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INVESTMENT ADVISER
ASSOCIATION

2013 Evolution Revolution

A Profile of the Investment Adviser Profession

**INVESTMENT ADVISER
ASSOCIATION**

1050 17th Street, NW, Suite 725
Washington, DC 20036-5514
202.293.4222
Fax 202.293.4223
www.investmentadviser.org

David G. Tittsworth

Executive Director
david.tittsworth@investmentadviser.org

Karen L. Barr

General Counsel
karen.barr@investmentadviser.org

Garrett Honea

Member Services Manager
garrett.honea@investmentadviser.org



P.O. Box 71, 29 Brook St.
Lakeville, CT 06039
860.435.0200
Fax 860.435.0031
www.nrs-inc.com

John Gebauer

Managing Director
jgebauer@nrs-inc.com

Joe DiGiglio

Consultant
jdigiglio@nrs-inc.com

Drew Ahrens

Senior Consultant
dahrens@nrs-inc.com

Max Dubecky

Technical Support Manager
mdubecky@nrs-inc.com

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Introduction

The Investment Adviser Association and National Regulatory Services are pleased to present our thirteenth annual Evolution Revolution report – a profile of the SEC-registered investment adviser profession. This report identifies significant trends and developments based on information that investment advisers are required to file with the U.S. Securities and Exchange Commission.

This dynamic profession employs more than 700,000 individuals. In 2013, a total of 10,533 firms reported that they collectively manage \$54.8 trillion in client assets – more than three times the annual GDP of the United States¹ and more than eight times the total savings deposits at all depository institutions.²

We hope our report will contribute to a better understanding of the diverse investment advisory profession.

We welcome your feedback and comments.

Explanation of Report Data

This report is based on Form ADV, Part 1 data filed by all SEC-registered investment advisers as of April 12, 2013. Advisers are required to file information electronically using the Investment Adviser Registration Depository (IARD) system.³

Last year's report was based on data as of July 16, 2012. Year-to-year comparisons within this report, therefore, are based on a nine-month comparison period.

Form ADV, Part 1 has significant limitations and anomalies. Please consult the text of Form ADV (available on the SEC's web site) for a more thorough understanding of the underlying data included in this report.

Increasingly, the terms “investment adviser” and “adviser” are used imprecisely in the press and by market participants and are often employed to refer to individuals or registered representatives of a broker-dealer. This is unfortunate and adds to the confusion in the general public regarding the different types of providers in the financial services industry. For the sake of clarity, throughout this report, the term “investment adviser” refers to an entity that is registered as such with the SEC, based on the definition set forth in the Investment Advisers Act of 1940.

¹ \$16.420 trillion as of 12/31/2012, U.S. Department of Commerce, Bureau of Economic Analysis.

² \$6.763 trillion as of 12/31/2012, Federal Reserve Bank of St. Louis, Federal Reserve Economic Data (FRED).

³ IAA and NRS have independently tabulated all data in this report. Whenever a number is rounded, it is rounded from the original data source. This method of rounding creates more accurate percentages, but may create complementary percentages that do not sum to 100%. Unless otherwise stated in this report, a null response to a “Yes or No” question is considered a “No,” and a null response to any other question is not included in the data set.

Executive Summary

Following are key findings of our 2013 report:

- *Number of Investment Advisers.* Since our 2012 report, the total number of investment advisers registered with the SEC remains virtually unchanged – rising by only 22 advisers from 10,511 to 10,533. The composition of the registered population shifted, however, in that 619 advisers in 2013 were newly registered, while 597 de-registered. It appears that most of the de-registrations may be attributable to smaller advisers belatedly switching to state registration.
- *Regulatory Assets Under Management.* SEC-registered investment advisers in 2013 reported \$54.8 trillion in aggregate regulatory assets under management (RAUM), a substantial increase of 10.9% from \$49.4 trillion in 2012. This increase is particularly notable given that the number of SEC-registered investment advisers has not changed significantly. This increase in RAUM managed by advisers may be attributable to both rising markets and organic growth in the industry, evidenced by the increase in the number of clients served.
- *Asset Concentration.* As reported in previous years, a relatively small number of very large advisers manage a high percentage of total RAUM. This year, the 99 largest advisers, *i.e.*, those reporting \$100 billion in RAUM or more, collectively accounted for more than half (50.9%) of all reported RAUM – a 2.0% increase from last year – but only accounted for 0.9% of the total number of SEC-registered advisers. On the other end of the spectrum, advisers with less than \$1 billion RAUM – which account for 72.7% of all advisers – collectively managed only 3.7% of all reported RAUM.
- *Custody.* Most investment advisers still report that they or a related person do not have custody of client assets or securities (other than being deemed to have custody by virtue of deducting advisory fees). The percentage of all SEC-registered investment advisers reporting that they or a related person had custody remained relatively steady in 2013 after having increased dramatically from 29.8% in 2011 to 42.4% in 2012. Last year's change was likely due to the double impact of the shift of smaller advisers to state registration and the private fund adviser registration provisions of the Dodd-Frank Act. This year, 4,530 advisers (43.0%) reported that they or a related person had custody of client assets. Those advisers reported that their firms have custody with respect to \$7.2 trillion in assets while their related persons have custody with respect to \$7.6 trillion in assets.⁴ Less than 1% of advisers (99) reported acting as a “qualified custodian” in connection with their advisory services – thus, only a very small number have actual physical custody of client assets. Private fund advisers reported a high incidence of custody of client assets, likely because a firm acting as both an adviser and general partner to a limited partnership is deemed to have custody.⁵ Indeed, of firms that identified themselves as advisers to private funds, 85.3% also reported that they or a related person had custody of client assets.
- *Small Businesses.* Despite the shift of smaller advisers to state registration (*i.e.*, advisory firms that manage less than \$100 million RAUM), the fact remains that the vast majority of SEC-registered investment advisers are small businesses. In 2013, more than half of all advisers (57.8%) reported having ten or fewer full-time and part-time non-clerical employees, and 88.3% reported having fewer than 50 such employees. Similarly, 53.6% of firms reported having five or fewer employees engaged specifically in investment advisory functions (including research), and 73.6% reported having ten or fewer.

⁴ See note 15, *infra*.

⁵ 17 CFR 275.206(4)-2(d)(2)(iii).

- *Advisory Clients.* In 2013, advisers reported serving at least 25,464,062 clients – an increase of 9.6% from 23,225,455 in 2012.⁶ Consistent with prior years, more than half of all registered advisers reported having both non-high net worth and high net worth individuals as clients. Despite the shift of smaller advisers to state registration, individuals continue to comprise the largest categories of clients of SEC-registered advisers – 61.5% of advisers have individuals as clients.
- *Private Fund Advisers.* In 2013, 3,811 investment advisers (36.2%) reported advising at least one private fund, with a total of 26,695 private funds, approximately 27.0% of which are funds of funds.⁷ The total gross asset value of all private funds is approximately \$8.5 trillion – up 4.5% from 2012 – representing more than 15.4% of all reported RAUM. The average gross asset value of these private funds is \$316.9 million, while the median is \$51.1 million, reflecting a small number of very large funds. Hedge funds comprise 40.8% of all reported private funds, while private equity funds comprise 32.6%.
- *Firms subject to Executive Compensation Rules.* Pursuant to Section 956 of the Dodd-Frank Act, the SEC and other federal regulators have proposed regulations related to incentive-based compensation arrangements for registered investment advisers with at least \$1 billion in balance sheet assets. In response to a question on Form ADV designed to identify such investment advisers, 428 advisers reported having at least \$1 billion in total balance sheet assets on the last day of their most recent fiscal year – a significant increase from the 284 advisers so reporting last year.

The 2013 “Typical” SEC-Registered Investment Adviser

- U.S. based limited liability company or corporation
- Exercises discretionary authority over most accounts
- \$299.0 million in regulatory assets under management (median)
- 8 employees (median)
- 26 – 100 clients (median)
- 100 accounts (median)
- Clients include individuals, high net worth individuals, pension and profit sharing plans
- Does not have actual physical custody of client assets or securities

Regulatory Assets Under Management

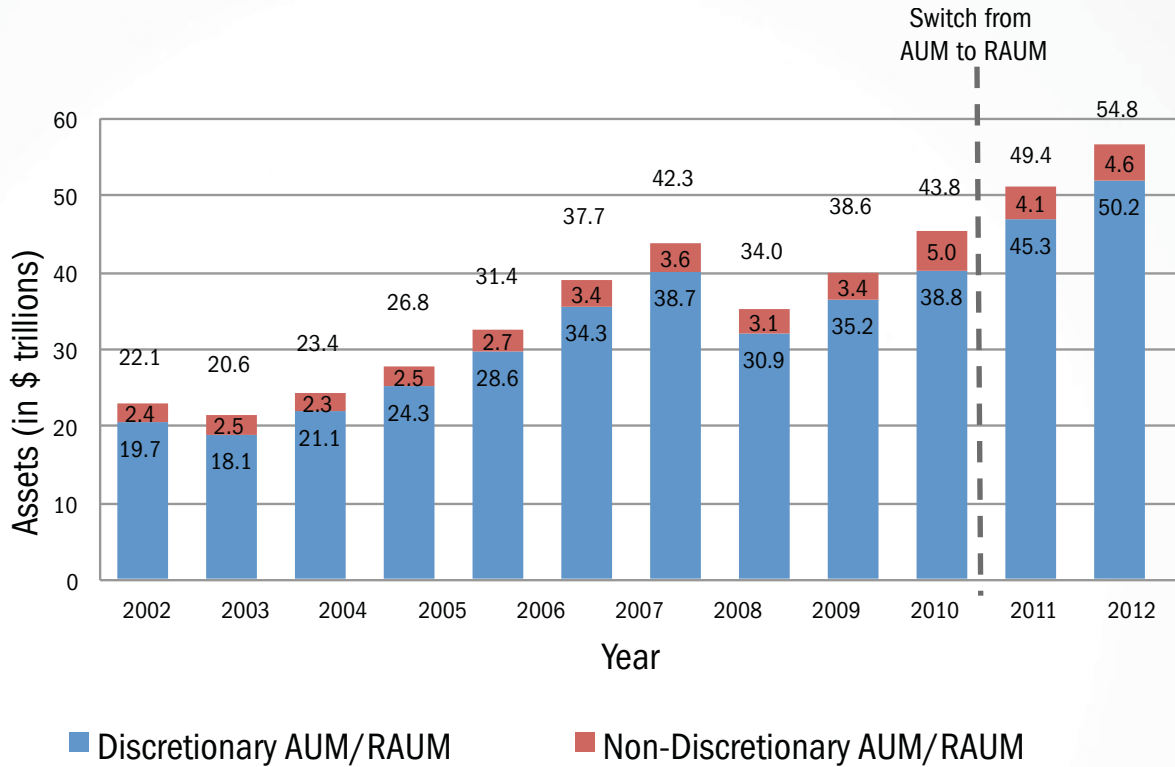
Advisers reported total regulatory assets under management (RAUM) of \$54.8 trillion in 2013, an increase of approximately \$5.4 trillion, or 10.9%, from the \$49.4 trillion in RAUM in 2012. This is the second year the RAUM methodology has been employed, thus allowing for a year-over-year comparison. The dramatic increase in RAUM is notable considering the number of registered investment advisers is virtually unchanged from 2012 (10,533 in 2013 versus 10,511 in 2012). Therefore, it is likely that the increase in RAUM can be attributed, at least in part, to the general increase in the markets during the relevant reporting time period.⁸

⁶ Advisers are only required to report an exact number of clients if they have more than 100. These figures do not include advisers reporting 100 or fewer clients.

