Largest Firms

Annualized Change in Number of Non-Clerical Employees, Periods Ended 2022



A Wide Geographic Scope

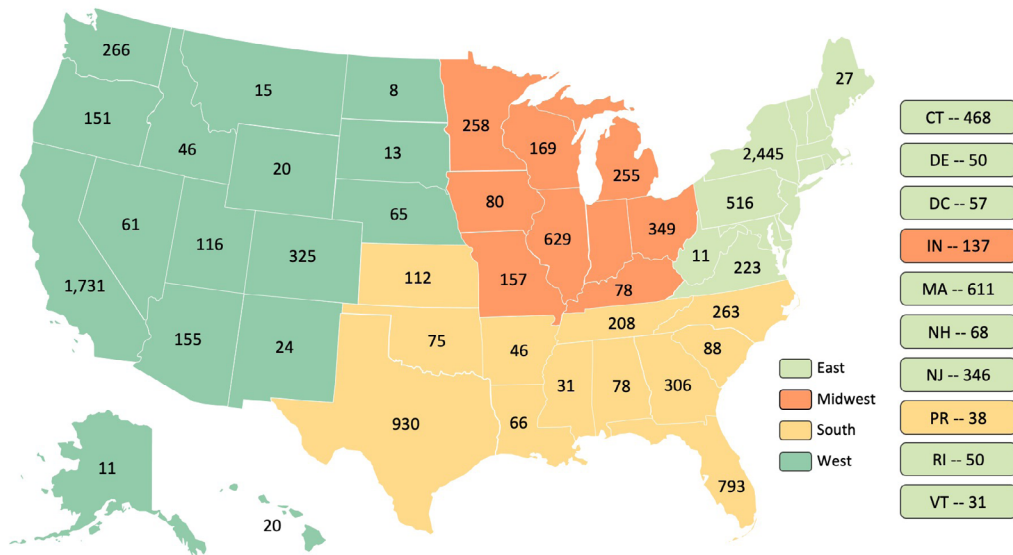
Asset management is a Main Street profession. SEC-registered advisers have their principal offices in all 50 states, the District of Columbia, and Puerto Rico.

For detail see Data Table 3B ([available online](#)).

FIGURE 3D

A National Industry

Number of Investment Advisers With Principal Office in State, 2022

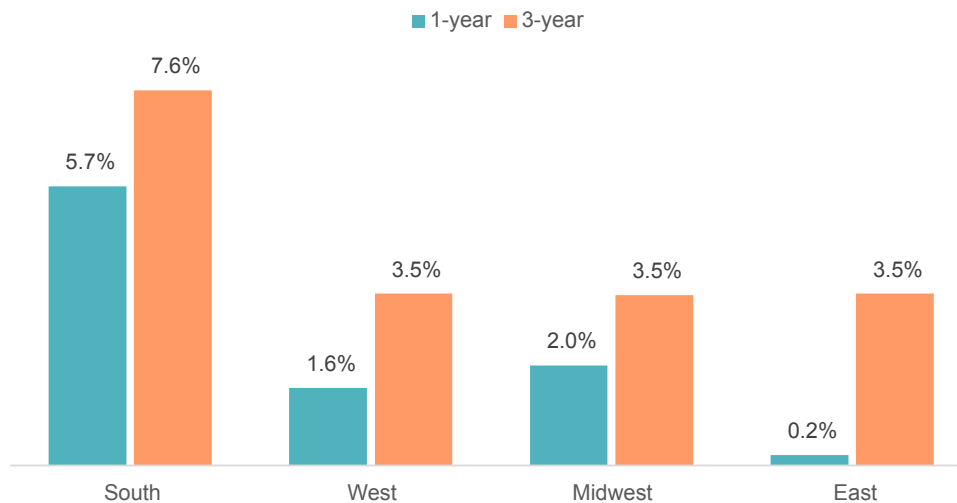


Reflecting trends in the U.S. population, growth in the number of advisers has been strongest in the South.

FIGURE 3E

Growth Has Been Strongest in the South

Annualized Change in Number of Advisers, Periods Ended 2022

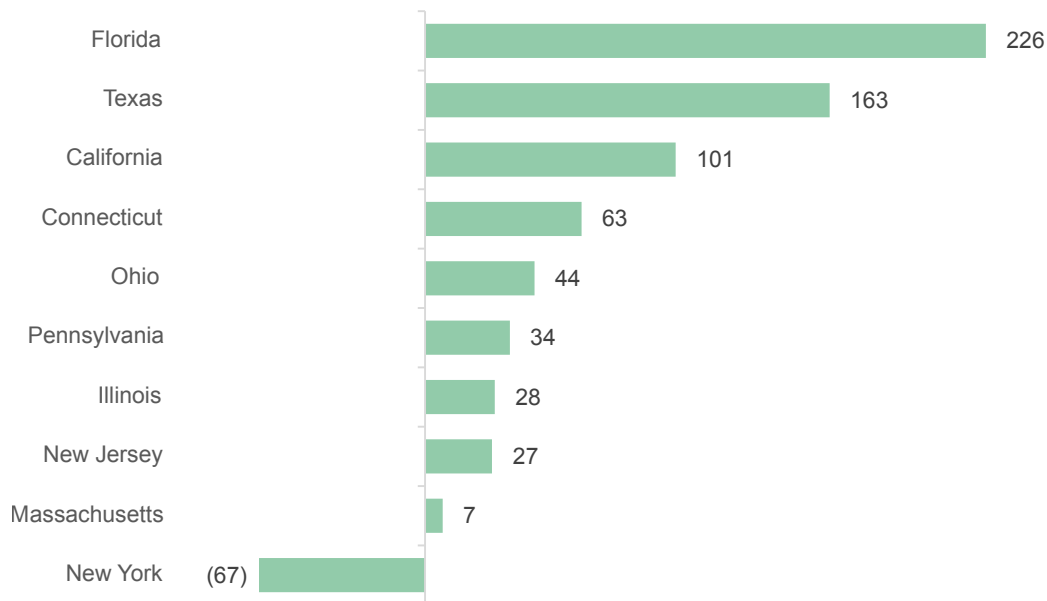


More granularly, growth in the industry has been focused in states that have not been traditional financial centers, such as Florida and Texas. The number of advisers in these states grew significantly over the past 3 years.

FIGURE 3F

Growth Has Shifted Away From Traditional Financial Centers

Change in Number of Advisers, States with Largest Number of Advisers, 2022 versus 2019



By contrast, the number of advisers in New York fell noticeably in 2020, the first year of the pandemic, though there has been a slight rebound in the subsequent two years. Growth in other traditional financial center states was modest.

TABLE 3A

Number of Advisers in Top 10 States

State	2019	2020	2021	2022
New York	2,512	2,421	2,450	2,445
California	1,630	1,631	1,703	1,731
Texas	767	799	879	930
Florida	567	636	737	793
Illinois	601	589	620	629
Massachusetts	604	602	621	611
Pennsylvania	482	498	514	516
Connecticut	405	421	457	468
Ohio	305	316	343	349
New Jersey	319	322	345	346

While most advisers are based in the United States, 5.6% of SEC-registered advisers are located in other countries. The number of advisers based outside the United States decreased again in 2022 (to 841 from 866), after falling in 2021 (from 880 in 2020).

TABLE 3B
Number of Advisers in Top 10 Countries Outside the United States

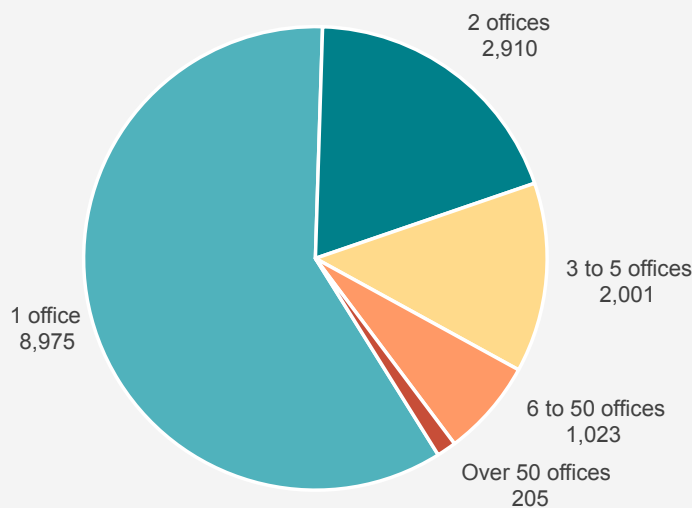
Country	2019	2020	2021	2022
United Kingdom	270	282	293	283
Canada	127	131	134	133
Hong Kong	80	79	79	74
Switzerland	64	62	62	59
Singapore	42	41	40	46
Australia	34	37	36	37
Japan	21	22	21	21
China	35	31	22	20
Ireland	14	16	15	16
India	12	11	13	13

Offices

The majority of investment advisers operate from a single office. In 2022, 78.6% of advisers had only 1 or 2 offices.

In 2022, 8.1% of advisers had 6 or more offices, with just 1.4% having over 50 offices.

FIGURE 3G
The Majority of Investment Advisers Operate From a Single Office
 Number of Advisers by Number of Offices, 2022



In a trend that accelerated with the pandemic, more advisers are reporting offices located in private residences. Under SEC guidance issued during the pandemic, if employees are working remotely, the remote locations generally do not need to be reported as offices in Form ADV, as long as the firm maintains a physical office. However, the sharp increase in 2022 in the number of other offices located in private residences (+25.6%) suggests that many advisers are transitioning to a permanently remote or hybrid model.

TABLE 3C
Offices Located in Private Residences

	2019	2020	2021	2022
Principal Offices	537	724	880	951
% of Principal Offices	4.0%	5.2%	5.9%	6.3%
Other Offices	2,505	3,002	4,063	5,103
% of Other Offices	11.4%	13.1%	16.1%	18.5%
% of Total Offices	8.6%	10.1%	12.3%	14.2%

Note: Includes 25 largest other offices only.

Appendix | Investment Adviser Representatives

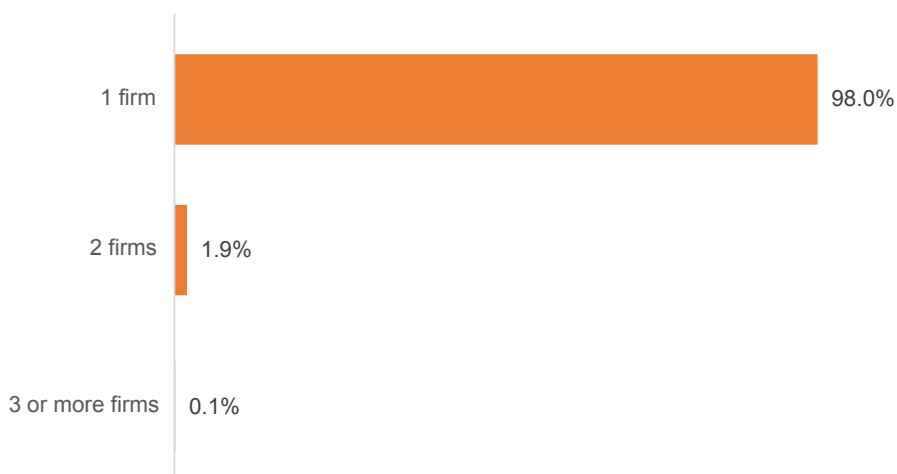
Investment adviser representatives (IARs) work with members of the public on behalf of investment advisory firms. IARs generally must be registered in the states where they work.

Investment advisory firms initiate the registration process by filing Form U4 with FINRA. The data in these forms provides an overview of the IAR community. All data in this section is from forms on file with FINRA on January 9, 2023.

SEC-registered and state-registered investment advisers employed over 390,000 IARs at year-end 2022.

Most IARs are affiliated with only one advisory firm.

FIGURE 3H
Virtually All IARs Work for a Single Firm
Number of IARs

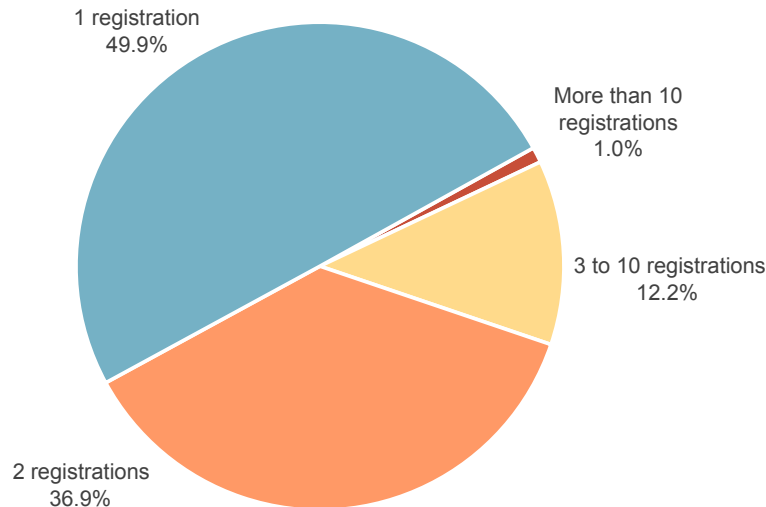


However, half of IARs are registered with more than one state. On average, an IAR has 2 registrations.

FIGURE 3I

Half of IARs Are Registered in More Than One State

Number of IARs



In terms of geographical location, the distribution of IAR registrations among the states is roughly similar to the distribution of investment advisory firms, with 2 notable exceptions*:

- 14.8% of IAR registrations are in Texas. For comparison, only 6.2% of investment advisory firms have their principal office in the state.
- Just 5.6% of IARs are registered in New York, even though 16.2% of advisory firms are headquartered there.

With regard to qualifying exams:

- 56.0% of IARs have taken the Uniform Securities Agent State Law Exam (Series 63)
- 51.7% have taken the Uniform Combined State Law Exam (Series 66)
- 38.7% have taken the Uniform Investment Adviser Law Exam (Series 65)
- 97.4% have taken at least one exam

Some IARs hold additional designations. Notably:

- 12.3% are Certified Financial Planners
- 2.9% are Certified Financial Consultants
- 2.7% are Chartered Financial Analysts

*Excludes IARs with restricted/limited registration status.

Form U4 requires disclosure of certain events, including criminal convictions, regulatory actions, civil judicial actions, customer-initiated actions, termination of employment, and bankruptcy.

Most IARs make no disclosures (83.8%). Of the IARs making a disclosure, 86.2% report an issue in only one category.

Over half of disclosures arise from consumer complaints.

TABLE 3D

Consumer Complaints Are the Most Common Type of Disclosure

Disclosure Type	% of IARs
Consumer-initiated complaint, arbitration, or civil litigation	10.9%
Filed for bankruptcy	2.1%
Criminal conviction	1.8%
Employment terminated	1.5%
Regulatory action	1.5%
Unsatisfied judgments or liens	1.0%

4

Compensation

Adviser compensation structures align adviser interests with client interests.

95.2%

of SEC-registered investment advisers charge a fee based on a client's assets under management.

49.8%

of advisers charge a fixed fee or an hourly fee (or both).

IN BRIEF

Almost all SEC-registered advisers (95.2%) offer clients a fee based on a client's assets under management. Advisers generally offer asset-based fees in combination with other fee types, such as fixed fees, performance fees, or hourly fees.

Over the past 10 years, fixed fees and hourly fees have become more common. Advisers that offer financial planning services are likely to charge fixed or hourly fees (over 85% of advisers offering these services). Digital advice platforms are likely to charge fixed fees or subscription fees in lieu of asset-based fees.

Adviser interest and participation in many client-related transactions has declined over the past 10 years. The percentage of advisers receiving soft dollar research reached a new low in 2022 (36.4% of advisers). Advisers are less likely to recommend proprietary products. Advisers are also less likely to be affiliated with a brokerage firm and to engage in transactions involving those affiliated firms.

Alignment With Client Interests

Adviser compensation structures align adviser interests with their clients' interests. Through asset-based fees and performance fees, advisers link their compensation to the success of their clients' investments. By charging fixed and hourly fees for some services, advisers can provide services other than portfolio management, such as financial planning, in a cost-effective manner.

Almost all SEC-registered advisers receive compensation in the form of asset-based fees. These fees are structured as a percentage of client assets under management, which result in adviser compensation increasing or decreasing with the value of the assets under management.

TABLE 4A

Asset-Based Fees Are the Most Common Form of Compensation

Percentage of Advisers Receiving Fee Type, 2022

Fee Type	% of Advisers
Asset-based	95.2%
Fixed	44.9%
Performance	36.2%
Hourly	29.5%
Other	14.2%
Commissions	2.2%
Subscription	1.0%

However, only 20.8% of advisers are compensated through asset-based fees alone. Most advisers offer asset-based fees along with other types of fees, such as fixed fees, hourly fees, and performance fees.

Most commonly, advisers earn fixed fees and/or hourly fees in addition to asset-based fees, which are typically charged for portfolio management services (34.4% of advisers). Fixed or hourly fees are often charged for discrete, one-time services such as the development of a financial plan.

The second most common fee combination is an asset-based fee together with a performance fee (24.2% of advisers). This compensation arrangement is particularly common in private funds; in 2022, 59.0% of advisers managing private funds were compensated only through asset-based fees and performance fees.

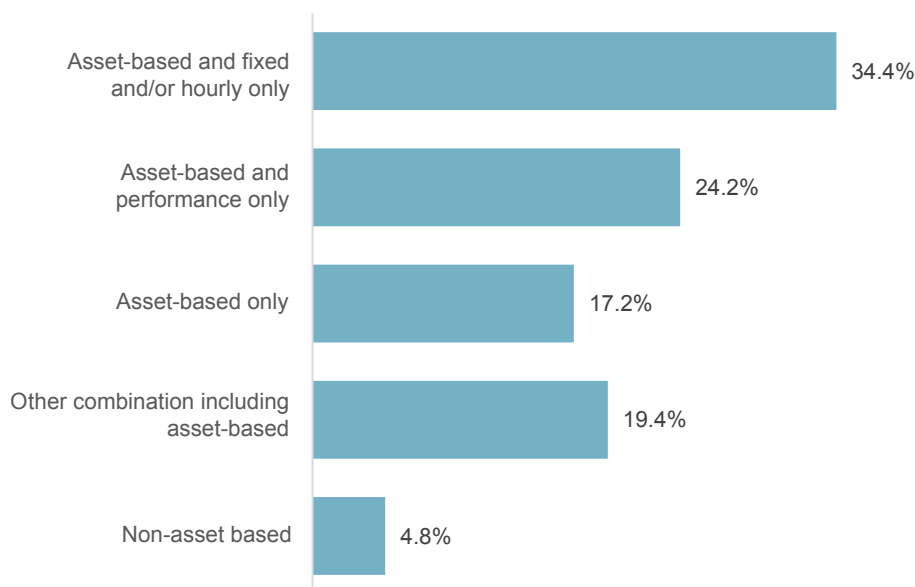
Only 4.8% of advisers do not charge an asset-based fee. While this is a small group of firms, they account for almost a quarter of the industry's non-asset management clients and non-high net worth clients – and nearly a fifth of the industry's clients overall.

Many digital advice platforms – including the largest platforms – are in this group. Many of these platforms charge a fixed fee or a subscription fee in lieu of an asset-based fee.

However, the largest firms (in terms of assets under management) that do not charge asset-based fees are associated with other entities and are compensated under cost or “cost plus” reimbursement arrangements. In these arrangements, the adviser's fee equals its costs of providing advisory services or its costs plus a fixed percentage. Cost or cost-plus arrangements are most common among affiliated entities. For example, an investment adviser provides asset allocation advice for an investment program managed by an affiliated brokerage firm. For providing these services, the investment adviser receives a fee from the brokerage firm that equals its costs plus a fixed percentage.

FIGURE 4A**Most Advisers Offer Asset-Based Fees in Combination With Other Fees**

Percentage of Advisers Offering Fee Type



Looking at trends over time, over the past 10 years, fixed fees and hourly fees have become more common (+3.4% and +1.7%, respectively). In 2022, approximately half of advisers (49.6%) – and over 85% of advisers offering financial planning services – received either a fixed fee or an hourly fee (or both).

By contrast, commissions have become less common (-3.2%), as have performance fees (-2.7%). While performance fees are almost universally offered by private fund advisers (over 85% offered one in 2022), they have become less popular with other advisers.*

For detail see Data Table 4A ([available online](#)).

Interest and Participation in Client Transactions

Advisers may have a financial interest in or participate in client-related transactions. These interests or participations may create conflicts of interest and must be disclosed in Form ADV.

For detail see Data Table 4B ([available online](#)).

Buying or selling securities recommended to clients

Buying or selling securities recommended to clients is the most common interest or participation in non-trading transactions. In 2022, 77.3% of advisers reported that their firm, their employees, or other related parties engage in this practice, with the percentage of advisers engaging in this practice reaching a new high.

When an adviser buys or sells securities that it recommends to clients, the adviser's interests are aligned with client interests, including where portfolio managers are investing alongside their clients. However, investing in securities recommended to clients has the potential to result in a conflict of interest if the adviser gains an advantage over the client in some way, perhaps by front-running the client's transaction or by preferentially allocating trades.

*To be able to offer commissions as a fee option, investment advisers must be dually registered as a brokerage firm or licensed to sell insurance products such as fixed annuities. Advisers may only offer performance fees to "qualified clients" who have assets or net worth above a specified threshold.

Soft dollar research

In 2022, 36.4% of advisers received soft dollar research, meaning that they used client commissions to purchase research or brokerage services. However, adviser use of soft dollar research has been declining, reaching a new low in 2022. Fewer soft dollars are available because equity commission rates have fallen (to zero in some instances). In addition, regulatory action in Europe has made the use of soft dollars more cumbersome for advisers with European clients.

Over 90% of advisers receiving soft dollar research in 2022 reported that the research is eligible for the “safe harbor” under Section 28(e) of the Exchange Act.

TABLE 4B

Interest and Participation in Client-Related Transactions (Except Trading-Related)

Percentage of Advisers

	2012	2022
Investments in Recommended Securities		
Buy or sell securities recommended to clients	75.6%	77.3%
Soft Dollar Research		
Receive soft dollar research	41.8%	36.4%
Interest in Investments Recommended to Clients		
Recommend proprietary product	26.5%	20.4%
Recommend securities underwritten by related brokerage firm	24.9%	16.4%
Sales interest in recommended investments	11.2%	8.2%

Recommend proprietary products

Advisers have also become less likely to recommend proprietary products (meaning investment vehicles that are owned or managed by the adviser or an affiliate and therefore generate revenue for the adviser or an affiliate). The percentage of advisers making these recommendations has fallen 6.2% since 2012. This trend is at least partly driven by the decline in the percentage of advisers that are affiliated with a brokerage firm, but increased regulatory focus on the sale of proprietary products also played a role. In absolute terms, the number of advisers recommending proprietary products has increased over the past 10 years (3,079 advisers in 2022, compared to 2,795 in 2012).

Recommend securities underwritten by a related brokerage firm

The percentage of advisers that recommend securities underwritten by a related brokerage firm declined significantly over the past 10 years. This decline is likely the result of the decrease in the percentage of advisers affiliated with brokerage firms. In 2022, only 16.0% of advisers were affiliated with brokers, down from 22.0% in 2012.

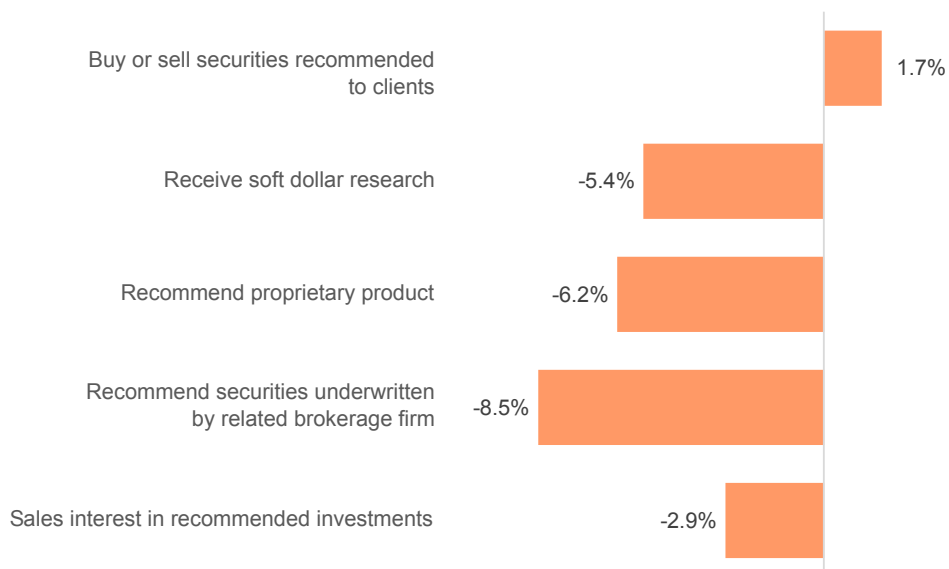
Sales interest in recommended investments

The percentage of advisers with a sales interest in recommended investments also declined, by 2.9% over the 10-year period.

FIGURE 4B

Adviser Interest and Participation in Client Transactions is Declining

Change in Percentage of Advisers, 10 Years Ended 2022



Note: Excludes trading-related transactions.

Interest and participation in trading transactions

Advisers continue to play an important role in arranging purchase and sales transactions in their clients' portfolios as part of their portfolio management services.

In 2022, over 90% of advisers had discretionary authority to determine which client securities to buy and sell and in what amount. Over 90% either determined or recommended the brokerage firm to be used to execute those buys and sells, and, of those firms, approximately 80% had the discretionary authority to determine the commission rate to be paid on those transactions. (Note that advisers reporting that they have discretionary authority over trading transactions may have that authority in some, but not all, client accounts.)

TABLE 4C

Interest and Participation in Trading Transactions

Percentage of Advisers

	2012	2022
Discretionary authority to determine client securities to be bought and sold	92.2%	93.9%
Discretionary authority to determine amount of client securities to be bought and sold	92.1%	93.8%
Determine or recommend broker for client transactions	90.8%	91.3%
Discretionary authority to determine commission rate on client transactions*	87.8%	79.4%
Engage in principal transactions with clients	8.3%	7.6%
Use or recommend affiliated broker for client transactions	10.5%	5.4%
Execute agency cross transactions for clients	4.5%	2.4%

*As a percentage of advisers determining broker for client transactions.

Adviser involvement in client trading has remained relatively stable over the past 10 years, with 2 exceptions.

Over the past 10 years, the number of advisers using or recommending affiliated brokerage firms has declined by 5.1%, reflecting the decline in the share of advisers with affiliated brokerage firms.

In addition, the percentage of advisers with the discretionary authority to determine the commission rate on client transactions has fallen sharply. The decline is likely the result of changing business models, including greater use of custodial arrangements that include predetermined commission rates or “manager of manager” investment approaches where the sub-adviser handles transactions.

5

Investment Insights

Form ADV Part 1 provides insights into separately managed accounts, registered funds, wrap fee programs, and private funds.

73.2%

of SEC-registered advisory firms provided asset management services for individuals and institutions in separately managed accounts in 2022.

The number of private funds increased by

10.7%

while private fund assets grew by

1.6%

despite a difficult market environment.

IN BRIEF

In 2022, 73.2% of advisers managed separately managed accounts for individuals and institutions. Smaller advisers are more likely to invest in registered funds and equities and less likely to invest in bonds in these accounts. Larger advisers are more likely to use derivatives and borrowings in these accounts.

Long-term growth in wrap fee program assets has been strong, with annual growth of 10.8% over the past 5 years. However, the percentage of advisers participating in these programs has been declining.