⁷ 4,018 advisers reported being “an adviser to any private fund” in Form ADV, Part 1, Item 7B; 3,811 advisers reported advising at least one private fund in Form ADV, Schedule D 7B(1); and in Form ADV, Schedule D 7B(2), 615 advisers reported advising at least one private fund that is reported by another adviser.

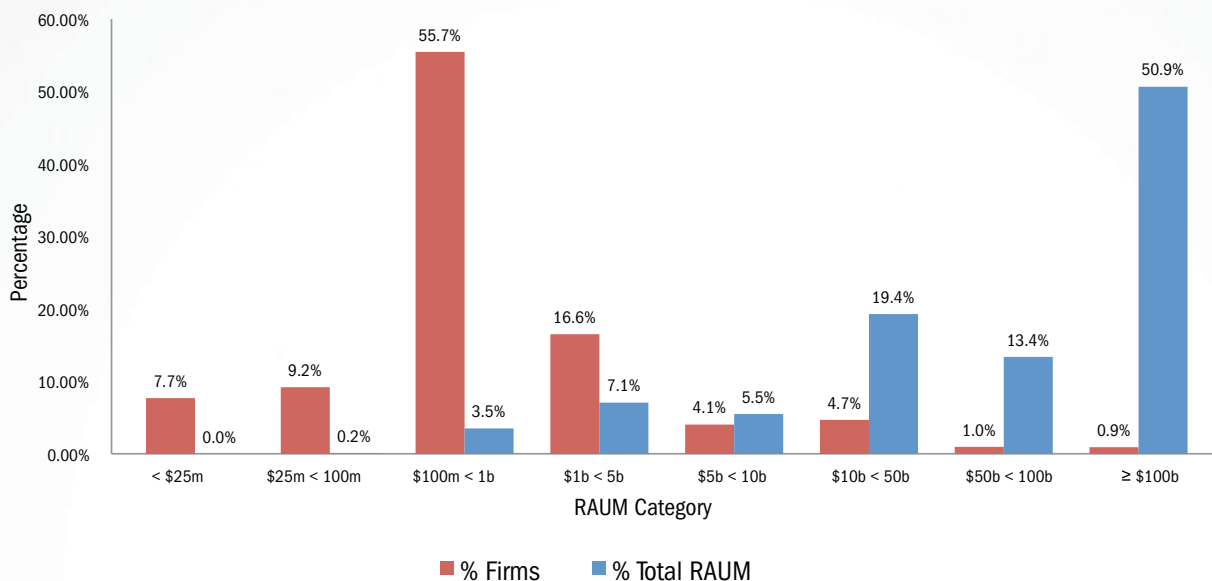
⁸ The S&P 500 Index closed at 1,257.60 on 12/31/2011 and 1,426.19 on 12/31/2012 – an increase of 13.4%.

Chart 1: Regulatory Assets Under Management Comparison 2002-2013



Continuing the recent trend, there was a shift towards greater market concentration of RAUM in larger SEC-registered advisers. The 99 investment advisers with RAUM greater than \$100 billion saw their share of total RAUM rise from 48.9% in 2012 to 50.9% in 2013. During the same time period, advisers with RAUM between \$50 and \$100 billion saw their share of RAUM increase from 12.7% to 13.4%. Meanwhile, the share of assets managed by advisers with less than \$50 billion decreased from 38.4% of total RAUM in 2012 to 35.7% in 2013. Advisers with less than \$1 billion RAUM – 72.7% of all SEC-registered advisers – manage 3.7% of all reported RAUM.

Chart 2: Concentration of Regulatory Assets Under Management by RAUM Category



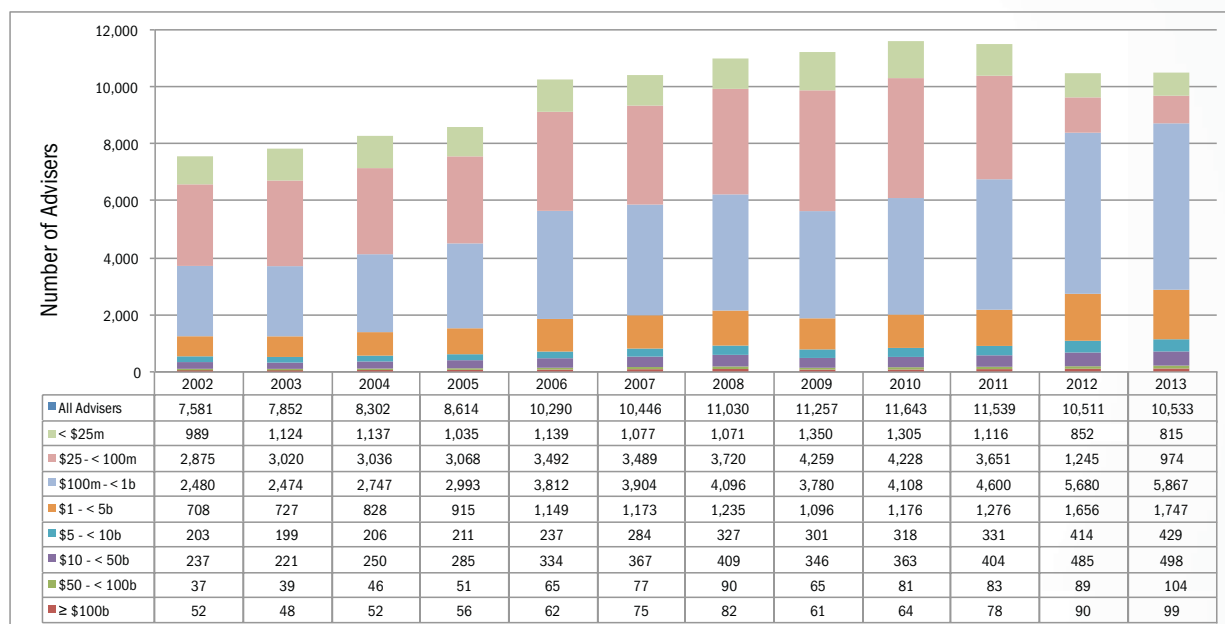
Discretionary vs. Non-Discretionary Accounts. SEC-registered advisers reported that they manage client assets on a discretionary basis for 14.8 million accounts and on a non-discretionary basis for 5.6 million accounts. The percentage of total RAUM classified as non-discretionary has remained unchanged from 2012 at 8.3%, with the number of both non-discretionary accounts and discretionary accounts increasing by 7.8% and 6.2% respectively.

This contrasts with 2012, where “the switch” to state regulation by smaller firms and the influx of private fund advisers were likely responsible for a decline in the percentage of RAUM classified as non-discretionary from 11.4% in 2011 to 8.3% in 2012.

Number of Investment Advisers

After several notable regulatory changes in recent years impacting the total number of SEC-registered investment advisers, the number reported in 2013 was 10,533 - only a slight increase of 22 from 2012. The number of advisers in each RAUM category increased since our last report, except for those advisers with less than \$100 million in RAUM. Given that the S&P 500 Index increased by more than 13.4% in 2012,⁹ an overall increase in the value of managed assets likely contributed to the movement of many advisers into higher RAUM categories.

Chart 3: Number of SEC-Registered Investment Advisers by RAUM Category



The number of advisers with less than \$100 million in RAUM decreased by 308 since last year's report to 1,789. These advisers, presumably, qualify for registration with the SEC for reasons other than their RAUM-level.¹⁰ One caveat, though, as a result of the Dodd-Frank related changes last year, is that advisers with more than \$90 million in RAUM at the time of their last annual updating amendment (and that are currently SEC-registered) continue to qualify for SEC registration. The data reveal that 227 advisers report between \$90 and \$100 million in RAUM and also report that they qualify for SEC registration because they are a "large" advisory firm. Also included in the 1,789 advisers in the less than \$100 million RAUM categories were 293 newly registered advisers and 131 advisers that previously reported \$100 million or more.

⁹ Id.

¹⁰ The vast majority of investment advisers claim registration with the SEC on the basis that they manage RAUM of more than \$100 million. However, Item 2 of Form ADV specifies additional criteria under which entities are eligible for SEC registration, such as certain pension consultants, advisers to investment companies and certain business development companies, advisers that are not subject to examination by the state securities authority in which the adviser's principal office is located, certain multi-state advisers, Internet advisers, etc.

The chart below highlights changes in the number of advisers by RAUM category. Between 2011 and 2012, the number of advisers with RAUM between \$25 million and \$100 million decreased by 65.9%, compared to a 13.7% decrease from 2010-2011 and less than 1.0% from 2009-2010. The categories between \$100 million and \$50 billion RAUM, on the other hand, experienced accelerated growth during the past year, likely as a result of the introduction of more than 1,400 private fund advisers in that category pursuant to Dodd-Frank and the new RAUM definition.

Chart 4: Change in the Number of Advisers by RAUM Category

RAUM Category	2010 - 2011		2011 - 2012		2012 - 2013	
	Net Change	Percent Change	Net Change	Percent Change	Net Change	Percent Change
< \$25m	-189	-14.5%	-264	-23.7%	-37	-4.3%
\$25 < 100m	-577	-13.6%	-2,406	-65.9%	-271	-21.8%
\$100m < 1b	492	12.0%	1,080	23.5%	187	3.3%
\$1 < 5b	100	8.5%	380	29.8%	91	5.5%
\$5 < 10b	13	4.1%	83	25.1%	15	3.6%
\$10 < 50b	41	11.3%	81	20.0%	13	2.7%
\$50 < 100b	2	2.5%	6	7.2%	15	16.9%
≥ \$100b	14	21.5%	12	15.4%	9	10.0%
All Advisers	-104	-0.9%	-1,028	-8.9%	22	0.2%

There were 295 advisers who reported less than \$100 million RAUM in 2012 and are absent from this year's data, therefore, we conclude that a few hundred advisers were late "switchers," *i.e.*, they did not complete their de-registration from the SEC, as required, by June 30, 2012, but have since completed their change to state registration.

Offsetting those and other de-registrations were 619 new advisers in this year's data that were not present last year.

The 10,533 advisers reported this year represents the first increase, albeit small, in the number of SEC-registered advisers we have reported since the 10-year high of 11,643 in 2010. Within asset categories, the largest reported increase this year was in the RAUM category of \$100 million to \$1 billion. The number of advisers in this category increased from 5,680 firms in 2012 to 5,867 firms in 2013, a total increase of 187 firms.