In 2022, 5,473 advisers (36.2%) managed 55,446 private funds with \$21.1 trillion in total assets. Over the past 2 years, the growth in the number of private funds has been particularly strong. Assets in private funds grew by 1.6% in 2022 despite a difficult market environment.

Over the past decade, the percentage of private fund assets invested in private equity funds has increased, while the percentage invested in hedge funds has declined. In 2022, more than 40% of new private funds were private equity funds.

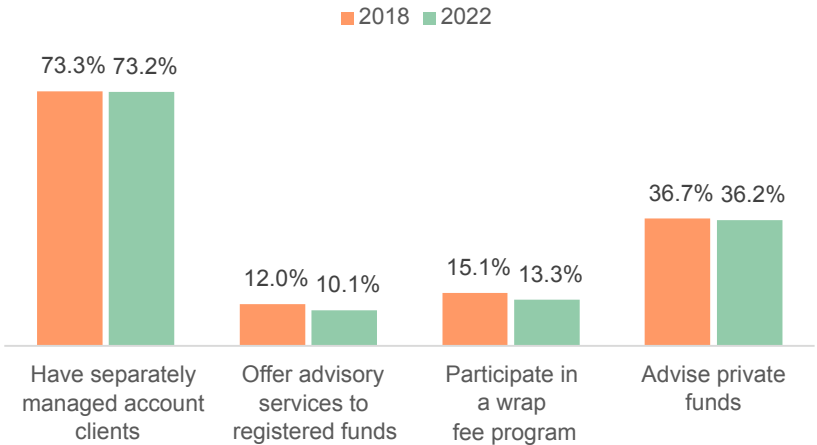
Overview

Form ADV Part 1 provides insights into separately managed accounts, registered funds, wrap fee programs, and private funds.

In 2022, advisers were most likely to have separately managed accounts (73.2% of advisers) or advise private funds (36.2%). Only 10.1% advised registered funds, and only 13.3% participated in a wrap program.

Compared with 4 years previously, advisers were slightly less likely to offer advisory services to registered funds or participate in a wrap fee program.

FIGURE 5A
Advisers Are Most Likely to Have Separately Managed Accounts
Percentage of Advisers



Separately Managed Accounts

Separately managed accounts (SMAs) are all portfolio management accounts except pooled investment vehicles. In other words, SMAs are the accounts that advisers manage for individual and institutional investors.

In 2022, 11,058 advisers managed SMA assets (73.2% of all advisers), roughly equal to the percentage managing SMA assets in 2018. In 2022, there were 592 advisers managing at least \$10 billion in SMA assets (3.9% of all advisers) and 10,466 advisers managing less than \$10 billion in SMA assets (69.2% of all advisers).

The investment approach for separately managed accounts differs significantly between larger and smaller advisers. Compared to advisers with at least \$10 billion in SMA assets, in 2022, smaller SMA advisers (with less than \$10 billion in SMA assets) were likely to:

- Use registered funds more extensively. (Registered funds include open-end mutual funds and exchange-traded funds (ETFs).) In 2022, 27.7% of smaller SMA advisers invested more than half of client assets in registered funds, compared to 13.5% of larger SMA advisers.

- Have a lower exposure to bonds. The difference between larger and smaller SMA advisers is largest in corporate bonds, but smaller advisers have lower weightings in all bond categories.
- Invest more heavily in listed equities.

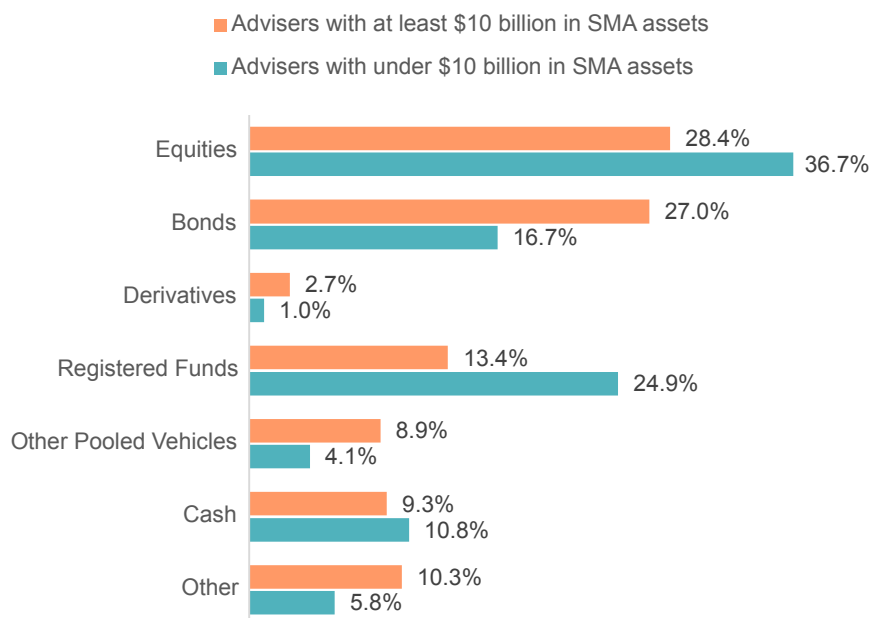
Roughly 25 advisers indicated that they invested in cryptocurrencies or other digital assets in SMA accounts.

For detail see Data Tables 5A and 5B ([available online](#)).

FIGURE 5B

Larger and Smaller SMA Advisers Have Different Approaches to Investing Portfolios

Estimated Asset Allocation, 2022



Note: Asset allocation estimated from asset ranges provided. Fiscal year-end data.

In Form ADV, advisers provide information on derivatives use in SMAs by reporting gross notional exposure (GNE). This measure provides some sense of the scale of an account's derivatives activity, but it does not provide insight on the way that derivatives are used in an SMA (such as for hedging), nor is it a measure of risk.

In 2022, 2,109 advisers used derivatives in separately managed accounts (19.1% of advisers with SMA assets, in line with the previous year).

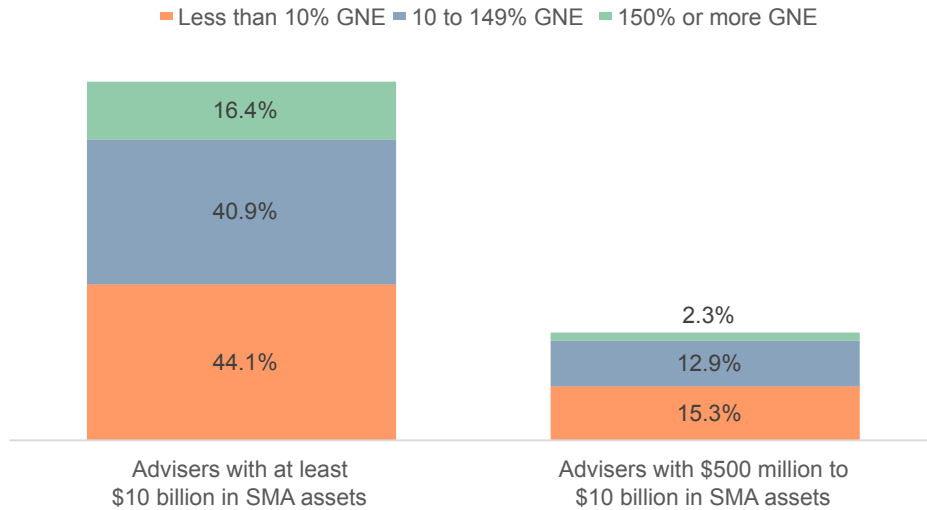
Advisers with more than \$10 billion in SMA assets are more likely than advisers with SMA assets under \$10 billion to use derivatives in separately managed accounts. These larger SMA advisers are most likely to use foreign exchange derivatives, interest rate derivatives, and equity derivatives in a gross notional exposure range of 10% to 149%.

For detail see Data Table 5C ([available online](#)).

FIGURE 5C

Larger SMA Advisers Are More Likely to Use Derivatives . . .

Percentage of SMA Advisers Reporting Gross Notional Exposure (GNE) in Range, 2022



Note: Percentages add to more than 100% because advisers may report in multiple GNE ranges. Fiscal year-end data. Advisers are not required to provide this information for SMAs with less than \$10 million in assets.

Advisers also provide information on the gross notional exposure of borrowings in SMAs.

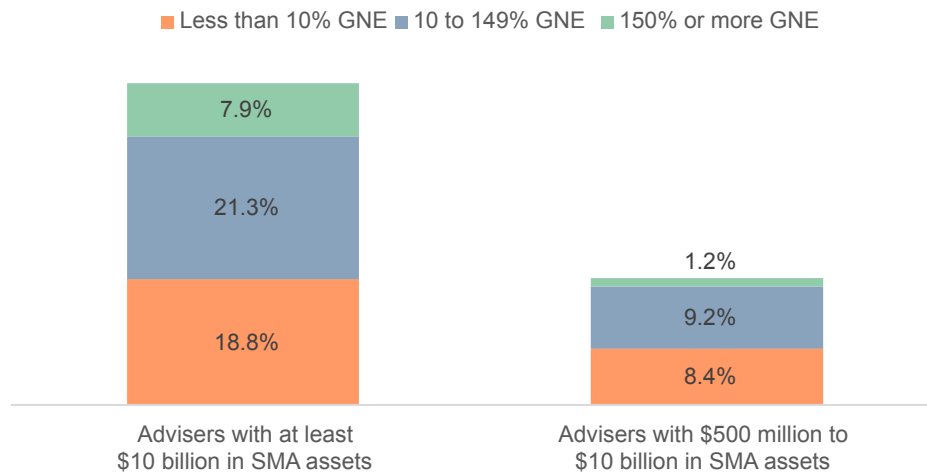
Advisers managing more than \$10 billion in SMA assets are more likely to engage in borrowing transactions on behalf of separately managed account clients.

For detail see Data Table 5D ([available online](#)).

FIGURE 5D

. . . And They Are More Likely to Use Borrowings

Percentage of SMA Advisers Reporting Gross Notional Exposure (GNE) in Range, 2022



Note: Advisers may report in multiple GNE ranges. Fiscal year-end data. Advisers are not required to provide this information for SMAs with less than \$10 million in assets.

Registered Funds

Registered funds include funds registered with the SEC under the Investment Company Act of 1940 – namely, investment companies and business development companies. Investment companies include open-end mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts.

In 2022, the number of advisers reporting that they had registered fund clients declined to the lowest level since 2017, in both absolute numbers and percentages: 1,628 advisers (10.8%).

Of these, 1,533 advisers provided portfolio management services to registered funds. Other advisers provided other types of advisory services to registered funds, such as securities ratings services. Only 389 advisers had registered fund clients exclusively.

In Form ADV, advisers reported managing \$37.2 trillion in assets for 24,866 registered fund clients.

Note that asset numbers are significantly higher than the \$34.2 trillion in assets at year-end 2022, as reported by the Investment Company Institute (ICI).^{*} More than one adviser may manage assets for the same fund, either as a sub-adviser or as part of a fund of funds structure; the ICI data excludes these overlaps from asset totals.

The 24,866 registered fund clients reported in Form ADV are also significantly higher than the 16,159 funds offered to the public at year-end 2022 as reported by the ICI. Again, more than one adviser may manage assets for the same fund, and only a portion of these overlaps are reflected in the number of funds in the ICI data. In addition, advisers may report funds as clients when they provide advisory services other than portfolio management.

Advisers managing registered fund assets reported \$31.7 trillion in parallel managed accounts in 2022. A parallel managed account is another account managed by the adviser that pursues substantially the same investment objective and strategy and invests side by side in substantially the same positions as the registered fund. The assets in parallel managed accounts in 2022 were considerably lower than the \$45.6 trillion in parallel managed accounts reported in 2021.

Wrap Fee Programs

In a wrap fee program, a client receives a combination of services for an all-inclusive wrap fee. The services generally include brokerage, trading of securities, custody of assets, and administrative services in addition to investment advice. The wrap fee is normally based on assets under management, and brokerage costs are included.

An investment adviser may sponsor a wrap fee program of its own, or the investment adviser may be a portfolio manager in another firm's wrap fee program, or both.

In 2022, the number of advisers participating in wrap fee programs (as a sponsor, portfolio manager, or both) fell slightly, while the percentage of advisers participating in these programs declined for the fourth year in a row.

The decline may be attributable to the increasing number of advisers managing private funds. These advisers generally do not participate in wrap programs.

The decline may also be attributable to the increasing use of unified managed accounts (UMAs) as an alternative to wrap fee programs. In UMAs, advisers provide portfolio recommendations rather than directly manage client funds. Advisers are not required to report their participation in UMAs in Form ADV. The introduction of zero-commission trading at some of the largest custodians may also be making wrap accounts less attractive.

Assets in wrap fee programs declined in 2022, reflecting market conditions. However, longer-term growth has been strong, with average annual growth over the past 5 years of 10.8%.

^{*}ICI data in this section is from Investment Company Institute, *2023 Investment Company Fact Book*. Includes funds of funds. ICI data does not include business development companies.

FIGURE 5E

Growth in the Number of Advisers Participating in Wrap Fee Programs Has Levelled Off

Number and Percentage of Advisers That Are Sponsor and/or Portfolio Manager in Wrap Fee Program

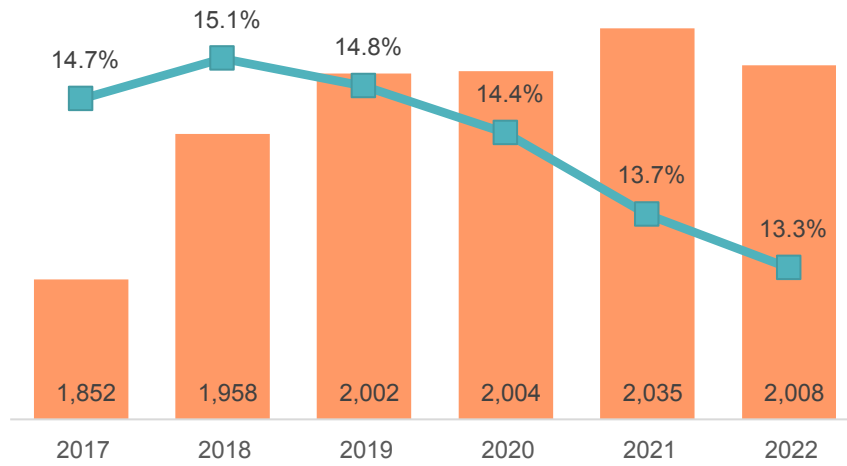
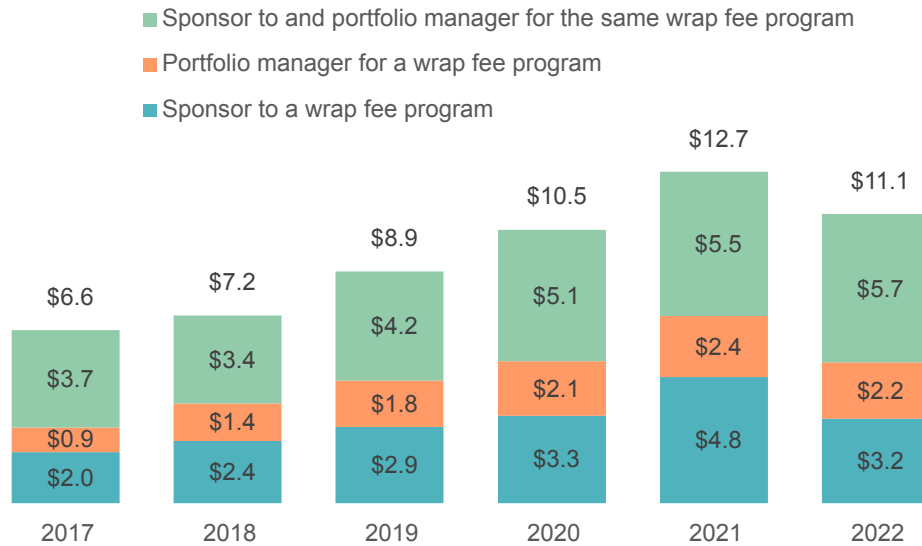


FIGURE 5F

Longer-Term Asset Growth Has Been Strong

Assets, \$ Trillions



Private Funds

A private fund is a pooled investment vehicle that would qualify to register with the SEC under the Investment Company Act but that is exempt from registration because it limits the number or type of its investors.

In 2022, the number of private funds increased by 10.7%, to 55,446, following a 15.2% gain in 2021. Gains in both years were well above the 7.6% average increase over the past 10 years.

As in the prior year, growth in the number of funds in 2022 was in the double digits for all types of private funds except hedge funds and liquidity funds.

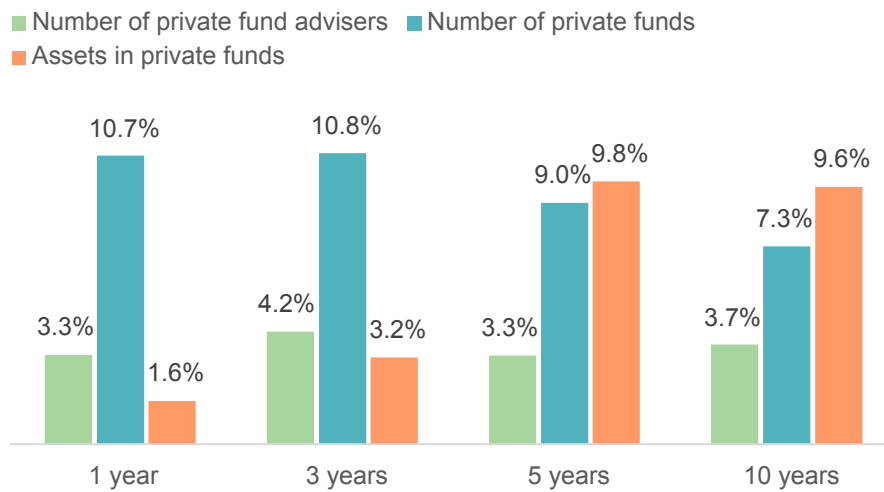
Assets also increased in 2022, gaining 1.6% to reach \$21.1 trillion despite the unfavorable market environment. The growth in assets resulted from the introduction of new funds; assets in existing funds declined (-7.3%). Over 9,000 private funds were introduced in 2022; more than 40% of these new funds were private equity funds.

Over the past 10 years, the number of advisers offering private funds, the number of private funds, and the assets in private funds have grown consistently.

FIGURE 5G

Growth in Private Funds Has Been Steady

Annual Growth Rates for Periods Ended 2022



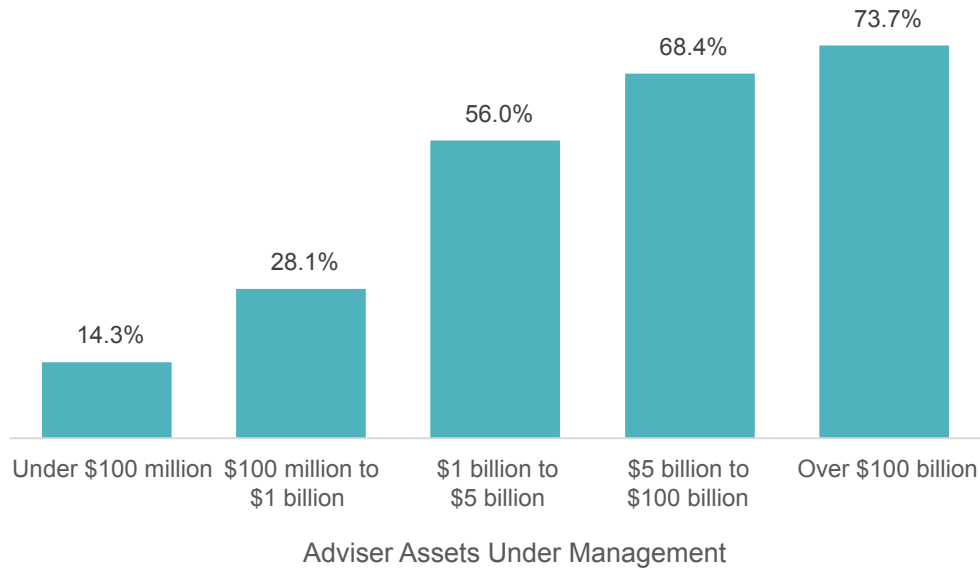
In 2022, 5,473 advisers managed private funds (36.2% of all advisers). The percentage of advisers managing private funds has been stable over the past decade. Over one-third of private fund advisers manage private funds exclusively.

Larger advisers are much more likely to manage private funds. For example, in 2022, nearly three-quarters of advisers with more than \$100 billion in assets managed private funds, compared to just 14.3% of advisers with less than \$100 million.

FIGURE 5H

Larger Advisers Are More Likely to Manage Private Funds

Percentage of Advisers Managing Private Funds, 2022

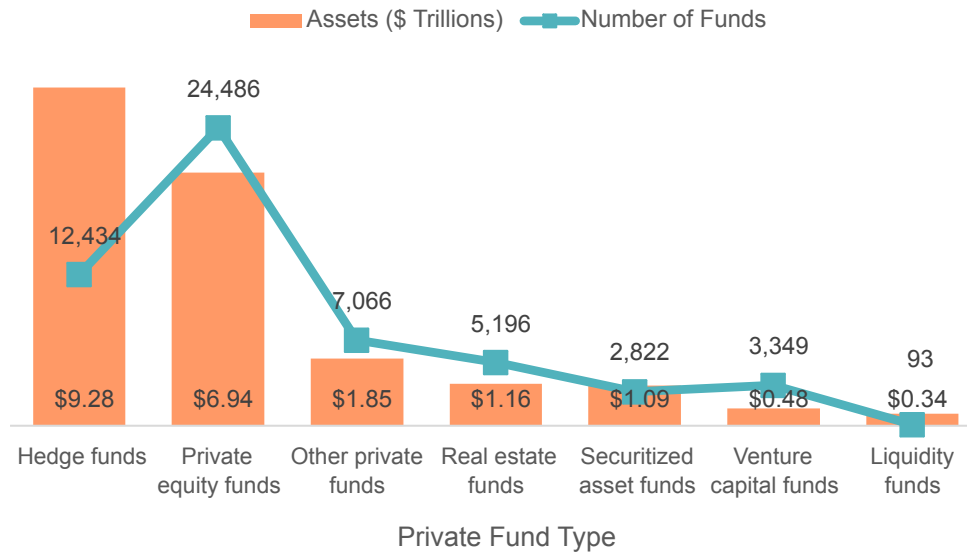


Hedge funds and private equity funds are the most common types of private funds. In 2022, hedge funds accounted for 43.9% of private fund assets, while private equity funds accounted for 44.2% of the number of funds.

FIGURE 5I

Hedge Funds and Private Equity Funds Are the Most Common Types of Private Funds

2022



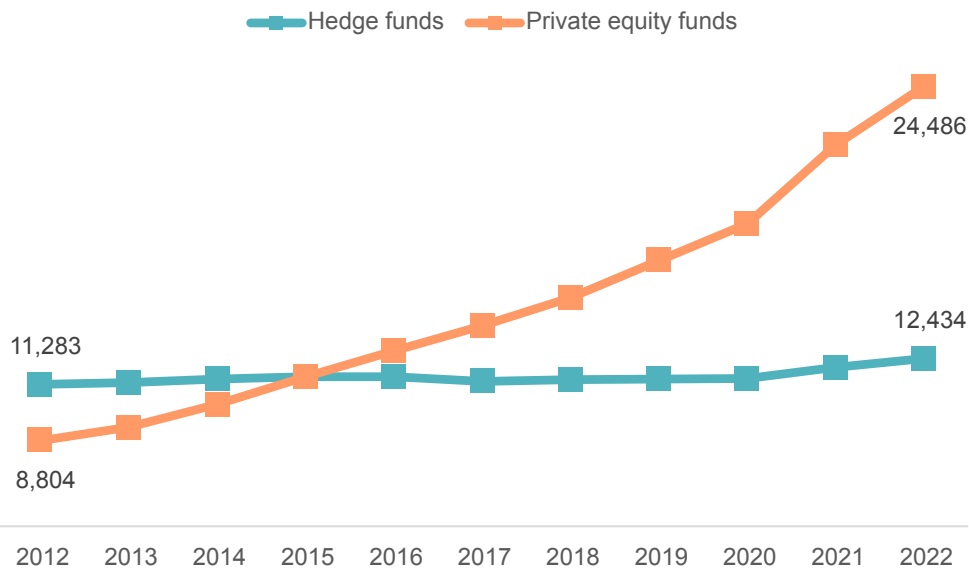
The number of private equity funds has increased by more than 2.8 times in the past 10 years. Private equity managers often raise assets by starting new funds rather than accepting additional investment in existing funds. As a result, private equity funds are now 44.2% of all private funds, compared to 32.2% in 2012.

At the same time, assets of private equity funds have increased as a percentage of total private fund assets, to 32.8% in 2022 from 21.2% in 2012.

By contrast, the share of private fund assets invested in hedge funds declined over the past 10 years, to 43.9% of private fund assets in 2022 versus 57.2% in 2012.

For detail see Data Tables 5E and 5F ([available online](#)).

FIGURE 5J
Growth in the Number of Private Equity Funds Has Been Strong
Number of Funds



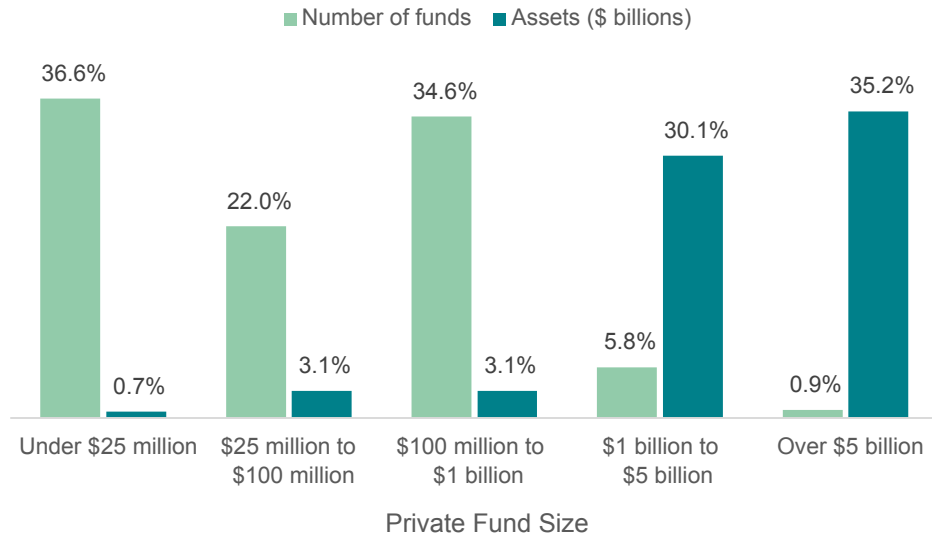
Most private funds are small. In 2022, over one-third of private funds had less than \$25 million in assets, and more than half had less than \$100 million.

On average, hedge funds are larger than private equity funds. In 2022, hedge funds had an average of \$746.1 million in assets, compared to \$283.4 million for private equity funds.