Now that the changes in the composition of the profession resulting from the Dodd-Frank Act are relatively settled (*i.e.*, the migration of approximately 2,100 investment advisers with RAUM of \$100 million or less from SEC to state registration, combined with the SEC registration of more than 1,500 private fund investment advisers with RAUM of more than \$150 million), it will be interesting to see whether the growth that dominated the profession in the decade prior to Dodd-Frank will resume or whether consolidation and other trends in the profession may yield different results.

Custody of Client Assets

In December 2009, the SEC approved amendments to the investment adviser custody rule that dramatically overhauled the protocol that had been in place since 2003. Advisers were required to comply with the new rule by March 2010 and to respond to detailed new custody questions in their first annual updating amendment of Form ADV, Part 1 after January 1, 2011. Under the amended custody rule, an adviser with custody of client assets (with some exceptions) is required to: (1) maintain the assets with a “qualified custodian” (generally a bank or broker-dealer); (2) have a reasonable belief, after due inquiry, that the qualified custodian sends account statements directly to clients; and (3) undergo an annual surprise exam by an independent public accountant.

In addition, an adviser that maintains physical custody of client assets as a qualified custodian, or with an affiliate (related person) that acts as a qualified custodian of client assets in connection with advisory services, is required to have its surprise exam conducted by an independent accountant registered and subject to inspection by the Public Company Accounting Oversight Board (PCAOB). An adviser that serves as a qualified custodian, or with an affiliate that serves as a qualified custodian in connection with advisory services the adviser provides to clients, is also required to obtain, or have its affiliate obtain, an internal control report from an independent PCAOB accountant, attesting to the qualified custodian’s controls related to safekeeping of client assets.

There are two exceptions to the surprise exam requirement: (1) advisers deemed to have custody because their affiliate has custody of client assets are excepted from the surprise exam requirement if they can demonstrate that they are “operationally independent” from their affiliate; and (2) advisers that are deemed to have custody over client assets solely because they have authority to deduct fees are not required to undergo an annual surprise exam by an independent public accountant.

Further, advisers to pooled investment vehicles that are audited annually and that distribute audited financial statements to pool investors within certain time frames are deemed to have complied with the surprise exam requirement and are not required to undergo a surprise exam in addition to the annual audit.

The SEC’s 2009 Form ADV amendments request significant detail about custody practices in order to gather data and determine compliance with these new requirements. The SEC’s revisions to Part 1 that went into effect last year added even more custody data points, including information about the numbers of qualified custodians used by advisers and the number of related custodians that are “operationally independent.”

On March 4, 2013, the staff of the SEC’s Office of Compliance Inspections and Examinations published a Risk Alert warning advisers that its National Examination Program (NEP) had observed “widespread and varied non-compliance with elements of the custody rule.”¹¹ The NEP staff identified various “deficiencies,” including failures to recognize custody, failures to secure surprise exams as required, failures to satisfy the qualified custodian requirement, and failures to comply with the audit approach for pooled investment vehicles.¹² The staff concluded: “Advisers may want to consider their policies and procedures and their compliance with the custody rule in light of the deficiencies noted in this Alert. Deficiencies in this area have resulted in actions ranging from immediate remediation to enforcement referrals and subsequent litigation.”¹³

¹¹ SEC Office of Compliance and Inspections, Significant Deficiencies Involving Adviser Custody and Safety of Client Assets, National Exam Program Risk Alert, Vol. III, Issue 1 at p. 1 (March 4, 2013), available at: <http://www.sec.gov/about/offices/ocie/custody-risk-alert.pdf>.

¹² Id. at p. 3.

¹³ Id. at p. 7.

We submit that deficiencies in reporting on various aspects of the custody rule are not terribly surprising, given the complexity of the rule and as reflected in some of the anomalous data reported by advisers.

The overall number and percentage of firms with custody has remained relatively unchanged since last year. The total number of investment advisers in 2013 that reported having custody of client cash, bank accounts, and/or securities is 3,276, or 31.1% of all SEC registered advisers.¹⁴ This percentage increased from 30.4% in 2012. The percentage of advisers reporting that they or their related persons had custody remained steady at 43.0%, after increasing significantly from 29.8% in 2011 to 42.4% in 2012. Advisers reported being deemed to have custody with respect to \$7.2 trillion in client assets and reported that their related persons have custody with respect to \$7.6 trillion in client assets.¹⁵

Chart 5: Custody of Client Assets

Category	2011		2012		2013	
	# of Advisers	% of Advisers	# of Advisers	% of Advisers	% of Advisers	% of Advisers
Adviser has custody of client cash/bank accounts	2,371	20.5%	3,076	29.3%	3,157	30.0%
Adviser has custody of securities	2,313	20.0%	3,032	28.8%	3,103	29.5%
Related person(s) has custody of client cash/bank accounts	1,982	17.2%	2,937	27.9%	3,013	28.6%
Related person(s) has custody of securities	1,942	16.8%	2,910	27.7%	2,967	28.2%
Adviser and/or related person(s) has custody of advisory client assets (answered yes to any of the above)	3,436	29.8%	4,456	42.4%	4,530	43.0%

Private fund advisers report a high incidence of custody of client assets because a firm that acts as both adviser and general partner to a limited partnership is deemed to have custody.¹⁶ Indeed, of advisers that identified themselves as advisers to private funds, 85.3% also reported that they or a related person have custody of client assets.¹⁷

¹⁴ This figure represents investment advisers that responded affirmatively to Item 9.A(1) (“Do you have custody of any advisory clients’ cash or bank accounts [or] securities?”). This figure, however, may also include some related persons with custody of client assets because the custody rule states a firm is deemed to have custody if “a related person holds, directly or indirectly, client funds or securities, or has any authority to obtain possession of them, in connection with advisory services you provide to clients.” See 17 C.F.R. 275.206(4)-2(d)(2).

¹⁵ The total value of client funds and securities for which related persons reportedly had custody is \$7,571,480,317,838, but some firms reported identical assets values for themselves and their related persons, suggesting duplicate reporting of the same assets. We have made adjustments to correct for other likely reporting errors (e.g., one adviser apparently swapped responses and reported \$2.00 in assets with more than 11 million clients for both 9.A(2)(a) and 9.A(2)(b) and 9.B(2)(a) and 9.B(2)(b), and one adviser reported more than 132 million clients in 9.A(2)(b) but only 1-10 clients in 5C(1)).

¹⁶ See 17 CFR 275.206(4)-2(d)(2)(iii).

¹⁷ 4,018 firms reported having private funds as clients (i.e., they answered “yes” to Form ADV, Part 1A, Item 7.B). Of those 4,018 firms, 590 reported that neither they nor a related person had custody of client assets, resulting in a total of 3,428 advisers (85.3%) with custody. Some advisers to private funds reported having custody but also listed “zero” assets under custody. Specifically, 3,403 private fund advisers reported actual dollar amounts (i.e., more than “zero”) of assets in Items 9.A(2)(a) and 9.B(2)(a), but 25 more advisers, 3,428, reported in either Item 9.A(1) or 9.B(1) that they or related persons had custody.

Advisers with RAUM between \$100 million and \$1 billion constitute more than half of SEC-registered investment advisers (55.7%), and account for roughly half (48.9%) of advisers that report having custody. 1,603 of the 5,857 advisers in that RAUM category reported having custody of \$313.7 billion in client assets. By comparison, of the 99 largest firms by RAUM, 55 report having custody of \$2.2 trillion in client assets, accounting for 30.3% of the \$7.2 trillion total assets reported by all firms. Advisers in that RAUM category reported having custody with respect to an average of \$39.4 billion of assets for a total of 3.4 million clients. The average value of assets reported per investment adviser increased by 6.3% from 2012 to 2013,¹⁸ while the average number of clients increased by 9.2%, from 1,710 in 2012 to 1,884 in 2013.

Chart 6: Value of Assets and Number of Clients for Custody Accounts¹⁹

AUM Category	Number of Advisers	Advisers with Custody		Assets		Clients	
		Number	Percent	Total Value	Average	Number	Average
< \$25m	815	76	9.3%	\$86,607,053,214	\$1,139,566,490	225,310	2,965
\$25 < 100m	974	192	19.7%	\$7,116,967,068	\$37,067,537	2,721	14
\$100m < 1b	5,867	1,603	27.3%	\$313,709,093,467	\$195,701,244	95,738	60
\$1b < 5b	1,747	842	48.2%	\$857,258,956,904	\$1,018,122,277	274,646	326
\$5b < 10b	429	211	49.2%	\$615,513,168,388	\$2,917,124,021	158,530	751
\$10b < 50b	498	246	49.4%	\$1,923,895,831,261	\$7,820,714,761	1,202,201	4,887
\$50b < 100b	104	51	49.0%	\$1,195,692,303,324	\$23,444,947,124	768,523	15,069
≥ \$100b	99	55	55.6%	\$2,169,260,394,491	\$39,441,098,082	3,443,274	62,607
All Advisers	10,533	3,276	31.1%	\$7,169,053,768,117	\$2,188,355,851	6,171,043	1,884

The required controls employed by investment advisers reporting that they, or a related person, have custody of advisory client assets are shown below. Last year, the impact of the increase in the number of advisers to private funds was clearly seen in this data when compared to 2011. Consequently, the percentage of advisers reporting that an independent public accountant annually audits the pooled investment vehicle they manage and the audited financial statements are distributed to the investors in the pools – the control most commonly used by private fund advisers – had increased from 18.5% in 2011 to 33.9% in 2012. This year, that figure increased only slightly to 34.7%.

¹⁸ In 2012, the average value of assets per investment adviser (for those advisers reporting custody) was \$2,196,501,097.

¹⁹ 17 advisers reported not having custody, but went on to report custodied assets and/or clients. These advisers are included in the aggregate values of all IAs, but not in aggregate custody values of this chart.

Chart 7: Controls Required by Custody Rule

Control	2011		2012		2013	
	# of Advisers	% of Advisers	# of Advisers	% of Advisers	# of Advisers	% of Advisers
A qualified custodian(s) sends account statements at least quarterly to the investors in the pooled investment vehicle(s) you manage.	922	8.0%	1,141	10.9%	1,092	10.4%
An independent public accountant audits annually the pooled investment vehicle(s) that you manage and the audited financial statements are distributed to the investors in the pools.	2,130	18.5%	3,566	33.9%	3,652	34.7%
An independent public accountant conducts an annual surprise examination of client funds and securities.	1,176	10.2%	1,343	12.8%	1,374	13.0%
An independent public accountant prepares an internal control report with respect to custodial services when you or your related persons are qualified custodians for client funds and securities.	447	3.9%	485	4.6%	515	4.9%

The number of advisers that reported acting as a qualified custodian for clients decreased by 6.6% between 2012 and 2013 (106 to 99), contributing to the 17.5% decline since 2011, when 120 firms reported acting in such a capacity. The number of advisers reporting that a related person acts as a qualified custodian decreased only slightly from 420 in 2012 to 417 in 2013. Overall, 3,041 advisers reported using an aggregate 13,147 qualified custodians (including related custodians) for an average of more than four custodians per adviser. Of the 99 advisers reporting that they acted as a qualified custodian, 93 reported using a total of 357 qualified custodians.²⁰ Of the 417 advisers reporting that a related person acted as a qualified custodian, 400 reported using an aggregate of 2,338 qualified custodians. Only 21 advisers reported using 50 or more qualified custodians and 99 advisers reported using 20 or more qualified custodians.