FIGURE 5K

Most Private Funds Are Small

2022



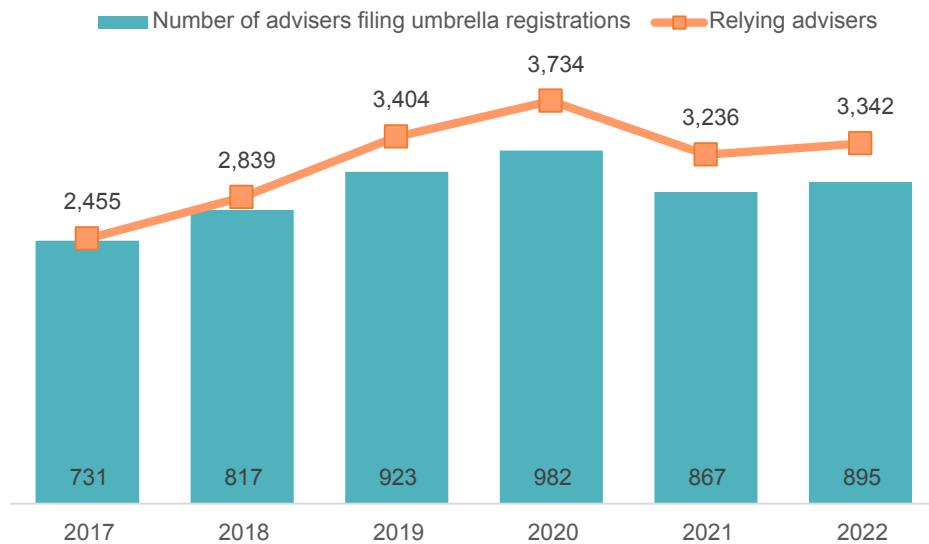
Since 2017, certain groups of private fund advisers have been permitted to file a single Form ADV with the SEC even though each is a distinct legal entity that would otherwise be required to register separately (“relying advisers”).

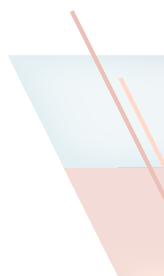
The number of advisers filing umbrella registrations rebounded in 2022 after declining in 2021.

FIGURE 5L

The Number of Advisers Filing Umbrella Registrations Rebounded in 2022

Number of Advisers





Proposed Changes to Private Fund Regulation

In February 2022, the SEC proposed new rules that would have a significant impact on the operations of private funds and their advisers.

The proposed requirements include:

- Quarterly reports to investors about fund performance, fees, and expenses
- Annual audits of private funds and prompt distribution of the audited financial statements to investors
- Fairness opinions for adviser-led secondaries (where investors are offered the option to exchange their fund interests for interests in another vehicle offered by the adviser)
- Prohibitions on the charging of certain fees and expenses and certain non-pro rata expense allocations
- A prohibition on limiting liability for adviser misconduct
- A prohibition on borrowing from private fund clients
- A prohibition on offering some investors some preferential terms through “side letters” or other arrangements, and for other terms, disclosure to all current and prospective investors
- Documentation of the adviser’s annual compliance review (required for all advisers, not only private fund advisers)

Some of the proposed rules would apply to all private fund advisers, including those that are not SEC-registered.

No changes to Form ADV were proposed.

Comments on the proposed rule have been submitted. It is not clear when the SEC will issue a final rule.

To learn more about the proposed rule and the Investment Adviser Association’s and COMPLY’s positions on it, read the [IAA’s comment letter](#) and [COMPLY’s comment letter](#).

Appendix | Insights Into Private Fund Operations

Form ADV Part 1 provides detail on the structure and operations of private funds and how they have changed over the past 10 years.

Most of the changes over time have been the result of the increase in the number of private equity funds relative to the number of hedge funds.

TABLE 5A

Private Fund Operational Practices

Percentage of Fund Type (Unless Otherwise Noted)

Country of Organization				
<i>Year</i>	<i>2012</i>		<i>2022</i>	
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
United States	64.4%	70.5%	55.7%	77.1%
Cayman Islands	27.7%	21.9%	36.0%	16.1%
Other	8.0%	7.6%	8.4%	6.8%
Basis for Exclusion From Registration				
<i>Year</i>	<i>2012</i>		<i>2022</i>	
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
3(c)(1) Number of clients	36.4%	31.9%	24.5%	34.2%
3(c)(7) Qualified purchasers only	72.6%	76.9%	80.9%	76.6%
Specialized Fund Types				
<i>Year</i>	<i>2012</i>		<i>2022</i>	
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
Master fund (in master-feeder arrangement)	16.3%	14.3%	30.3%	11.6%
Feeder fund (in master-feeder arrangement)	8.3%	5.1%	9.7%	3.5%
Fund of funds	27.4%	24.5%	19.0%	27.3%
Fund of funds investing in related fund (of funds of funds)	27.4%	23.7%	39.1%	21.8%
Investments by the Fund				
<i>Year</i>	<i>2012</i>		<i>2022</i>	
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
Invests in registered funds	9.2%	4.3%	14.4%	0.5%

TABLE 5A

Private Fund Operational Practices, Continued

Percentage of Fund Type (Unless Otherwise Noted)

Investments and Investors in the Fund				
<i>Year</i>	<i>2012</i>		<i>2022</i>	
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
Minimum investment				
-- Median	\$500,000	\$250,000	\$1 million	\$100,000
-- Average	\$5.5 million	\$8.0 million	\$7.9 million	\$10.2 million
Beneficial owners				
-- Median	14	14	13	16
-- Average	156	145	62	43
Ownership by funds of funds				
-- Median	0%	0%	0%	0%
-- Average	12%	11%	0%	14%
Sales limited to qualified clients (of funds relying on 3(c)(1))	*	79.0%	85.9%	81.7%
Ownership by non-U.S. persons				
-- Median	0%	1%	2%	4%
-- Average	26%	27%	30%	28%
Clients solicited	26.4%	19.8%	24.0%	44.8%
Percentage of adviser's clients invested in fund				
-- Median	0%	0%	0%	0%
-- Average	6%	4%	4%	3%
Relied on exemption under Regulation D	72.3%	71.4%	74.9%	74.5%
Advisers and Sub-Advisers				
<i>Year</i>	<i>2012</i>		<i>2022</i>	
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
Sub-adviser to the private fund	3.3%	2.1%	2.1%	1.9%
Fund has other advisers	13.8%	8.2%	10.5%	7.0%
Audits and Auditors				
<i>Year</i>	<i>2012</i>		<i>2022</i>	
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
Financial statements subject to annual audit	89.1%	90.1%	96.7%	94.6%
Financial statements prepared in accordance with U.S. GAAP	86.4%	86.3%	91.9%	92.4%
Audited financial statements are distributed to investors	88.2%	83.9%	91.1%	88.2%
Received unqualified opinion or report not yet received	91.1%	89.5%	78.8%	70.2%

TABLE 5A

Private Fund Operational Practices, Continued

Percentage of Fund Type (Unless Otherwise Noted)

Auditing firm is independent public accountant (of reported auditors)	99.4%	99.0%	99.8%	99.7%
Auditing firm is registered with PCAOB (of reported auditors)	98.7%	99.2%	99.0%	99.5%
Auditing firm is subject to regular inspection by PCAOB (of reported auditors)	98.3%	98.9%	98.4%	99.4%
Service Providers				
<i>Year</i>	<i>2012</i>	<i>2022</i>		
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
Uses prime broker	24.0%	13.2%	45.5%	4.2%
Uses custodian	91.4%	93.8%	97.1%	93.7%
Uses third-party administrator	57.4%	68.8%	86.0%	60.2%
Uses third-party marketer	20.0%	19.6%	24.1%	15.8%
Percentage of Fund Assets Valued by Non-Related Person				
<i>Year</i>	<i>2012</i>	<i>2022</i>		
<i>Fund Type</i>	<i>All</i>	<i>All</i>	<i>Hedge</i>	<i>PE</i>
100%	42.0%	35.8%	60.2%	18.8%
0%	51.1%	59.5%	30.2%	78.3%
Median	0%	0%	100%	0%
Average	47%	40%	67%	21%

Note: PE = Private Equity

*Not included in 2012 Form ADV.

6

Business Insights

Form ADV provides insights on the operations and business practices of investment advisers.

67.7%

of advisers reported that, in 2022, their only business activity was providing investment advice.

39.9%

of advisers included performance results in their advertising in 2022.

IN BRIEF

In 2022, over two-thirds of advisers (67.7%) reported that their only business activity is providing investment advice. In addition, approximately two-thirds of advisers (66.1%) reported no affiliations with other firms in the financial industry or only affiliations with firms involved in investment management.

In 2022, 98.0% of advisers responded to new questions in Form ADV regarding advertising practices. Of the firms responding, 49.2% reported that they engaged in at least one of the specified practices, with 39.9% reporting that they included performance results in advertising.

Advertising

In 2022, as part of its new Marketing Rule, the SEC amended Form ADV Part 1A by requiring information regarding an adviser’s advertising practices. The revised Form asks yes/no questions about an adviser’s use of performance results, references to its specific investment advice, testimonials, endorsements, and third-party ratings in its advertisements, among other practices.

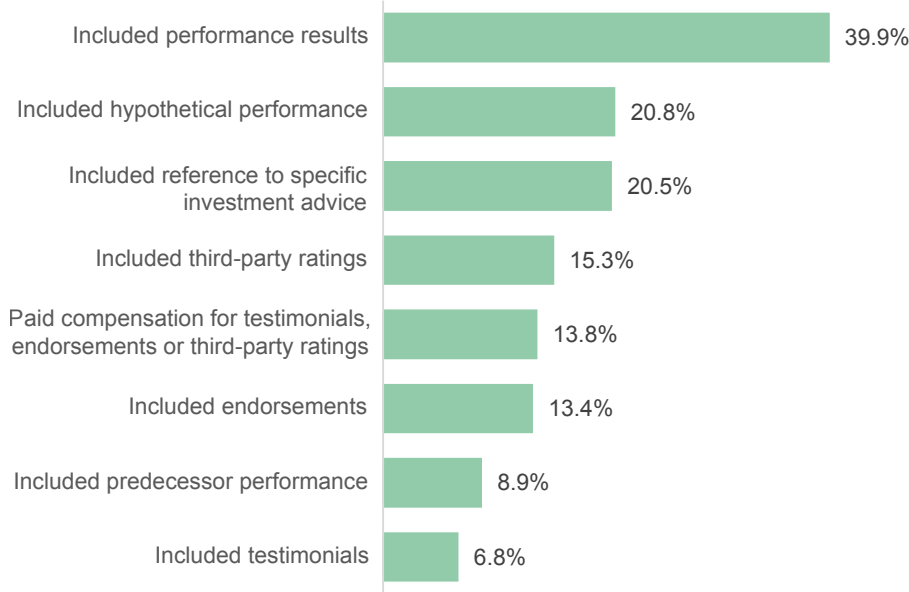
Firms are required to respond to these questions in their next annual update to Form ADV filed after November 4, 2022, the compliance date for the Marketing Rule.

In the Forms ADV summarized in this report (*i.e.*, those filed prior to April 6, 2023), 98.0% responded to the advertising questions.*

Of the advisers responding to the questions, almost half (49.2%) reported that they engaged in at least one of the specified advertising practices.

Inclusion of performance results is most common, with 39.9% of the responding advisers engaging in the practice. Roughly 1 in 5 advisers included hypothetical performance in advertisements (20.8%) or included reference to specific investment advice in advertisements (20.5%).

FIGURE 6A
Inclusion of Performance Results Is the Most Common Advertising Practice
Percentage of Advisers Responding to the Advertising Questions, 2022

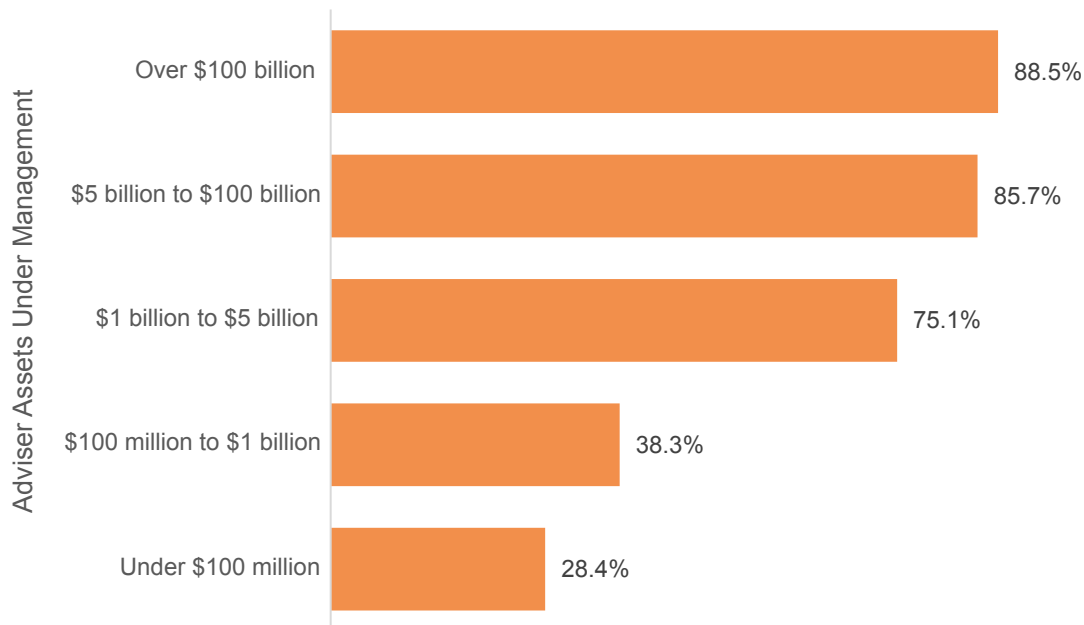


Larger advisers were more likely to engage in the specified advertising practices than smaller advisers. For example, 88.5% of respondents with more than \$100 billion in assets answered “yes” to at least one question, while only 28.4% of advisers with less than \$100 million in assets indicated that they engage in any of the specified marketing activities.

*Advisers with a fiscal year end earlier than November 4, 2022, filing a Form ADV prior to that date were not yet required to respond to these questions.

FIGURE 6B**Larger Advisers Were More Likely to Engage in the Specified Advertising Practices**

Percentage of Advisers Responding “Yes” to the Advertising Questions, 2022



Note: Of advisers responding to the advertising questions.

Advisers to certain pooled investment vehicles were more likely to engage in one of the specified advertising practices. Specifically, 78.6% of advisers to investment companies and 78.4% of advisers to private funds answered “yes” to at least one question.

For detail see Data Table 6A ([available online](#)).

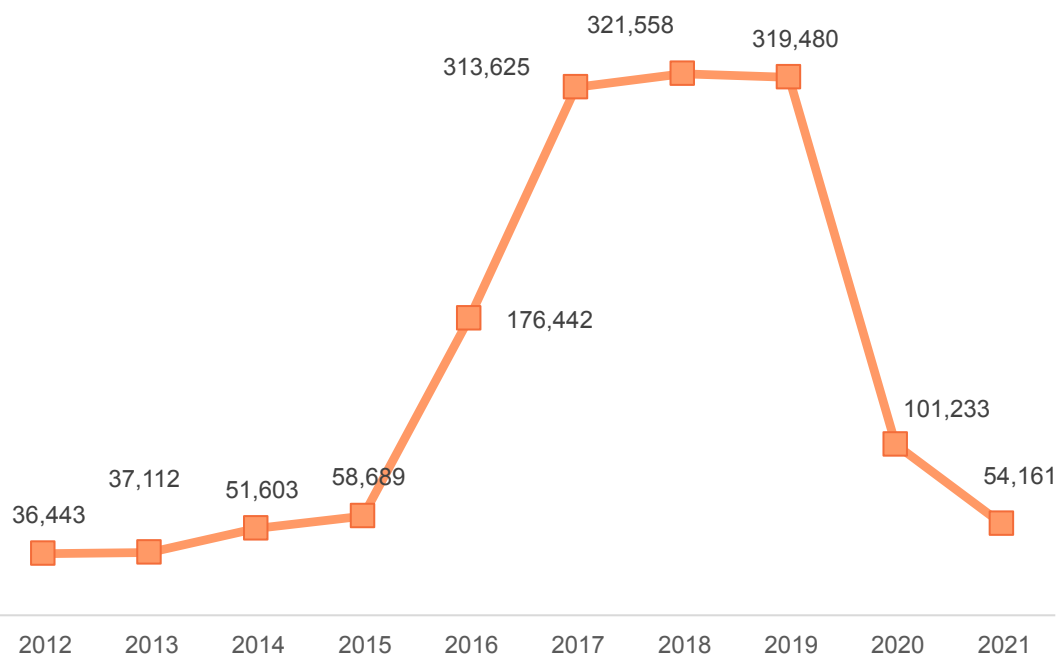
Solicitors and Referral Compensation

The number of third-party solicitors used by advisers dropped sharply again in 2022. Declines over the past 2 years have completely reversed sharp gains in 2017 and 2018. The gains were driven by “refer a friend” programs on digital advice platforms, which gave clients a small cash credit for making a referral to the platform.

As in 2021, the decrease in 2022 was entirely attributable to a decline at a single digital advice platform, which decreased its use of the referral programs. This adviser is the largest user of third-party solicitors, using over one-third of all third-party solicitors in 2022 (down from roughly two-thirds in 2021).

FIGURE 6C

The Number of Third-Party Solicitors Dropped Sharply Again in 2022



In general, in 2022, advisers were less likely to pay for (or be paid for) client referrals. Specifically:

- The percentage of advisers that paid third parties for client referrals declined again (25.6% versus 26.5% in 2021).
- The percentage of advisers that compensate employees (other than through salary) for obtaining clients continued to decline, to 17.0%.
- The percentage of firms receiving compensation for referrals declined to 6.1%.

Affiliations

Many investment advisers are standalone businesses, in the sense that they are not affiliated with any other entities in the financial industry.* In 2022, 38.9% of advisers had no affiliations in the financial industry.

An additional 27.2% of advisers had affiliations in the financial industry, but only with entities that engaged in investment management-related activities. Specifically, these affiliated entities are sponsors of pooled investment vehicles, other investment advisers, or a commodity pool operator (CPO) and/or commodity trading advisor (CTA).

Approximately one-third of advisers (33.9%) have affiliations with firms in the financial industry that are not investment management-related (such as brokerage firms, insurance companies, or accounting firms).

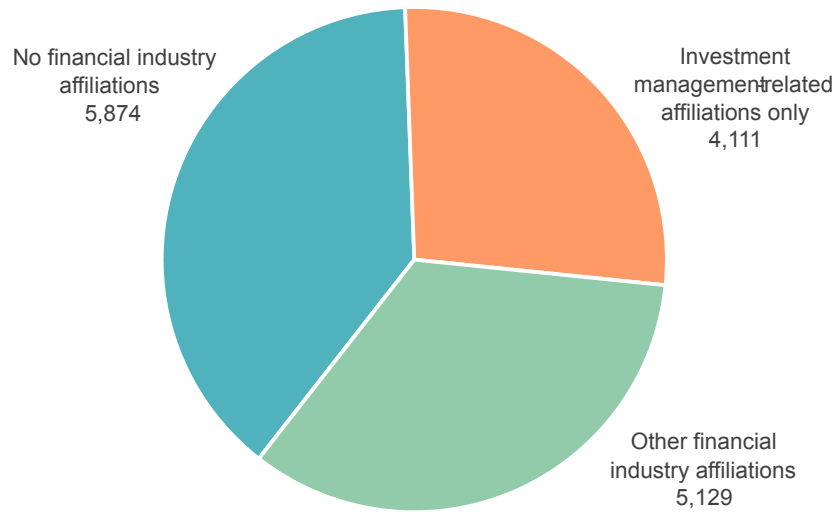
For detail see Data Table 6B ([available online](#)).

*This report uses the term "affiliate" to refer to an entity that is a related person of the adviser.

FIGURE 6D

Financial Industry Affiliations

Number of Advisers by Type of Financial Industry Affiliation, 2022



Compared to 2012, advisers are significantly less likely to be affiliated with another investment adviser or a broker-dealer.

TABLE 6A

Most Common Financial Industry Affiliations

Percentage of Advisers with Affiliation

Financial Industry Affiliation	2012	2022
Sponsor, general partner, or managing member of pooled investment vehicles	33.6%	36.6%
Other investment adviser (including financial planners)	37.4%	29.1%
Insurance company or agency	16.1%	16.5%
Broker-dealer, municipal securities dealer, or government securities broker or dealer	22.0%	16.0%
Commodity pool operator or commodity trading advisor	15.9%	16.0%

Proposed Questions on Outsourcing

In October 2022, the SEC proposed a new rule that would impose additional requirements on investment advisers that outsource certain functions.

The “covered functions” which are subject to the new requirements are those that are necessary to provide investment advisory services and that would likely cause a material negative impact on clients if not performed or performed negligently. Outsourced services that might be covered functions include subadvisory portfolio management, client services, cybersecurity services, portfolio accounting, pricing and valuation services, regulatory compliance services, and trading.

A related rule amendment would add questions to Form ADV Part 1. The revised Item 7 would include a check box that asked advisers if they outsourced any covered functions. If “yes,” advisers would need to provide additional information about all third-party service providers and the covered functions that they provide. Advisers must also indicate whether the service provider is a related party.

The comment period for the proposed rule ended on December 27, 2022. It is not clear if or when the SEC will issue a final rule.

To learn more about the proposed rule and the Investment Adviser Association’s and COMPLY’s positions on it, read the [IAA’s comment letter](#) and [supplemental comment letter](#), and [COMPLY’s comment letter](#).

Other Business Activities

Looking within investment advisory firms, in 2022, over two-thirds of advisers (67.7%) reported that their only business activity is providing investment advice.

Another 13.3% of advisers act as commodity pool operators (CPOs) and/or commodity trading advisors (CTAs) in addition to providing investment advice.

The remaining 19.0% of advisers are engaged in other business activities outside of providing investment advice or acting as CPO/CTA.

For detail see Data Table 6C ([available online](#)).

FIGURE 6E

Most Advisers Are Focused on Providing Investment Advice

Number of Advisers, 2022

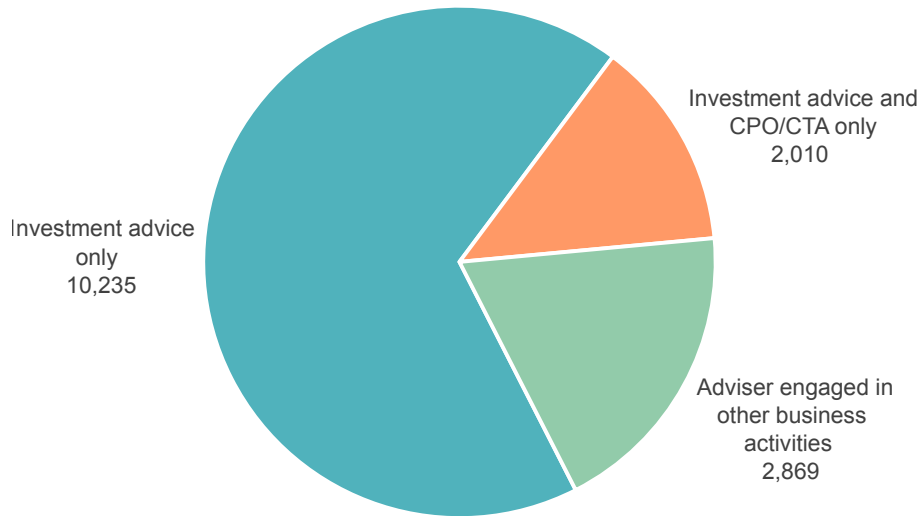


TABLE 6B

Most Common Other Business Activities

2022, Percentage of Advisers With Other Businesses

Other Business Activity	% of Advisers
Commodity pool operator (CPO) or commodity trading advisor (CTA)	14.8%
Insurance broker or agent	8.1%
Other (non-financial)	7.9%
Broker-dealer	2.8%
Registered representative of broker-dealer	2.6%
Other financial product salesperson	1.9%
Accountant or accounting firm	1.6%

Note that 17.2% of advisers report that they sell other products or services to advisory clients.

Focus on Dual Registration

In 2022, 420 firms had dual registration, meaning that they were registered with the SEC as both an investment adviser and a brokerage firm.

These dually registered firms make up only 2.8% of investment advisory firms. However, they provided advisory services to nearly 19 million individuals, fully 36.6% of the individual investors served by advisers.

Perhaps the most notable feature of the dual registrants is that they are quite large.

TABLE 6C

Comparison of Dually Registered Firms to Investment Adviser Only Firms

2022

	Dually Registered	Investment Adviser Only
Number of firms	342 advisers	9,182 advisers
Average assets under management	\$22.3 billion	\$7.4 billion
Average number of employees	978	73
Average number of investment adviser representatives	651	38

Note: Includes only advisers with individuals as clients.

Significant differences in size make comparisons between the average dually-registered firm and the average investment adviser-only firm potentially misleading. For example, larger firms are more likely to have affiliations with other firms, so differences may be the result of size rather than of registration status.

Note that dual registrations are quite uncommon. Investment advisers are more likely to be affiliated with a brokerage firm that is a separate entity.

Books and Records

In 2022, 7,270 advisers (48.1%) maintained at least some of their required books and records somewhere other than their principal offices (versus 48.7% in 2012).

Legal Entity Identifier

In 2022, 2,680 advisers (17.7%) reported a Legal Entity Identifier (LEI). The LEI system was launched in 2014.

Foreign Regulatory Authority

In 2022, 1,167 advisers (7.7%) were registered with a foreign financial regulatory authority (versus 8.4% in 2012).

Outsourced CCO

In 2022, the chief compliance officer (CCO) of 6.8% of advisers was compensated or employed by a third party not related to the adviser. (Investment companies advised by the firm are not considered third parties for purposes of this question.)* In the prior year, 5.9% of advisers had an outsourced CCO.

Larger advisers are less likely to have an outsourced CCO. In 2022, only 3.0% of advisers with more than \$5 billion in assets under management had an outsourced CCO.

Custody

Advisers increasingly report that they are deemed to have custody of client assets. In 2022, 57.4% of advisers reported that they or a related person were deemed to have custody of client assets.

The percentage of advisers deemed to have custody increased sharply in 2017 after the SEC released guidance on “inadvertent custody.” Under the staff’s interpretation, an adviser can have inadvertent custody of client assets when a client signs an agreement with the custodian and the agreement gives the adviser broad authority over the account, including the authority to make disbursements. The staff’s view is that even if the adviser is not a party to the client custody agreement and the terms of the custody agreement conflict with the advisory contract, the adviser may be deemed to have custody. In addition, the 2017 guidance likely led more advisers to report that they had custody when they engaged in certain types of trading authorized by a client.

However, even absent the increase in 2017, the percentage of advisers deemed to have custody has been steadily rising. In general, advisers are more likely to report that they are deemed to have custody given the difficulty of interpreting a complex regulation, combined with increased SEC attention to this issue.

Of those advisers deemed to have custody, 97.2% were deemed to have custody of cash or bank accounts, while 88.5% were deemed to have custody of securities.

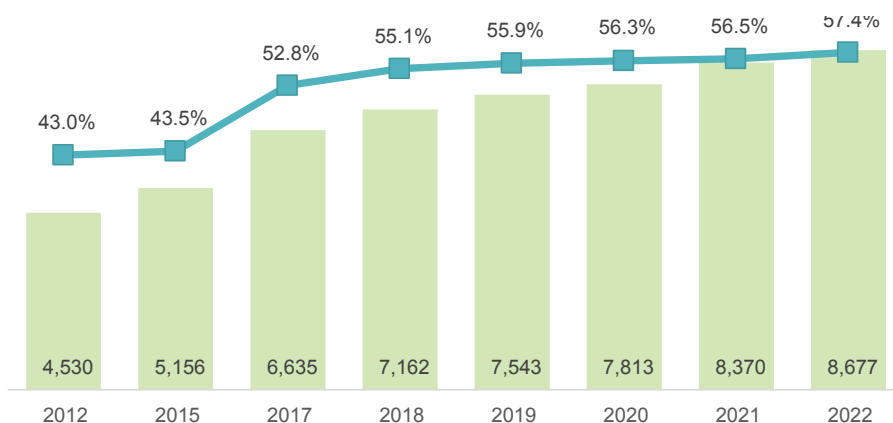
In total, advisers and related persons were deemed to have custody of 37.7% of industry assets in 2022. This is an increase over the prior year, when advisers and related persons were deemed to have custody of 35.6% of industry assets.