Out of the advisory firms that reported at least one related person acting as a qualified custodian for clients, 184 firms reported being able to demonstrate that the related person is operationally independent.²¹ These firms are not required to obtain a surprise examination for client funds or securities maintained at the related qualified custodian.

Firms that are required to have an independent public accountant perform a surprise exam, conduct an annual audit of a pooled investment vehicle, or prepare an internal control report utilize no more than 1,218 accountants.²² 2,868 of the reports prepared by these accountants contained unqualified opinions (i.e., a “clean” audit or report), while 510 of the reports had not been provided as of the time of filing.

²⁰ The 6 remaining firms indicating in Item 9.D that they or a related person act as a qualified custodian reported using 0 qualified custodians in Item 9.F or left it blank. This seems to be a reporting error.

²¹ Rule 206(4)-(2)(d)(5) presumes that advisory firms are not operationally independent from a related person, unless certain conditions are met. 17 C.F.R. § 275.206(4)-2(d)(5). This figure excludes advisers that reported their related person was not acting as a qualified custodian (i.e., those who responded “no” to Schedule D, Item 7.A.8(a)), even if that related person was reported to be operationally independent (Schedule D, Item 7.A.8(b)).

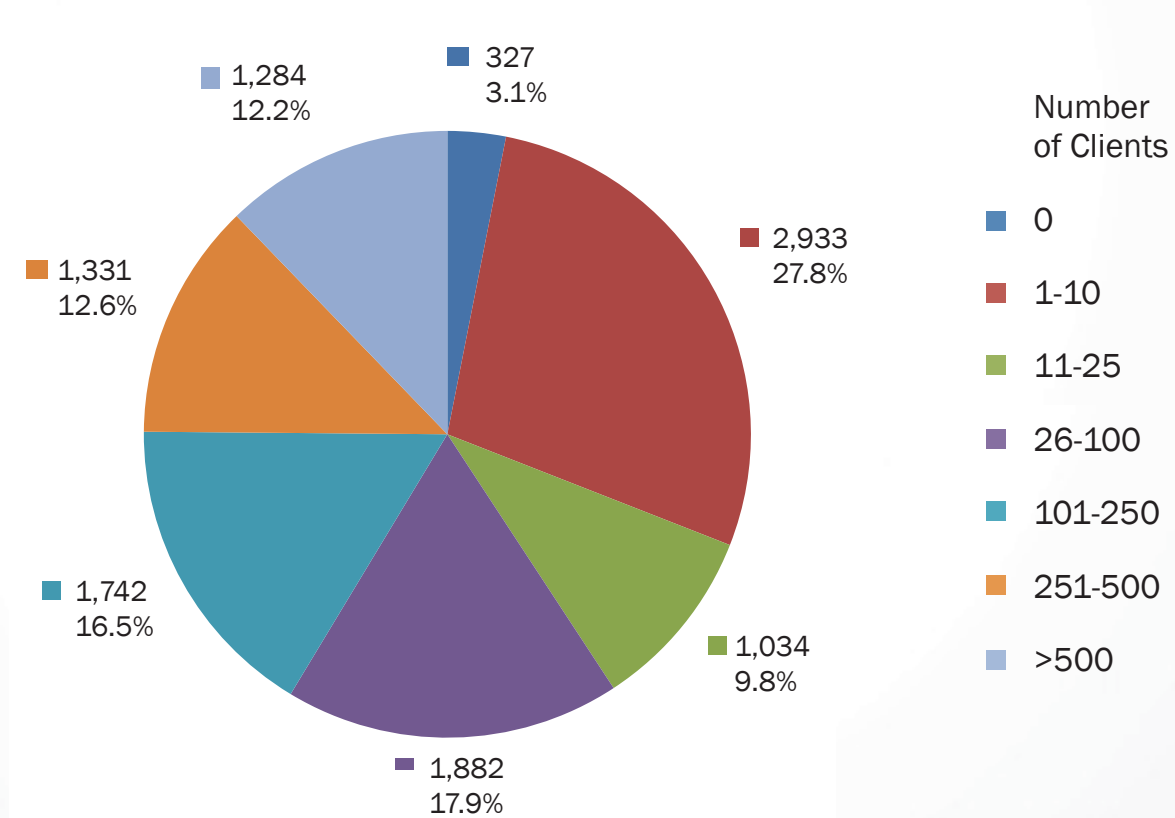
²² There were 1,218 unique accounting firm business names reported by advisers, though this likely overstates the number of unique accountants as names for the same accountant may have been submitted in slightly different iterations. For example, one adviser reported “DELOITTE & TOUCHE LLP,” and another “DELOITTE & TOUCHE.”

Surprisingly, the data indicate that 407 of the audit or internal control reports did not include an unqualified opinion. While this appears to imply there was a qualified opinion included in these cases, the phrasing of the Form ADV question may be sufficiently unclear to permit such an inference.²³

Clients of Investment Advisers

Commencing last year, changes to the questions on Form ADV, Part 1 provide additional detail on the number and types of advisory clients reported by SEC-registered investment advisers. Prior to 2012, advisers were only required to provide responses indicating ranges of clients. Now, advisers that have more than 100 clients are required to submit their total numbers of clients (rounded to the nearest 100).

Chart 8: Number and Percentage of Advisers by Number of Clients



²³ Form ADV, Schedule D, Item 9.C(6) asks "Does any report prepared by the independent public accountant that audited the pooled investment vehicle or that examined internal controls contain an unqualified opinion?" Note that we removed null responses from this data set rather than counting them as "No."

SEC-registered advisers in 2013 reported a total of at least 25,464,062 clients (up from 23,225,455 clients in 2012).²⁴ This represents a significant increase of 9.6% -- a strong indicator of an asset management profession that has weathered the storm of the recent financial crisis and the resulting regulatory reform.

While those reporting more than 100 clients comprise the largest category of advisers at 41.4%, a significant portion also report between 1 and 10 (27.8%) clients, as well as between 26 and 100 (17.9%) clients. The median number of clients reported by registered advisers in 2013 is between 26 and 100.

Individual clients continue to comprise the largest categories of advisory clients. Consistent with prior years, the 2013 data indicate that 6,289 (59.7%) of SEC-registered advisers have at least some high net worth clients and that 5,437 (51.6%) have at least some non-high net worth (or “retail”) clients.²⁵ 6,474 advisers (61.5%) report that they have at least some individual clients of either type. These are the only two categories of types of clients listed on Form ADV that exceed the 50% mark by all advisers. This dominance of individual clients is somewhat surprising when considering the changes in SEC registration requirements under the Dodd-Frank Act. The Dodd-Frank Act decreased the population of smaller advisers, brought in a number of previously exempted private fund advisers, and increased the overall average size of reporting advisers. Nonetheless, individuals continue to comprise the largest categories of clients among registered advisers.

Types of non-individual clients reflect some specialization within the advisory profession. In 2013, nearly half of investment advisers (49.1%) reported that at least one client is a pension or profit sharing plan. On the other hand, only 775 (7.4%) reported any banking/thrift institution clientele; only 917 (8.7%) reported any insurance company clients; only 1,315 (12.5%) reported any state or municipal government clients; and only 1,687 (16.0%) reported any investment company clients.

The 2012 changes in Form ADV, Part 1 described above now require advisers to report the approximate percentage of regulatory assets attributable to each category of client. The data allow for a comparison of the number of various types of clients to the percentage of total RAUM that each client type represents. Consistent with our analysis in 2012, the 2013 numbers line up relatively closely across the two measures.

²⁴ Advisers were only required to provide a specific number if they have more than 100 clients. This figure does not include advisers reporting 100 or fewer clients.

²⁵ For purposes of this reporting period, high net worth clients have at least \$1 million managed by the adviser or have a total net worth (including assets held jointly with his or her spouse) exceeding \$2 million (excluding the value of a person's primary residence for purposes of the net worth test).

Chart 9: Types of Clients by Percentage of Clientele

Type of Client	Percentage of Clientele							Total Reporting > 0	Percent of All Advisers
	None	Up to 10%	11 - 25%	26 - 50%	51 - 75%	76 - 99%	100%		
Individuals (other than high net worth individuals)	5,096	1,027	874	1,184	1,163	1,122	67	5,437	51.6%
High net worth individuals	4,244	1,254	1,146	1,518	1,181	1,080	110	6,289	59.7%
Banking or thrift institutions	9,758	601	82	38	12	13	29	775	7.4%
Investment companies	8,846	875	213	164	63	76	296	1,687	16.0%
Business development companies	10,427	57	9	9	2	0	29	106	1.0%
Pooled investment vehicles (other than investment companies)	6,266	1,033	345	400	281	404	1,844	4,307	40.9%
Pension and profit sharing plans (but not the plan participants)	5,363	3,611	717	413	168	152	109	5,170	49.1%
Charitable organizations	6,232	3,755	382	124	19	16	5	4,301	40.8%
Corporations or other businesses not listed above	5,985	3,722	529	180	63	21	33	4,548	43.2%
State or municipal government entities	9,218	929	201	107	27	19	32	1,315	12.5%
Other investment advisers	9,576	635	144	88	18	19	5	909	8.6%
Insurance companies	9,616	720	104	40	14	23	16	917	8.7%
Other	9,486 ²⁶	615	151	126	51	33	71	1,047	9.9%

²⁶ 945 null responses to "Other" are counted as 0.