For detail see Data Table 6D ([available online](#)).

FIGURE 6F

Advisers Are Increasingly Likely To Be Deemed to Have Custody of Client Assets

Number of Advisers and Percentage of Advisers



Note: Custody of cash and/or securities by adviser and/or related person(s).

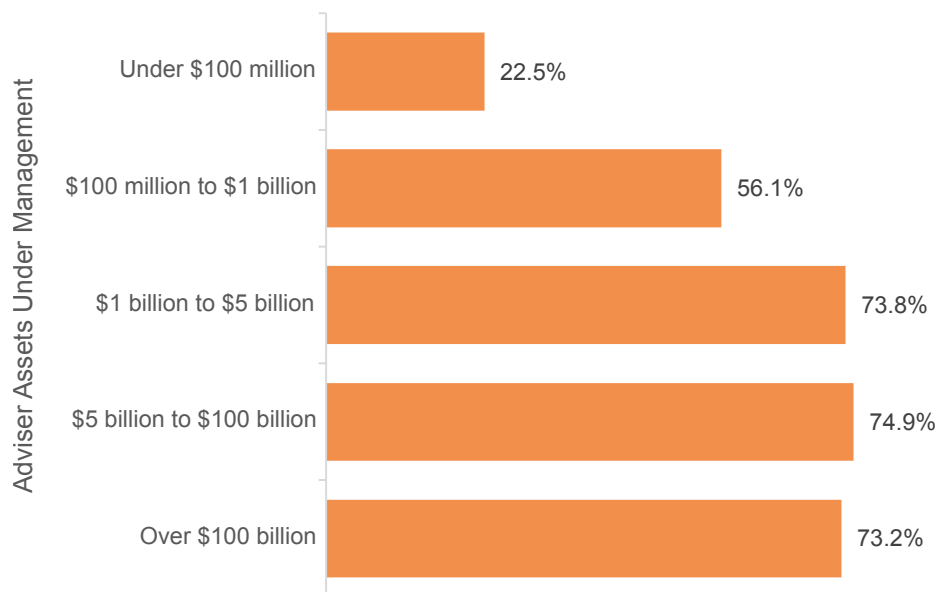
*Data is for those advisers filing Form ADV in the first quarter of 2023.

Advisers with assets under management of \$1 billion or more are most likely to be deemed to have custody (70+% of advisers). However, more than 1 in 5 of the smallest advisers (with under \$100 million in assets) are also deemed to have custody.

FIGURE 6G

Advisers of All Sizes Are Likely To Be Deemed to Have Custody of Client Assets

Percentage of Advisers, 2022



Note: Custody of cash and/or securities by adviser and/or related person(s).

Private Funds

Because of the way that they are commonly structured, private fund advisers are more likely to be deemed to have custody of client assets (89.3% in 2022). Many private funds are structured as partnerships or limited liability companies with the adviser (or a related person) acting as general partner or managing member. In the SEC's view, an adviser (or a related person) serving in one of these capacities is deemed to have custody because the general partner or managing member has access to or legal ownership of client assets.

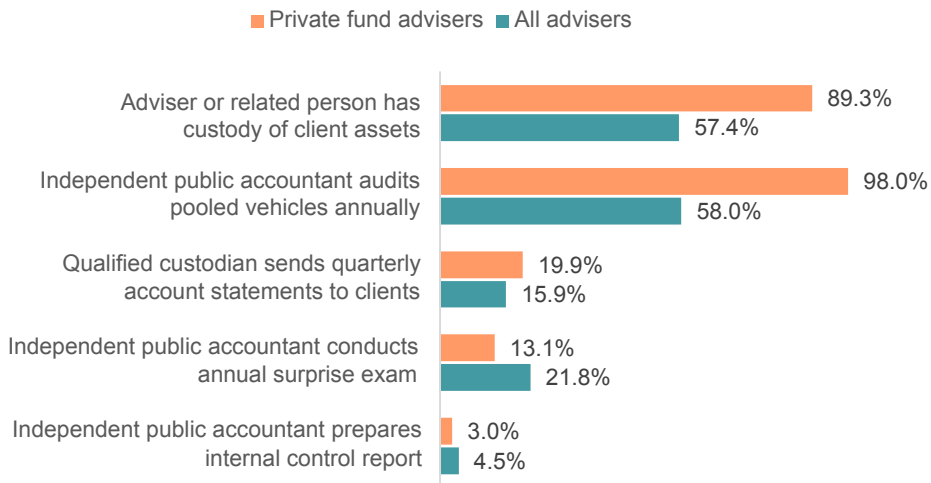
Of note, almost all private funds (regardless of whether they are deemed to have custody) report that an independent public accountant conducts an annual audit of the pooled vehicles they manage (98.0% in 2022). As a result, private fund advisers are less likely to be subject to a surprise exam.

In 2022, 19.7% of private funds used a broker-dealer as a custodian (versus 21.4% in 2020), while 0.8% of private funds used a custodian related to the adviser (versus 0.9% in 2020).

FIGURE 6H

Private Fund Advisers Are More Likely to Have Custody of Client Assets

Percentage of Private Fund Advisers, Percentage of All Advisers, 2022



Note: Adviser or related person has custody of client assets as percentage of all advisers. All others as percentage of advisers with custody. Note that requirements related to audits, statements, surprise exams, and internal control reports do not apply equally to all advisers.

Separately Managed Accounts

Advisers to separately managed accounts (SMAs) are increasingly likely to report that over 10% of their SMA assets are with a single custodian. In 2022, 87.5% of advisers to SMAs reported that over 10% of assets were held by a single custodian, a new high. For comparison, the percentage was 81.2% in 2019.

Many advisers to SMAs use a technology platform provided by a brokerage firm to manage their entire advisory practice. These platforms provide custody services in addition to trading capabilities and portfolio analysis tools, among other tools and services. As a result, custody of client assets tends to be concentrated with these brokerage firms.

The value of assets held by a custodian with more than 10% of an adviser's SMA assets declined by 9.6%, to \$30.3 trillion, in line with the decline in industry assets.

TABLE 6D

Some Custodians Hold 10% or More of Adviser's Separately Managed Account (SMA) Assets

Fee Type	2020	2021	2022
Custodian holds 10% or more of SMA assets (% of advisers with SMA assets)	8,635 advisers (85.0%)	9,402 advisers (86.4%)	9,680 advisers (87.5%)
SMA assets held by custodian with 10% or more of SMA assets (% of industry assets)	\$28.7 trillion (26.1%)	\$33.5 trillion (26.1%)	\$30.3 trillion (26.5%)
SMA assets held by custodian with 10% or more of SMA assets that is a related person (% of SMA assets held by a custodian with more than 10% of SMA assets)	\$6.6 trillion (23.1%)	\$9.9 trillion (29.6%)	\$8.7 trillion (28.8%)
SMA assets held by custodian with 10% or more of SMA assets that is a brokerage firm (% of SMA assets held by a custodian with more than 10% of SMA assets)	\$9.9 trillion (34.5%)	\$14.6 trillion (43.7%)	\$13.5 trillion (44.7%)

Proposed Safeguarding Rule

In February 2023, the SEC proposed a new rule, titled "Safeguarding Advisory Client Assets," that would effectively replace the current custody rule.

The proposed Safeguarding Rule would fundamentally transform custody arrangements. Compared to the current rule, the proposed rule notably:

- Subjects a much broader array of client assets to the Rule's requirements
- Imposes custody requirements in a much broader set of circumstances, whenever an adviser has discretionary trading authority
- Imposes significantly more prescriptive requirements on custodial arrangements
- Adds new documentation and recordkeeping requirements, which include changes to Form ADV Part 1

Over 5,000 advisers – more than one-third of the industry – would become newly subject to custody requirements under the proposed rule. Comments on the proposed rule were due on May 8, 2023. It is not clear if or when the SEC will issue a final rule.

To learn more about the proposed rule and the Investment Adviser Association's position on it, read the [IAA's comment letter](#).

Qualified Custodians

In 2022, 324 advisers reported that they or a related person acted as a qualified custodian for client assets, a decrease from 335 in the previous year. Because qualified custodians hold physical custody of assets, they must be a bank, brokerage firm, futures commission merchant, or qualifying foreign financial institution.

Of the related persons acting as a qualified custodian in 2022, 58.5% were able to demonstrate that they were operationally independent of the adviser, which means that they were not required to have a surprise exam.

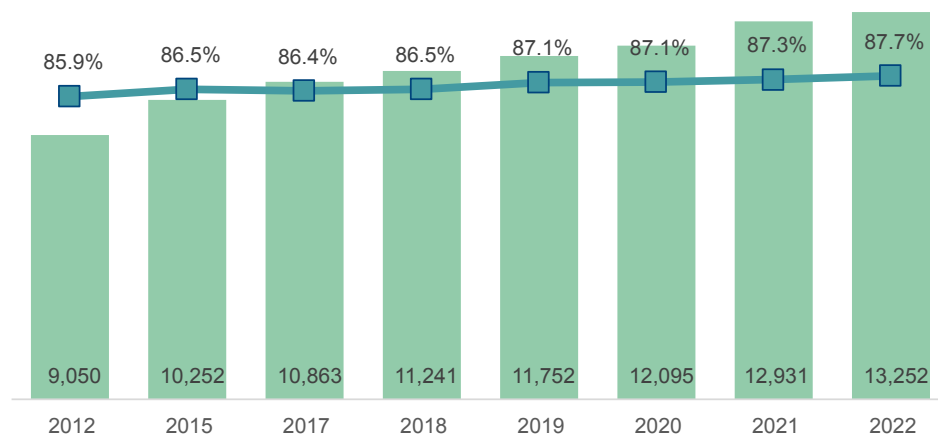
Disciplinary Information

The percentage of advisers with no disciplinary history increased in 2022, to a new high of 87.7%. The increase is partly due to a decrease in the number of reported issues; the number of issues declined on an absolute basis in 15 of 23 reporting categories. However, the change is also driven by the addition of new smaller advisers that are less likely to have a disciplinary history.

FIGURE 6I

Advisers With No Disciplinary History

Number of Advisers, Percentage of Advisers



Larger advisers are more likely to report a disciplinary history. This higher reported rate is likely primarily attributable to these firms' greater complexity, wider scope of activities, larger number of employees, and larger number of affiliates.

However, greater firm longevity may also be a factor, since larger firms are, on average, older than smaller firms. (For detail see the Appendix to Part 6.) Firm longevity is relevant to disciplinary history because advisers are required to report disciplinary issues going back at least 10 years, and, for some categories, advisers must report issues since the firm commenced operations.

FIGURE 6J

Larger Advisers Are More Likely to Report Disciplinary Information

Percentage of Advisers

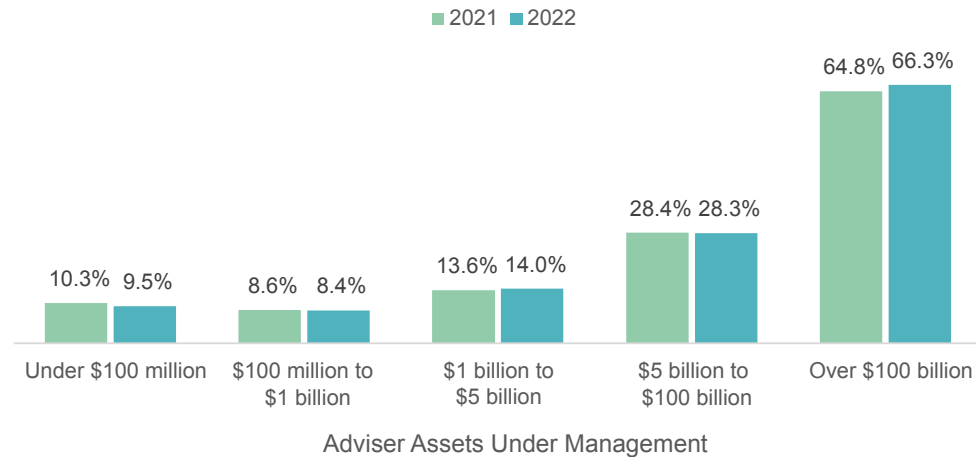


TABLE 6E

Most Common Disciplinary Issues Reported by Advisers

2022

Disciplinary Issue	Number of Advisers Reporting
A regulator other than the SEC or CFTC found that adviser was involved in a violation of investment-related regulations or statutes	924 (6.1%)
The SEC or CFTC found that adviser was involved in a violation of SEC or CFTC regulations or statutes	684 (4.5%)
A regulator other than the SEC or CFTC entered an order against adviser in connection with an investment-related activity	683 (4.5%)
The SEC or CFTC imposed a civil money penalty or ordered adviser to cease and desist from any activity	682 (4.5%)
The SEC or CFTC entered an order against adviser in connection with an investment-related activity	629 (4.2%)
A self-regulatory organization or commodities exchange found that adviser was involved in a non-minor violation of its rules	622 (4.1%)

Form ADV-W

Advisers file Form ADV-W with the SEC to terminate their registrations.

In 2022, 897 advisers filed Form ADV-W, in line with the 876 advisers that filed Form ADV-W in 2021.*

Advisers were most likely to file Form ADV-W when they were no longer in the advisory business, either because their firms had gone out of business or they did not provide investment advice.