Chart 10: Types of Clients by Percentage of RAUM²⁷

Type of Client	Percentage of RAUM					Total Reporting > 0	Percent of All Advisers
	None	Up to 25%	Up to 50%	Up to 75%	> 75%		
Individuals (other than high net worth individuals)	5,189	3,005	1,024	743	572	5,344	50.7%
High net worth individuals	4,358	2,215	1,269	1,367	1,324	6,175	58.6%
Banking or thrift institutions	9,839	565	39	29	61	694	6.6%
Investment companies	8,931	715	235	166	486	1,602	15.2%
Business development companies	10,440	52	6	2	33	93	0.9%
Pooled investment vehicles (other than investment companies)	6,263	1,273	357	298	2,342	4,270	40.5%
Pension and profit sharing plans (but not the plan participants)	5,566	3,970	469	230	298	4,967	47.2%
Charitable organizations	6,330	3,994	146	42	21	4,203	39.9%
Corporations or other businesses not listed above	6,217	3,943	197	92	84	4,316	41.0%
State or municipal government entities	9,290	965	140	65	73	1,243	11.8%
Other investment advisers	9,699	649	81	40	64	834	7.9%
Insurance companies	9,680	697	63	31	62	853	8.1%
Other	9,552 ²⁸	707	96	56	122	981	9.3%

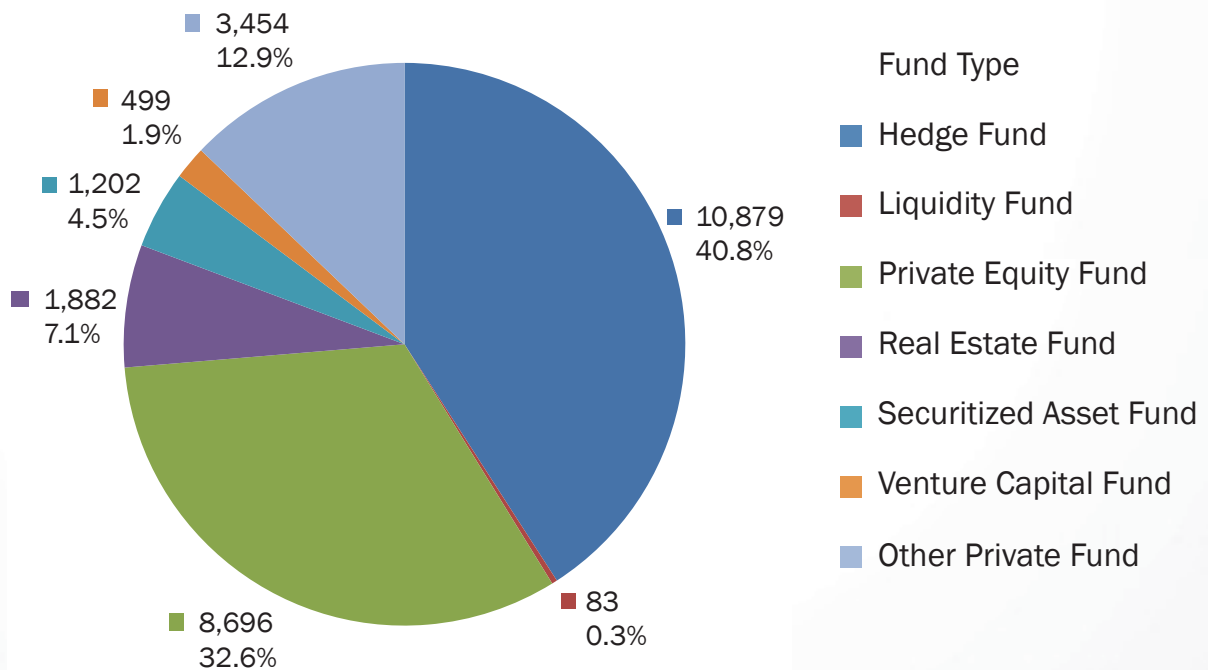
²⁷ Despite the fact that the actual text of Form ADV, Part 1 misstates questions relating to RAUM attributable to types of clients (the form asks advisers to report percentages of RAUM “up to 25%” and “up to 50%” and “up to 75%” instead of “26-50%,” “51-75%,” etc.), it appears that advisers have based their responses on how the questions should have been phrased.

²⁸ 990 null responses to “Other” are counted as 0.

Private Funds

This is the second year that advisers have been required to report on the details of the private funds they advise. Section 7.B.(1) of Schedule D asks advisers questions relating to each fund's type, gross asset value, number of owners, service providers, and a number of other areas. In 2013, 3,811 advisers (36.2%) reported advising 26,695 private funds, 27.0% of which are funds of funds (these numbers represent a marginal change from 2012 across the board). Hedge funds and private equity funds continue to represent the largest portions of this group, comprising nearly 75% of all reported private funds, with hedge funds making up 40.8% and private equity funds making up 32.6%. The total gross asset value of reported private funds is \$8.5 trillion (a 4.5% increase above 2012), more than 15.4% of all reported RAUM, with an average gross asset value of \$316.9 million. The median gross asset value, on the other hand, is \$51.1 million. The difference between the median and the average is attributable to a relatively small number of very large private funds. The number of beneficial owners of private funds also continues to vary widely, with most funds reporting few owners and a small number of funds reporting a very large number of beneficial owners. The median number of beneficial owners is 15, while the average number is 159.

Chart 11: Number and Percentage of Private Funds by Fund Type



Investment Adviser Compensation

Advisers are compensated in a number of ways and the data from 2013 reflect the continuation of some interesting industry developments that we first reported last year. Advisers reporting compensation based on hourly charges fell significantly from 36.5% in 2011 to 27.8% of advisers in 2013 (virtually flat year-over-year from 2012). The initial decrease from 2011 to 2012 was likely the result of the Dodd-Frank Act's impact on the number of smaller advisers—those more likely to charge hourly based fees—registered with the SEC. Advisers reporting compensation based on performance-based fees, on the other hand, increased from 27.0% in 2011 to 38.9% in 2013 (virtually flat year-over-year from 2012). The initial increase from 2011 to 2012 in the number of advisers receiving performance-based compensation was attributable to the growth in the number of advisers to private funds, the majority of which receive performance-based compensation. What has not changed is the dominance of asset-based fees in the investment advisory profession. Consistent with our prior reports, 95.0% of advisers report that they are compensated based on a percentage of their client's RAUM.

Chart 12: Investment Adviser Compensation

Category of IA Compensation	2010		2011		2012		2013	
	Number of Advisers	Percent of All Advisers	Number of Advisers	Percent of All Advisers	Number of Advisers	Percent of All Advisers	Number of Advisers	Percent of All Advisers
Percentage of Client's AUM	11,110	95.4%	11,036	95.6%	9,986	95.0%	10,011	95.0%
Hourly Charges	4,289	36.8%	4,215	36.5%	2,911	27.7%	2,933	27.8%
Subscription Fees	164	1.4%	145	1.3%	128	1.2%	124	1.2%
Fixed Fees	5,281	45.4%	5,314	46.1%	4,303	40.9%	4,374	41.5%
Commissions	1,038	8.9%	954	8.3%	646	6.1%	570	5.4%
Performance Based Fees	3,233	27.8%	3,116	27.0%	4,090	38.9%	4,095	38.9%
Other	1,305	11.2%	1,304	11.3%	1,383	13.2%	1,450	13.8%

Other Characteristics of Investment Advisory Firms

Employees

Form ADV, Part 1 (Item 5) was revised last year to require advisers to submit exact numbers of their full-time and part-time employees (excluding clerical workers) and employees who perform investment advisory services (including research). In past years, advisers were only required to provide responses indicating ranges of certain employees. In addition, advisers are required to provide information on the number of employees who are also registered representatives of a broker-dealer, state-licensed investment adviser representatives, and licensed agents of an insurance company or agency.

Chart 13: Investment Adviser Non-Clerical Employees

Number of Employees	# of Advisers		
	2011	2012	2013
0 to 5	5,742	3,687	3,620
6 to 10	2,193	2,456	2,456
11 to 50	2,525	3,180	3,211
51 to 250	777	870	922
251 to 500	133	127	131
501 to 1,000	75	100	87
More than 1,000	94	89	97
Total		759,438	707,097
Average	Not Available	72	67
Median		8	8

In 2013, SEC-registered advisers reported a total of 707,097 non-clerical employees. This represents a 6.9% drop in employment from 2012.²⁹ Of these employees, 342,010 provide investment advisory services (including research). Advisers collectively reported 339,669 employees who are also registered representatives of a broker-dealer. However, 69.9% of advisers (7,365) reported no registered representatives.

Even though smaller advisers have now switched to state regulation, the data confirm that most SEC-registered investment advisers are small businesses. In fact, 57.8% (6,085) reported that they employ 10 or fewer non-clerical employees, and 88.3% (9,296) reported that they employ 50 or fewer non-clerical employees.

²⁹ This drop is primarily due to downsizing or corrected reporting by advisers with more than 1,000 employees. Data from Form ADV show that the number of advisers with more than 1,000 employees increased from 89 in 2012 to 97 in 2013. However, advisers in this category reported a net reduction in employment of 47,584 employees, with 43,609 of those employees coming from one large firm. It appears that this firm corrected a clerical error in its 2013 updating amendment.

Chart 14: Activities by Investment Adviser Employees

Number of Employees	Number of advisers with employees who:				
	perform investment advisory functions	are registered representatives of a broker-dealer	are registered with more than 1 state(s) as investment adviser representative	are registered with more than 1 state(s) as investment adviser representative for another adviser	are licensed agents of an insurance company
Zero	190	7,365	5,403	9,562	8,291
1 to 5	5,455	1,652	3,443	722	1,600
6 to 10	2,108	521	810	119	198
11 to 50	2,170	651	613	100	222
51 to 250	470	234	162	25	116
251 to 500	60	42	27	2	30
501 to 1,000	31	44	29	1	33
More than 1,000	49	60	46	2	43
Total	342,010	339,669	249,924	12,347	226,397
Average	32	32	24	1	21
Median	5	0	0	0	0

Other Business Activities

Advisers' engagement in business activities other than investment advice remained largely unchanged from 2012, with one exception. There was a noticeable increase in the number of advisers who are also commodity pool operators (CPOs) or commodity trading advisors (CTAs). Last year, 9.6% (1,004) of registered investment advisers were also CPOs/CPAs while this year 13.6% (1,428) reported acting as such, a 42.2% increase. While this increase is not as dramatic as the nearly three-fold increase from 2011 to 2012 (355 advisers to 1,004 advisers respectively), the trend is noteworthy and likely the result of (1) the Dodd-Frank Act's inclusion of "swaps" in the definition of commodity pool; and (2) the clarification in Form ADV that this question applies to both registered and exempt CPOs and CTAs.

Chart 15: Other Business Activities of Investment Advisers

Firm's Non-Advisory Business	Number of Advisers	Percentage of Advisers
Broker-dealer	477	4.5%
Registered Representative of a broker-dealer	481	4.6%
Commodity pool operator or commodity trading advisor	1,428	13.6%
Futures commission merchant	31	0.3%
Real estate broker, dealer, or agent	52	0.5%
Insurance broker or agent	882	8.4%
Bank	21	0.2%
Trust company	21	0.2%
Registered municipal advisor	62	0.6%
Registered security-based swap dealer	1	0.0%
Major security-based swap participant	1	0.0%
Accountant or accounting firm	142	1.3%
Lawyer or law firm	20	0.2%
Other financial product salesperson	191	1.8%

As in years past, most advisers focus primarily on providing investment advice to clients. In 2013, 6,874 advisers (65.3%) reported that they are not actively engaged in any other business other than giving investment advice about securities. Also, the number of advisers whose other business activities includes broker-dealer or insurance broker or agent remained virtually unchanged from 2012; however, the number of firms that reported acting as a registered representative of a broker-dealer declined from 530 (5.0%) to 481 (4.6%), possibly as a result of delayed “switching” by smaller firms to state registration.

Financial Industry Affiliations

Form ADV requires advisers to disclose information relating to their affiliations with other persons in the financial industry. Last year, changes to Form ADV added new categories created by the Dodd-Frank Act and broke down the previous years' categories of affiliations into more specific groups, such as separating the reporting of affiliations with futures commission merchants from those with CPOs/CTAs. The average adviser in 2013 reported two affiliations, with a median number of affiliations of one. In 2013, 2,398 advisers (22.8%) reported only one financial industry affiliation; 1,747 advisers (16.6%) reported exactly two affiliations; 975 advisers (9.3%) reported three affiliations; and 1,529 advisers (14.5%) reported 4-14 affiliations. Further, 4,018 advisory firms reported being an "adviser to any private fund."

Chart 16: Financial Industry Affiliations

Related person is:	Number of Advisers	Percentage of Advisers
Broker-dealer, municipal securities dealer, or government securities broker or dealer	2,318	22.0%
Other investment adviser (including financial planners)	3,939	37.4%
Registered municipal advisor	370	3.5%
Registered security-based swap dealer	55	0.5%
Major security-based swap participant	10	0.1%
Commodity pool operator/trading advisor (whether registered or exempt)	1,680	15.9%
Futures commission merchant	270	2.6%
Banking or thrift institution	853	8.1%
Trust company	690	6.6%
Accountant or accounting firm	742	7.0%
Lawyer or law firm	475	4.5%
Insurance company or agency	1,700	16.1%
Pension consultant	573	5.4%
Real estate broker or dealer	470	4.5%
Sponsor or syndicator of limited partnerships (or equivalent), excluding pooled investment vehicles	636	6.0%
Sponsor, general partner, managing member (or equivalent) of pooled investment vehicles	3,544	33.6%

In 2013, 3,884 advisers (36.9%) reported having no financial industry affiliations. Of those reporting no other affiliations, 664 advisers reported an affiliation with a sponsor, general partner, or managing member of a pooled investment vehicle as their only affiliation, perhaps reflecting the integrated structure of private fund adviser complexes. As in years past, the most common affiliation among registered investment advisers is with another investment adviser, with 37.4% reporting such an affiliation.

Location of Investment Advisers

The locations of the main offices of investment advisers are concentrated in a small number of states. The distribution likely is driven by several factors, including access to financial markets, population, and net worth. Not surprisingly, New York and California top the list with 2,096 and 1,239 advisers, respectively. Texas, Massachusetts, and Illinois round out the top five.

It is clear that New York,³⁰ as a major world financial hub, is an attractive location for investment advisers to be headquartered. Proximity to New York City is also partially responsible for Connecticut and New Jersey being the seventh and ninth states for investment advisers to be located. Connecticut's ranking is also influenced by the concentration of hedge funds located in the Greenwich and Stamford areas.

Chart 17: Top Ten States by Number of Investment Advisers Headquartered³¹

State	Number of Advisers	Rank	Population (2010)	Rank	Average Household Net Worth (2007)	Rank
New York	2,096	1	19,378,102	3	\$525,358	13
California	1,239	2	37,253,956	1	\$559,819	5
Texas	553	3	25,145,561	2	\$481,273	20
Massachusetts	515	4	6,547,629	14	\$577,681	4
Illinois	488	5	12,830,632	5	\$542,457	10
Pennsylvania	423	6	12,702,379	6	\$474,152	25
Connecticut	417	7	3,574,097	29	\$631,272	2
Florida	339	8	18,801,310	4	\$479,325	22
New Jersey	274	9	8,791,894	11	\$645,594	1
Ohio	225	10	11,536,504	7	\$465,366	26

Given the fact that Los Angeles, San Francisco, and Chicago are home to secondary financial hubs, both California and Illinois rank high among states that are home to advisory practices. And the large population base in Texas contributes to that state's high ranking.

Massachusetts is an interesting occupant of the number four position in the rankings. It is only the 14th state in population ranking, but it has a high average household net worth and is the home of many advisers in the mutual fund industry.

³⁰ New York is one of the states that does not subject investment advisers to examination by the state securities authority and, as such, advisers in New York with RAUM of less than \$100 million can qualify for registration with the SEC. The total number of SEC-registered advisers includes 286 advisers with their main office address in New York and that selected Form ADV, Part 1, Item 2.A(2) to indicate eligibility for SEC registration.

³¹ Population data obtained from U.S. Census Bureau, 2010 Census; net worth data obtained from Board of Governors of the Federal Reserve System, "2007 Survey of Consumer Finances," February 2009.

Disciplinary Information

It tends to be difficult to draw meaningful conclusions from the disciplinary disclosure information provided in Form ADV, Part 1. For example, the details contained in the disciplinary disclosure reporting pages for Form ADV, Part 1, Item 11 are not available in the aggregate. Also, the information is provided for the advisory firm and its employees, officers, directors, and advisory affiliates for the past 10 years, whether or not these persons or entities were affiliated with the reporting firm during that time. In addition, the same disciplinary event at one firm may be reported by multiple separate affiliates and the same disciplinary event may generate affirmative answers to several different questions. The SEC has added a helpful clarifying question: firms must now indicate whether any of the events reported involve the firm or its supervised persons.

Subject to these limitations, we make the following observations:

- 9,063 of registered investment advisers (86.0%) reported no disciplinary history at all, which is comparable to last year, when 9,064 advisers (86.2%) reported no disciplinary history. While newly registered advisers made up a total of nearly 5.9% of the total number of investment advisers, the number of newly registered advisers reporting disciplinary history makes up only 4.3% of the 1,470 advisers now reporting such history.
- Of the 87 advisers reporting that it or an advisory affiliate had been charged with a felony, 33 firms (0.3%) reported having been convicted or having pled guilty or nolo contendere (“no contest”) to the charges in court.
- The SEC or the Commodity Futures Trading Commission (CFTC) has reportedly found 172 firms or advisory affiliates (1.6%) to have made a false statement or omission and 404 firms (3.8%) to have been involved in the violation of SEC or CFTC regulations or statutes. However, only 15 firms reported that they or an advisory affiliate has been found by the SEC or CFTC of having been the cause of an investment-related business having its authorization to conduct business denied, suspended, revoked, or restricted.
- Of the 1,470 advisers reporting at least one disciplinary event, 800 advisers reported that at least one of the events involved the firm or its supervised persons (as opposed to an affiliate).³²
- Of the 619 advisers newly registered since our last report, 63 (10.2% of new advisers) reported a disciplinary event, and 29 (4.7% of new advisers) reported that the event involved them or a supervised person. Private fund advisers make up 197 of all newly registered advisers (31.8%), and accounted for 18 of the 63 new advisers (28.6%) that reported a disciplinary event.

³² Curiously, however, an additional 34 advisers reported that a disciplinary event outlined “below”—in Item 11 of Form ADV—involved them or a supervised person, but did not mark any specific disciplinary events in response to subsections of Item 11. These advisers are included in the aggregate number of advisers with no disciplinary history.

Appendix: Form ADV, Part 1 Responses 2012-2013

The following represents the aggregate data from Form ADV, Part 1 filed by all SEC-registered investment advisers as of April 12, 2013 and compares that data to the data from July 16, 2012, which formed the basis for the 2012 Evolution Revolution Report. The presentation generally follows the order in which Form ADV, Part 1 asks its questions with a brief description of the item, but does not include data from Schedules A through D or disciplinary reporting pages (DRPs).

The 2011 Evolution Revolution report contained an appendix of data derived from Evolution Revolution reports for the previous 11 years. Form ADV, Part 1 has been revised so significantly after that report (including new and amended questions and changed item numbers) that presenting a year-to-year comparison to subsequent years in a similar format would not be meaningful. For historical information before 2012, please see:

https://www.investmentadviser.org/eweb/docs/Publications_News/Reports_and_Brochures/IAA-NRS_Evolution_Revolution_Reports/evolution_revolution_2011.pdf.

or:

<http://www.nrs-inc.com/About-Us/White-Papers/Evolution-Revolution-2011/>.

Form ADV Item/Question ¹	Value on 7/16/12	Value on 4/15/2013
Total Number of Advisers	10,511	10,533
Registration Status: New	164	128
Registration Status: Approved	10,347	10,405
Adviser Exempt from ADV Part 2	379	372
1: Number of IAs by		
Has a Web Site	8,572	8,722
Has a Foreign Registration	861	888
Is a Public Reporting Co.	109	100
Has more than \$1B in Assets	284	428
2A: Number of IAs by Basis of SEC Registration		
AUM	8,674	8,777
Mid-Size Exception	523	453
Wyoming IA	39	45
Foreign IA	583	598
IA to Investment Company of '40 Act	1,212	1,227
Business Development Co.	28	38
Pension Consultant IA	272	280
Rule 203A-2(c)	523	481
Newly Formed IA	144	110
Multi-State IA	144	128
Internet IA	63	67
Exempt	3	3
No Longer Eligible	771 ⁵	108 ⁵
3A: Number of IAs by Form of Organization		
Corporation	4,008	3,957
Sole Proprietorship	123	107
LLP	118	126
Partnership	154	122
LLC	5,331	5,402
LP	560	609
Other	217	210
3B: Number of IAs by Fiscal Year End		
January	31	33
February	16	15
March	221	230
April	26	28
May	25	23
June	163	169
July	17	20
August	11	11

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
September	154	156
October	55	59
November	30	28
December	9,762	9,761
5A: Number of IAs by Number of Non-Clerical Employees		
0-5	3,687	3,620
6-10	2,456	2,465
11-50	3,180	3,211
51-250	870	922
251-500	127	131
501-1000	100	87
More than 1000	89	97
Total Non-Clerical Employees	759,438	707,097
Average Non-Clerical Employees	72	67
Median Non-Clerical Employees	8	8
5B1: Number of IAs by Employees Performing Investment Advisory Functions		
0	217	190
1-5	5,496	5,455
6-10	2,123	2,108
11-50	2,085	2,170
51-250	450	470
251-500	63	60
501-1000	33	31
More than 1000	42	49
Total of Employee Subset	343,434	342,010
Average of Employee Subset	33	32
Median of Employee Subset	5	5
5B2: Number of IAs by Employees Who Are Registered Representatives of a Broker-Dealer		
0	7,367	7,365
1-5	1,646	1,652
6-10	514	521
11-50	619	615
51-250	217	234
251-500	47	42
501-1000	41	44
More than 1000	58	60
Total of Employee Subset	345,018	339,669
Average of Employee Subset	33	32
Median of Employee Subset	0	0

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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5B3: Number of IAs by Employees Who Are Registered Investment Adviser Representatives		
0	5,566	5,403
1-5	3,372	3,443
6-10	767	810
11-50	552	613
51-250	151	162
251-500	31	27
501-1000	28	29
More than 1000	42	46
Total of Employee Subset	222,112	249,324
Average of Employee Subset	21	24
Median of Employee Subset	0	0

5B4: Number of IAs by Employees Who Are Registered Investment Adviser Representatives for Another IA		
0	9,541	9,562
1-5	738	722
6-10	106	119
11-50	96	100
51-250	23	25
251-500	2	2
501-1000	1	1
More than 1000	2	2
Total of Employee Subset	11,387	12,347
Average of Employee Subset	1	1
Median of Employee Subset	0	0