Transactions were the second-most common reason for a Form ADV-W filing. An adviser may have been sold, acquired, or merged with another firm. These transactions may be reorganizations involving affiliated firms.

Advisers may also file Form ADV-W because they are no longer permitted or required to register with the SEC. For example, they may no longer advise an investment company, or they may be switching from SEC registration to state registration. Note that, in this category, the Form ADV-W filing is often prompted by the loss of clients or a decline in assets under management.

TABLE 6F

Reasons for Filing Form ADV-W

Reason	2021	2022
Transaction, such as sale or merger	28.2%	30.4%
No longer in business	18.6%	22.5%
No longer permitted or required to register	20.9%	19.8%
No advisory activities	18.9%	16.5%
Registered as newly-formed adviser and failed to meet criteria for continued registration within 120 days or registered in error	11.6%	5.0%
Other or no reason given	1.7%	5.7%

*Forms ADV-W for 2022 include those filed from April 9, 2022, through March 31, 2023. Forms ADV-W for 2021 include those filed from April 9, 2021, through April 8, 2022.

Appendix | The Long View

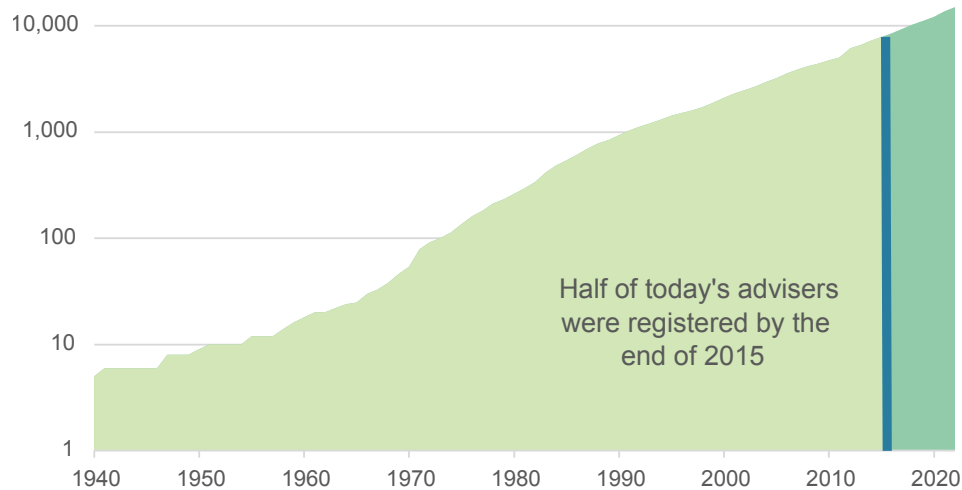
Firms that were in existence when the system of SEC registration first began, after the passage of the Investment Advisers Act of 1940, are still operating today.

Indeed, 8 firms are more than 75 years old, while 98 firms have passed the 50-year mark (as of June 30, 2023).

FIGURE 6K

A Long-Term View of Industry Growth

Number of Current Advisers With SEC Registration Effective Prior to Date



Note: Includes firms eligible for SEC registration using an older version of Form ADV.

Larger advisers are, on average, older than smaller advisers.

TABLE 6G

The 25 Longest-Tenured Investment Advisers

Investment Adviser	Registration Effective Date
Barings LLC	November 1, 1940
Beck, Mack & Oliver	November 1, 1940
DWS Investment Management Americas, Inc.	November 1, 1940
Everett Harris & Co.	November 1, 1940
St. Denis J. Villere & Co., LLC	November 1, 1940
Howe and Rusling, Inc.	January 3, 1941
T. Rowe Price Associates, Inc.	March 29, 1947
William Blair & Company LLC	December 24, 1947
Bishop & Associates Inc.	March 1, 1950
Meyer Handelman Company LLC	August 19, 1951
Oppenheimer & Co. Inc.	February 9, 1955

TABLE 6G

The 25 Longest-Tenured Investment Advisers, Continued

Shufro, Rose & Co., LLC	April 7, 1955
Invesco Investment Advisers LLC	April 6, 1958
Fayez Sarofim & Co.	July 16, 1958
Dodge & Cox	March 14, 1959
Baxter Investment Management	May 1, 1959
J.M. Forbes & Co. LLP	May 6, 1960
Argus Investors' Counsel, Inc.	December 16, 1960
The Winthrop Corporation	February 24, 1961
Mairs & Power	November 15, 1961
Pegasus Asset Management Inc.	May 25, 1963
Edward Jones	October 24, 1963
Citigroup Global Markets Inc.	February 23, 1964
Chase Investment Counsel Corporation	March 5, 1964
J.P. Morgan Securities LLC	April 3, 1965

Note: Effective date of registration from Form ADV data based on continuity of CRD number. Mergers or restructurings can result in a new CRD number and new registration effective date. As a result, this table does not capture all firms in existence by April 1965.

TABLE 6H

Average Age of Advisers by Size

Assets Under Management	Average SEC Registration Effective Date
Over \$100 billion	October 1995
\$5 billion to \$100 billion	March 2006
\$1 billion to \$5 billion	June 2009
\$100 million to \$1 billion	August 2013
Under \$100 million	June 2016

Definitions

advisory affiliate Includes (1) an adviser's officers, partners, or directors, (2) companies that control the adviser, (3) companies that are controlled by the adviser, and (4) an adviser's employees.

agency cross transaction Execution of securities trades in which advisory client securities are sold to or bought from a brokerage customer.

asset-based fee Fee calculated as a percentage of client assets managed by the adviser.

asset management Continuous and regular supervisory or management services for securities portfolios.

assets under management (AUM) Assets managed by an adviser. The measurement of AUM in Form ADV Part 1 was standardized as regulatory assets under management (RAUM) in 2011.

borrowings For the purposes of Form ADV, borrowings include:

- traditional lending activities such as client bank loans and margin accounts;
- secured and unsecured borrowings;
- synthetic borrowings and transactions involving synthetic borrowings (such as total return swaps);
- short sale transactions; and
- certain transactions involving unpaid variation margin and reverse repos.

Borrowings exclude:

- leverage embedded in derivatives, securities lending, or repos.

brokerage firm, broker, broker-dealer Company in the business of buying and selling securities (trading) on behalf of customers.

business development company A closed-end fund organized pursuant to Section 54 of the Investment Company Act of 1940 that is a way for retail investors to invest in small- and medium-sized private companies.

commodity pool operator (CPO) Operator of a pooled fund that trades futures or options on futures, retail off-exchange forex contracts, or swaps, or that invests in another commodity pool. The CPO solicits funds for the commodity pool. CPOs must register with the Commodity Futures Trading Commission (CFTC).

commodity trading advisor (CTA) Advisor on buying and selling futures contracts, commodity options, retail off-exchange forex contracts, or swaps. CTAs must register with the Commodity Futures Trading Commission (CFTC).

control The power to direct the management or policies of an individual or entity, either directly or indirectly. An adviser is generally presumed to control a corporation, partnership, or limited liability company if it owns or has the right to vote at least 25% of the shares or capital.

credit derivative Single name credit default swap, credit default swap referencing a standardized basket of credit entities, and credit default swap referencing a bespoke basket.

custody Holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of or withdraw them.

derivatives transactions Include interest rate, foreign exchange, credit, equity, and commodity derivatives.

digital advice platform An interactive website or app through which advisers provide investment advice to clients.

discretionary authority Authority to decide which securities to purchase and sell for a client or authority to decide which investment advisers to retain on behalf of a client of the primary adviser.

endorsement Recommendation from someone other than a current client or investor.

equity derivative An equity derivative listed on an exchange or derivative exposure to unlisted equity securities.

exempt reporting adviser An investment adviser that qualifies for an exemption from registration because it is an adviser solely to one or more venture capital funds or because it is an adviser solely to private funds and has assets under management in the United States of less than \$150 million.

felony For the purposes of Form ADV, for jurisdictions that do not differentiate between a felony and a misdemeanor, an offense punishable by a sentence of at least one year imprisonment and/or a fine of at least \$1,000. The term also includes a general court martial.

foreign exchange derivative Any derivative whose underlying asset is a currency other than U.S. dollars or is an exchange rate.

gross notional exposure Gross notional value (of derivatives or borrowings) divided by regulatory assets under management.

gross notional value The gross nominal or notional value of all transactions that have been entered into but not yet settled as of the reporting date. For contracts with variable nominal or notional principal amounts, the basis for reporting is as of the reporting date. For options, the basis for reporting is the delta adjusted notional value.

hedge fund Any private fund that:

- may be paid a performance fee calculated on the basis of unrealized gains;
- may borrow in excess of one-half of its net asset value;
- has gross notional exposure in excess of twice its net asset value; or
- may sell short.

high net worth (HNW) individual An individual who is a qualified client or qualified purchaser as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940.

hypothetical performance Includes performance of model portfolios, backtested performance, and targeted or projected performance returns.

interest rate derivative A derivative whose underlying asset is the obligation to pay or the right to receive a given amount of money accruing interest at a given rate.

Internet adviser exemption Exemption that permits advisers that provide investment advice to clients exclusively through an interactive website to register with the SEC even if their assets under management are below the minimum threshold.

investment adviser Under Section 202 of the Investment Advisers Act of 1940, "any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities...." Banks, broker-dealers, and publishers are excluded from the definition in certain circumstances.

investment adviser representative Representative of an investment adviser who provides investment advice to clients of the investment adviser and may be licensed by state regulatory authorities.

investment company Investment company registered under the Investment Company Act of 1940. Includes traditional open-end mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs).

liquidity fund A private fund that seeks to generate income by investing in a portfolio of short-term obligations to maintain a stable net asset value or to minimize volatility.

mid-sized adviser Adviser with assets of \$25 million or more but less than \$100 million that is either:

- not required to register with the state securities authority of the state where the adviser maintains its principal office, or
- not subject to examination by the state securities authority of the state where the adviser maintains its principal office.

multi-state adviser exemption Exemption that allows advisers with less than \$100 million in assets under management to register with the SEC if they are required to register as an investment adviser with state securities authorities of 15 or more states.

non-high net worth (non-HNW) individual An individual who is not a high net worth individual.

parallel managed account With respect to any registered fund, a managed account or other pool of assets that pursues substantially the same investment objective and strategy and invests side by side in substantially the same positions as the registered fund.

pension consultant Adviser that provides investment advice to employee benefit plans, governmental plans, or church plans with combined assets of \$200 million or more.

performance fee An investment advisory fee based on a share of capital gains on, or capital appreciation of, client assets.

predecessor performance Performance of investments that were not advised by the investment adviser for the entire period shown in an advertisement.

principal transaction Purchase of a security for its own account from a client by an adviser or related person, or sale of a security from its own account to a client by an adviser or related person.

private equity fund A private fund that is not a hedge fund, liquidity fund, real estate fund, securitized asset fund, or venture capital fund and that does not provide investors with redemption rights in the ordinary course.

private fund A pooled investment vehicle that would be an investment company under the Investment Company Act of 1940 but for Section 3(c)(1) or 3(c)(7) of the Investment Company Act, meaning funds that are distributed to a limited number of investors or only to qualified purchasers.

proprietary product Investment vehicle owned or managed by the adviser.

qualified client Investor who is exempt from the provision of the Investment Advisers Act of 1940 that prohibits private investment funds from charging performance-based fees. In 2021, the requirement for a qualified client was raised and is now at least \$1.1 million in assets with the adviser immediately after participating in the investment or a net worth of at least \$2.2 million (excluding the value of a primary residence).

qualified custodian A bank, registered broker-dealer, or futures commission merchant that maintains client funds and securities in a separate account for each client under that client's name or in accounts that contain only client funds and securities under the name of the investment adviser as agent or trustee for the clients. Certain foreign entities may be qualified custodians.

real estate fund A private fund that is not a hedge fund, that does not provide investors with redemption rights in the ordinary course, and that invests primarily in real estate and real estate related assets.

registered fund Investment company or business development company registered under the Investment Company Act of 1940.

registered representative The employee of a brokerage firm that is licensed with FINRA.

Regulation Best Interest The standard of conduct for brokerage firms and their registered representatives. It requires that brokerages and their representatives act in the best interest of retail customers at the time a recommendation is made and to address conflicts of interest.

regulatory assets under management (RAUM) Standardized method of calculating assets under management. RAUM are gross assets under management, including proprietary assets, assets managed without compensation, and assets of foreign clients. RAUM was mandated in Form ADV Part 1 beginning in 2011, although advisers may use other methodologies in Part 2A.

related person Any advisory affiliate and any person that is under common control with an adviser.

relying adviser An investment adviser eligible to register with the SEC that relies on a filing adviser to file (and amend) a single umbrella registration on its behalf.

securitized asset fund A private fund whose primary purpose is to issue asset backed securities and whose investors hold primarily debt securities in the fund.

separately managed account (SMA) An advisory account that is not a pooled investment vehicle (investment company, business development company, private fund, or other pooled investment vehicle).

soft dollar research Investment research that is obtained as part of an arrangement under which products or services other than execution of securities transactions are obtained by an adviser from or through a brokerage firm in exchange for the direction by the adviser of client brokerage transactions to the brokerage firm.

soft dollar safe harbor Regulatory safe harbor under Section 28(e) of the Exchange Act for advisers that use the commission dollars of advised accounts to obtain research and brokerage services.

testimonial A recommendation of an investment adviser given by a current client or investor.

third-party rating Rating or ranking of an investment adviser by an unrelated person that provides ratings or rankings in the ordinary course of its business.

umbrella registration Single registration by a filing adviser and one or more relying advisers that advise only private funds and certain separately managed account clients and that collectively conduct a single advisory business.

venture capital fund A private fund that says that it pursues a venture capital strategy, limits redemptions rights, limits investments other than direct equity holdings, and limits borrowings.

wrap fee program Arrangement under which a client receives a combination of transaction and advisory services for an all-inclusive wrap fee. This fee is generally based on assets under management.

INVESTMENT ADVISER INDUSTRY SNAPSHOT 2023