5B5: Number of IAs by Employees Who Are Licensed Agents of an Insurance Company or Agency		
0	8,362	8,291
1-5	1,537	1,600
6-10	197	198
11-50	201	222
51-250	109	116
251-500	35	30
501-1000	25	33
More than 1000	42	43
Total of Employee Subset	224,845	226,397
Average of Employee Subset	21	21
Median of Employee Subset	0	0

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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5B6: Number of IAs by Number of Firms or Other Persons Soliciting Advisory Clients on Their Behalf		
0	7,561	7,604
1-5	2,523	2,495
6-10	199	203
11-50	162	161
51-250	48	52
251-500	7	9
501-1000	5	4
More than 1000	4	5
Total of Employee Subset	32,160	29,022
Average of Employee Subset	3	3
Median of Employee Subset	0	0

5C1: Number of IAs by Number of Advisory Clients		
0	418	327
1-10	2,949	2,933
11-25	1,030	1,034
26-100	1,987	1,882
More than 100	4,127	4,357
More than 100: Total Clients	23,225,455 ²	25,456,054 ²
More than 100: Average Clients	5,540	5,843
More than 100: Median Clients	300	300

5C2: Number of IAs by Foreign Client Percentage		
0%	6,681	6,627
1-10%	1,442	1,482
11-25%	376	396
26-50%	691	690
51-75%	530	524
76-89%	197	221
90-100%	590	592
Average Percentage	14	14
Median Percentage	0	0

5D1A: Number of IAs by Percentage of Retail Clients		
None	5,106	5,096
up to 10%	1,075	1,027
11-25%	859	874
26-50%	1,175	1,184
51-75%	1,096	1,163
76-99%	1,129	1,122
100%	67	67

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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5D1B: Number of IAs by Percentage of High-Net Worth Clients		
None	4,213	4,244
up to 10%	1,280	1,254
11-25%	1,140	1,146
26-50%	1,487	1,518
51-75%	1,167	1,181
76-99%	1,086	1,080
100%	134	110
5D1C: Number of IAs by Percentage of Banking/ Thrift Institution Clients		
None	9,736	9,758
up to 10%	606	601
11-25%	71	82
26-50%	38	38
51-75%	15	12
76-99%	13	13
100%	27	29
5D1D: Number of IAs by Percentage of Investment Company Clients		
None	8,828	8,846
up to 10%	870	875
11-25%	206	213
26-50%	151	164
51-75%	64	63
76-99%	80	76
100%	308	296
5D1E: Number of IAs by Percentage of Business Development Company Clients		
None	10,388	10,427
up to 10%	72	57
11-25%	13	9
26-50%	7	9
51-75%	1	2
76-99%	0	0
100%	25	29

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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5D1F: Number of IAs by Percentage of Other Pooled Investment Vehicle Clients		
None	6,242	6,226
up to 10%	1,022	1,033
11-25%	336	345
26-50%	360	400
51-75%	292	281
76-99%	391	404
100%	1,863	1,844
5D1G: Number of IAs by Percentage of Pension & Profit Sharing Plan Clients		
None	5,388	5,363
up to 10%	3,560	3,611
11-25%	713	717
26-50%	425	413
51-75%	170	168
76-99%	146	152
100%	105	109
5D1H: Number of IAs by Percentage of Charitable Organization Clients		
None	6,242	6,232
up to 10%	3,700	3,755
11-25%	391	382
26-50%	129	124
51-75%	17	19
76-99%	18	16
100%	9	5
5D1I: Number of IAs by Percentage of Corporate or Other Business Clients Not Listed Above		
None	6,022	5,985
up to 10%	3,657	3,722
11-25%	515	529
26-50%	199	180
51-75%	59	63
76-99%	23	21
100%	32	33

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
5D1J: Number of IAs by Percentage of State or Municipal Government Entity Clients		
None	9,205	9,218
up to 10%	922	929
11-25%	204	201
26-50%	105	107
51-75%	21	27
76-99%	19	19
100%	30	32
5D1K: Number of IAs by Percentage of Other IA Clients		
None	9,604	9,576
up to 10%	615	635
11-25%	125	144
26-50%	80	88
51-75%	17	18
76-99%	16	19
100%	49	53
5D1L: Number of IAs by Percentage of Insurance Company Clients		
None	9,635	9,616
up to 10%	688	720
11-25%	97	104
26-50%	38	40
51-75%	13	14
76-99%	19	23
100%	16	16
5D1M: Number of IAs by Percentage of Other Clients		
None	8,416 ^e	9,486 ^e
up to 10%	567	615
11-25%	171	151
26-50%	111	126
51-75%	39	51
76-99%	53	33
100%	79	71
5D2A: Number of IAs by Percentage of RAUM from Retail Clients		
None	5,198	5,189
Up To 25%	2,952	3,005
Up to 50%	1,023	1,024
Up to 75%	735	743
More than 75%	598	572

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
5D2B: Number of IAs by Percentage of RAUM from High-Net Worth Clients		
None	4,346	4,358
Up To 25%	2,253	2,215
Up to 50%	1,282	1,269
Up to 75%	1,337	1,367
More than 75%	1,291	1,324
5D2C: Number of IAs by Percentage of RAUM from Banking/Thrift Institution Clients		
None	9,808	9,839
Up To 25%	559	565
Up to 50%	46	39
Up to 75%	36	29
More than 75%	57	61
5D2D: Number of IAs by Percentage of RAUM from Investment Company Clients		
None	8,933	8,931
Up To 25%	714	715
Up to 50%	229	235
Up to 75%	154	166
More than 75%	476	486
5D2E: Number of IAs by Percentage of RAUM from Business Development Company Clients		
None	10,403	10,440
Up To 25%	68	52
Up to 50%	4	6
Up to 75%	3	2
More than 75%	28	33
5D2F: Number of IAs by Percentage of RAUM from Other Pooled Investment Vehicle Clients		
None	6,292	6,263
Up To 25%	1,253	1,273
Up to 50%	331	357
Up to 75%	297	298
More than 75%	2,333	2,342
5D2G: Number of IAs by Percentage of RAUM from Pension & Profit Sharing Plan Clients		
None	5,609	5,566
Up To 25%	3,900	3,970
Up to 50%	484	469
Up to 75%	228	230
More than 75%	286	298

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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5D2H: Number of IAs by Percentage of RAUM from Charitable Organization Clients

None	6,352	6,330
Up To 25%	3,946	3,994
Up to 50%	136	146
Up to 75%	46	42
More than 75%	26	21

5D2I: Number of IAs by Percentage of RAUM from Corporate or Other Business Clients Not Listed Above

None	6,270	6,217
Up To 25%	3,868	3,943
Up to 50%	207	197
Up to 75%	84	92
More than 75%	78	84

5D2J: Number of IAs by Percentage of RAUM from State or Municipal Government Entity Clients

None	9,282	9,290
Up To 25%	955	965
Up to 50%	147	140
Up to 75%	52	65
More than 75%	70	73

5D2K: Number of IAs by Percentage of RAUM from Other IA Clients

None	9,718	9,699
Up To 25%	620	649
Up to 50%	73	81
Up to 75%	31	40
More than 75%	64	64

5D2L: Number of IAs by Percentage of RAUM from Insurance Company Clients

None	9,695	9,680
Up To 25%	670	697
Up to 50%	50	63
Up to 75%	37	31
More than 75%	54	62

5D2M: Number of IAs by Percentage of RAUM from Other Clients

None	8,529 ⁶	8,607 ⁶
Up To 25%	683	707
Up to 50%	85	96
Up to 75%	58	56
More than 75%	134	122

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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5E: Number of IAs by Compensation Arrangements

Percentage of AUM	9,986	10,011
Hourly Charges	2,911	2,933
Subscription Fees	128	124
Fixed Fees	4,303	4,374
Commissions	646	570
Performance	4,090	4,095
Other	1,383	1,450

5F: Number of IAs Providing Continuous and Regular Supervisory or Management Services to Securities

5F1	10,154	10,163
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5F2: Number of IAs by RAUM Category

Discretionary RAUM: 0	1,121	1,064
Discretionary RAUM: 1<25m	496	466
Discretionary RAUM: 25<100m	1,518	1,299
Discretionary RAUM: 100m<1b	4,959	5,145
Discretionary RAUM: 1<5b	1,450	1,544
Discretionary RAUM: 5<10b	369	377
Discretionary RAUM: 10<50b	428	450
Discretionary RAUM: 50<100b	88	97
Discretionary RAUM: 100b or more	82	91
Non-Discretionary RAUM: 0	6,144	6,102
Non-Discretionary RAUM: 1<25m	1,549	1,586
Non-Discretionary RAUM: 25<100m	987	953
Non-Discretionary RAUM: 100m<1b	1,340	1,399
Non-Discretionary RAUM: 1<5b	356	345
Non-Discretionary RAUM: 5<10b	66	74
Non-Discretionary RAUM: 10<50b	56	60
Non-Discretionary RAUM: 50<100b	8	8
Non-Discretionary RAUM: 100b or more	5	6
Total RAUM: 0	550	515
Total RAUM: 1<25m	302	300
Total RAUM: 25<100m	1,245	974
Total RAUM: 100m<1b	5,680	5,867
Total RAUM: 1<5b	1,656	1,747
Total RAUM: 5<10b	414	429
Total RAUM: 10<50b	485	498
Total RAUM: 50<100b	89	104
Total RAUM: 100b or more	90	99

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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5F2: Assets by RAUM Category		
Discretionary RAUM: 1<25m	\$4,575,466,327	\$4,253,808,400
Discretionary RAUM: 25<100m	\$99,487,139,990	\$82,309,162,032
Discretionary RAUM: 100m<1b	\$1,631,236,561,703	\$1,696,220,425,698
Discretionary RAUM: 1<5b	\$3,281,799,984,856	\$3,423,286,804,378
Discretionary RAUM: 5<10b	\$2,579,455,595,589	\$2,637,305,303,748
Discretionary RAUM: 10<50b	\$9,131,390,047,745	\$9,541,466,262,477
Discretionary RAUM: 50<100b	\$6,095,038,937,834	\$6,832,353,560,068
Discretionary RAUM: 100b or more	\$22,498,969,585,329	\$25,975,453,124,714
Discretionary RAUM: Total	\$45,321,953,319,373	\$50,192,648,451,515
Discretionary RAUM: Average	\$4,311,859,321	\$4,765,275,653
Discretionary RAUM: Median	\$208,883,394	\$203,864,824
Non-Discretionary RAUM: 1<25m	\$12,775,158,634	\$13,162,998,556
Non-Discretionary RAUM: 25<100m	\$54,755,968,326	\$52,611,573,668
Non-Discretionary RAUM: 100m<1b	\$416,646,474,653	\$447,132,897,179
Non-Discretionary RAUM: 1<5b	\$778,044,973,618	\$773,908,217,984
Non-Discretionary RAUM: 5<10b	\$469,792,851,828	\$512,763,162,744
Non-Discretionary RAUM: 10<50b	\$1,115,288,259,557	\$1,257,393,411,725
Non-Discretionary RAUM: 50<100b	\$606,636,822,825	\$645,477,525,392
Non-Discretionary RAUM: 100b or more	\$666,727,145,924	\$870,330,150,048
Non-Discretionary RAUM: Total	\$4,120,667,655,365	\$4,572,779,934,296
Non-Discretionary RAUM: Average	\$392,033,836	\$434,138,416
Non-Discretionary RAUM: Median	\$0	\$0
Total RAUM: 1<25m	\$2,695,073,714	\$2,768,393,156
Total RAUM: 25<100m	\$84,137,740,886	\$62,978,780,883
Total RAUM: 100m<1b	\$1,858,118,424,674	\$1,938,631,189,882
Total RAUM: 1<5b	\$3,726,846,487,756	\$3,893,621,922,491
Total RAUM: 5<10b	\$2,890,715,791,139	\$3,031,228,170,649
Total RAUM: 10<50b	\$10,420,967,551,905	\$10,612,986,095,339
Total RAUM: 50<100b	\$6,258,477,269,353	\$7,363,506,903,529
Total RAUM: 100b or more	\$24,200,662,635,311	\$27,859,706,929,882
Total RAUM: Total	\$49,442,620,974,738	\$54,765,428,385,811
Total RAUM: Average	\$4,703,893,157	\$5,199,414,069
Total RAUM: Median	\$270,100,000	\$298,974,754

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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5F2: Number of IAs by Number of Accounts		
Discretionary Accounts: 0	764	694
Discretionary Accounts: 1-14	3,262	3,199
Discretionary Accounts: 15-50	1,067	1,104
Discretionary Accounts: 51-100	603	594
Discretionary Accounts: 101-500	2,302	2,264
Discretionary Accounts: >500	2,156	2,308
Discretionary Accounts: Total	13,904,345	14,771,526
Discretionary Accounts: Average	1,369	1,453
Discretionary Accounts: Median	50	55
Non-Discretionary Accounts: 0	5,787	5,732
Non-Discretionary Accounts: 1-14	1,915	1,932
Non-Discretionary Accounts: 15-50	824	843
Non-Discretionary Accounts: 51-100	394	395
Non-Discretionary Accounts: 101-500	778	786
Non-Discretionary Accounts: >500	456	475
Non-Discretionary Accounts: Total	5,234,258	5,642,440
Non-Discretionary Accounts: Average	515	555
Non-Discretionary Accounts: Median	0	0
Total Accounts: 0	193	145
Total Accounts: <15	3,216	3,156
Total Accounts: 15-50	1,135	1,167
Total Accounts: 51-100	632	616
Total Accounts: 101-500	2,448	2,398
Total Accounts: >500	2,530	2,681
Total Accounts: Total	19,138,603	20,413,966
Total Accounts: Average	1,885	2,009
Total Accounts: Median	92	100
5G: Number of IAs by Advisory Services		
Financial Planning	3,441	3,499
PM for Individuals/ Small Bus.	6,498	6,492
PM for Investment Co.	1,453	1,499
PM for Pooled Investment Vehicles	3,819	4,090

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
PM for Bus./Institutional Clients	5,542	5,442
Pension Consulting Services	1,711	1,751
Selection of Other Advisers	3,033	3,043
Publications	671	675
Security Ratings or Pricing	38	40
Market Timing Services	101	87
Educational Seminars/Workshops	451	571
Other	1,978	1,941
5H: Number of IAs by Number of Clients Provided Financial Planning Services		
0	2,469	2,307
1-10	801	784
11-25	429	437
26-50	411	425
51-100	451	456
101-250	540	564
251-500	289	301
>500	163	184
5I: Number of IAs Participating in a Wrap Fee Program and:		
sponsoring the wrap fee program	627	674
acting as pm for the wrap fee program	1,193	1,252
5J: Number of IAs Providing Investment Advice Only with Respect to Limited Types of Investments		
5J	3,297	3,237
6: Number of IAs by Other Business Activities		
Broker-Dealer	480	477
Registered Rep. of a Broker-Dealer	530	481
Commodity Pool Operator/Trading Adviser	1,004	1,428
Futures Commission Merchant	31	31
Real Estate Broker, Dealer, or Agent	57	52
Insurance Broker or Agent	889	882
Bank	19	21
Trust Company	19	21
Registered Municipal Advisor	56	62

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
Registered Securities-Based Swap Dealer	0	1
Major Security-Based Swap Participant	1	1
Accountant or Accounting Firm	126	142
Lawyer or Law Firm	17	20
Other Financial Product or Sales-person	179	191
Other Non-Advisory Business Not Listed	1,123	1,138
Non-Advisory Business Is Primary	441	360
Advisory Clients Sold Non-Advisory Services	1,643	1,717
7: Number of IAs by Financial Industry Affiliations & Private Fund Reporting		
Broker-Dealer or Muni./Gov. Broker or Dealer	2,361	2,318
Other IA	3,793	3,939
Registered Municipal Advisor	352	370
Registered Securities-Based Swap Dealer	13	55
Major Security-Based Swap Participant	24	10
Commodity Pool Operator/Trading Adviser	1,300	1,680
Futures Commission Merchant	275	270
Banking or Thrift Institution	906	853
Trust Company	635	690
Accountant or Accounting Firm	766	742
Lawyer or Law Firm	494	475
Insurance Broker or Agent	1,716	1,700
Pension Consultant	564	573
Real Estate Broker or Dealer	500	470
Sponsor or Syndicator of LPs	751	636
Sponsor, GP, or Managing Mem. of Pooled Investment Vehicles	3,200	3,544
Adviser to any Private Fund	3,979	4,018

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
8: Number of IAs by Participation or Interest in Client Transactions		
Principal Transactions	919	874
8A2 ³	7,946	7,962
8A3 ³	2,877	2,795
Agency Cross Transactions	511	469
8B2 ³	2,697	2,622
8B3 ³	1,224	1,176
8C1 ³	9,657	9,709
8C2 ³	9,648	9,705
8C3 ³	7,358	7,320
8C4 ³	6,517	6,426
8D ³	826	808
Recommend Brokers or Dealers to Clients	6,744	6,819
Recommend Related B/D to Clients	874	875
Soft Dollars	4,866	4,803
Soft Dollars under 28E of the 1934 Act	4,417	4,406
Compensate for Client Referrals	4,202	4,205
Receive Compensation for Client Referrals	1,075	1,146
9A: Number of IAs with Custody of Client Assets		
Cash or Bank Accounts	3,076	3,157
Securities	3,032	3,103
Funds Amount: 1<25m	640	641
Funds Amount: 25<100m	473	497
Funds Amount: 100m<1b	1,166	1,140
Funds Amount: 1<5b	447	485
Funds Amount: 5<10b	106	103
Funds Amount: 10<50b	99	106
Funds Amount: 50<100B	18	18
Funds Amount: >100b	7	7
Total Funds Amount	\$6,614,351,968,949	\$7,195,737,592,930
Average Funds Amount	\$2,237,602,155 ⁴	\$2,400,980,178 ⁴
Median Funds Amount	\$200,000,000 ⁴	\$204,913,149 ⁴
Accounts: 0	386	450
Accounts: 1-14	2,224	2,230
Accounts: 15-50	419	430

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
Accounts: 51-100	124	125
Accounts: 101-500	112	129
Accounts: >500	109	104
Accounts: Total	5,475,713	6,171,216
Accounts: Average	1,833 ⁴	2,045 ⁴
Accounts: Median	5 ⁴	5 ⁴
9B: Number of IAs by Related Persons with Custody of Client Assets		
Cash or Bank Accounts	2,937	3,013
Securities	2,910	2,967
Funds Amount: 1<25m	575	610
Funds Amount: 25<100m	439	447
Funds Amount: 100m<1b	1,242	1,222
Funds Amount: 1<5b	498	538
Funds Amount: 5<10b	122	127
Funds Amount: 10<50b	112	114
Funds Amount: 50<100B	20	23
Funds Amount: >100b	8	7
Total Funds Amount	\$7,712,765,264,192	\$7,571,480,317,838
Average Funds Amount ⁴	\$2,557,282,913	\$2,451,904,248
Median Funds Amount ⁴	\$236,729,293	\$240,368,707
Accounts: 0	188	220
Accounts: 1-14	2,342	2,398
Accounts: 15-50	338	363
Accounts: 51-100	98	103
Accounts: 101-500	111	114
Accounts: >500	140	126
Accounts: Total	6,780,712	6,744,127
Accounts: Average	2,239 ⁴	2,173 ⁴
Accounts: Median	5 ⁴	5 ⁴
9C: Number of Advisers by Custody Controls		
Q.C. Sends Statements to Pooled Investors	1,141	1,092
Pooled Investments Annual Audit	3,566	3,652
Surprise Exam	1,343	1,374
Internal Control Report	485	515
9D: Acting as Qualified Custodian for Advisory Clients		
Acting as a Qualified Custodian	106	99
Related Person Acting as a Qualified Custodian	420	417

Form ADV Item/Question	Value on 7/16/12	Value on 4/15/2013
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9F: Qualified Custodians of Custodied Client Assets		
Advisers Responding >0 to Question	2,823	3,040
Qualified Custodians: Aggregate	12,265	13,147
Qualified Custodians: Average Reported	4 ⁴	4 ⁴
Qualified Custodians: Median Reported	2 ⁴	2 ⁴
11: Number of IAs by Disciplinary History		
No Disciplinary History	9,064	9,063
Event Involves Adviser or Its Supervised Person	865	834
11A1 ³	35	33
11A2 ³	88	87
11B1 ³	38	33
11B2 ³	36	37
11C1 ³	168	172
11C2 ³	383	404
11C3 ³	14	15
11C4 ³	373	391
11C5 ³	368	393
11D1 ³	218	225
11D2 ³	722	731
11D3 ³	25	34
11D4 ³	574	586
11D5 ³	200	198
11E1 ³	60	56
11E2 ³	598	598
11E3 ³	8	6
11E4 ³	146	163
11F ³	20	21
11G ³	133	134
11H1a ³	136	137
11H1b ³	127	120
11H1c ³	111	101
11H2 ³	219	225

Notes:

1. For purposes of this chart, null responses are not considered except if otherwise noted.
2. In 2012, 64 IAs provided a number even though they selected a range of less than 100, and 5 IAs did so in 2013.
3. Because of the questions length, we have only provided the question location in Form ADV. Please see Form ADV, Part 1 at <http://www.sec.gov/about/forms/formadv-part1a.pdf> for this question.
4. Average or median is of adviser subset only, not all advisers.
5. Advisers that reported no longer being eligible for SEC registration or advisers that have not filed an updated Form ADV since November of 2011 are removed from the population of this report. Based on these criteria, 950 advisers were removed from the 2012 report, and 118 advisers were removed from the 2013 report.
6. Null responses count as 0.

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1050 17th Street, NW, Suite 725
Washington, DC 20036-5514

P (202) 293.4222
F (202) 293.4223

www.investmentadviser.org



Part of ACCUITY

National Regulatory Services
29 Brook Street
PO Box 71
Lakeville, CT 06039

P (860) 435.0200
F (860) 435.0031

info@nrs-inc.com